FOR AGENDA

0401

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August 28, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Zambia - Economic and Financial Policy Framework, 1989-93

Attached for consideration by the Executive Directors is the policy framework paper for Zambia.

This subject, together with the staff report for the 1989 Article IV consultation with Zambia (SM/89/186, 8/28/89), has been tentatively scheduled for discussion on Wednesday, September 13, 1989.

Ms. Dillon (ext. 8313) or Mr. Nowak (ext. 8969) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

ZAMBIA

Economic and Financial Policy Framework, 1989-93

Prepared by the Zambian authorities in collaboration with the staffs of the Fund and the World Bank

August 25, 1989

I. Introduction and Background

The Zambian economy is heavily dependent on production of a single commodity, copper. In 1988, copper accounted for nearly 85 percent of total exports, contributed about 15 percent to GDP, and represented an important source of budgetary revenue. Zambia is also rich in agricultural and forestry resources but much of the potential of these resources remains untapped. Economic activity in virtually all areas is dominated by the parastatal sector, which underwent rapid expansion following the Mulungushi reforms of 1968; agriculture and banking remain largely in private hands. Zambia is the most urbanized country in Africa, with about 50 percent of the population living in urban areas. Its population is estimated at 7.5 million in 1988 and is growing at approximately 3.7 percent a year. Per capita GDP (using the World Bank Atlas method) is estimated at US$290 in 1988, compared with US$580 in 1980.

Zambia experienced a sharp turnaround in economic fortunes in the early 1970s from which it has not recovered (Table 1). Between 1970 and 1986, a secular though erratic decline in copper production combined with an 80 percent deterioration in the terms of trade contributed to a one-third drop in real GDP per capita. In anticipation of a recovery in copper exports, financial policies during this period were geared to maintaining consumption levels and living standards. In the absence of any sustained recovery, these policies were eventually reflected in large budgetary and external deficits, a rapid buildup of external debt, and distortions in savings/investment patterns; as the savings ratio fell, fixed investment shrank from about 30 percent of GDP in 1970 to a little over 10 percent in 1986. In the meantime, diversification out of copper was hindered by insufficient incentives for nontraditional exports, price controls, subsidies, and reliance on exchange and trade restrictions.

During this period there were a number of reform efforts supported by the Fund, the Bank, and the international community. The reforms were aimed at reducing structural dependence on copper and correcting macroeconomic imbalances through the realignment of relative prices, including currency depreciations, and the provision of greater market

Table 1. Zambia: Historical Indicators, 1970-86

	1970	1975	1980	1985	1986
			(Percent change) 1/		
Real GDP	7.1	2.5	0.1	0.8	0.9
Terms of trade	3.0	-16.1	-7.6	-1.4	-24.3
Consumer prices	6.1	7.2	15.2	20.0	52.4
			(In percent of GDP)		
Private consumption	39	52	55	67	62
Government consumption	16	28	26	18	16
Fixed investment	29	38	18	10	11
Exports	54	36	41	36	42
Imports	37	56	45	37	44
Mining	38	13	16	16	18
Agriculture	11	12	14	13	12
Budget balance	2	-22	-19	-14	-28
External current account 2/	6	-29	-14	-10	-13
External debt 2/	10	45	68	176	300
			(In U.S. dollars)		
GDP per capita 2/	417	494	682	387	257

Source: Staff estimates.

1/ Average annual rate of change over previous five-year period, except for 1986 which is rate of change over 1985.
2/ Measured at official exchange rate.

discipline. During the course of most of the reform programs, copper prices turned out to be weaker than expected. Difficulties were also encountered in policy implementation. Consequently, none of the reform programs met with durable success.

II. Economic Policies and Developments, 1986-88

In late 1985, Zambia launched an economic program that involved wide-ranging macroeconomic and structural reforms. Domestic financial policies were to be tightened and market determination established for the exchange rate through an auction mechanism and for nearly all consumer prices. These measures were accompanied by tax, tariff, and public enterprise reform. In the event, the adjustment program was seriously undermined by shortfalls in copper exports and by a rapid acceleration in money supply growth arising from fiscal slippages. The sharp currency depreciation that ensued weakened confidence in the auction system. As a result of these developments, performance in all key economic areas in 1986 was poor; growth dropped to below 1 percent, inflation picked up to over 50 percent, and both the budget and external current account deficits widened. Foreign exchange reserves fell sharply.

The New Economic Recovery Program (NERP), which was introduced in May 1987, represented a major shift in the orientation of economic policy in Zambia. In some ways, the objectives of the NERP coincided with those of previous reform programs--growth through diversification, reduced dependence on imports, and stabilization through the control of inflation. Many of the earlier sectoral reform programs were continued and strengthened. Where the NERP did differ, however, was in rationing foreign exchange through the Foreign Exchange Management Committee (FEMAC), seeking to combat inflation by stabilizing the exchange rate and interest rates and reintroducing price controls, and in giving emphasis to recovery through the "use of own resources."

Economic performance in 1988 was strong in certain respects. A growth rate of 6.7 percent was recorded, compared with growth of 2.2 percent in 1987 and an original target for 1988 of 2.2 percent. The major impetus to this growth came from the agricultural and manufacturing sectors, where output increased by 21 percent and 15 percent, respectively. The manufacturing sector benefited from increased foreign exchange allocations made possible by high copper prices. Growth in manufacturing came primarily from higher capacity utilization, rather than new investment. Agriculture was helped by increased producer prices, timely payments to farmers, improved credit and extension services, and good rainfall. The recovery was not, however, broad-based; mining output fell by nearly 10 percent, while losses were also recorded in construction and transportation. The transportation sector was adversely affected by inadequate foreign exchange allocations. The declining trend in formal sector employment continued.

Gross international reserves of the Bank of Zambia increased by SDR 38 million in 1988. Export receipts rose by 20 percent as a result of the copper price increase, while import demand was contained by strict foreign exchange allocations. Some SDR 509 million in external payments arrears was incurred during the year.

There continue to be a number of major impediments to the sustained recovery and structural diversification of the economy.

Fiscal performance in 1988 was disappointing and continues to pose a source of great concern. The overall deficit on a commitment basis increased slightly to a little over 11 percent of GDP, while on a cash basis the deficit rose to 9 percent of GDP from 6 percent in 1987. This performance is explained partly by the increase in maize handling costs arising from the bumper crop, as well as by across-the-board declines in revenues and grants. There was as a result heavy reliance (4.6 percent of GDP) on bank borrowing to finance the budget deficit.

During 1988, inflation rose to a rate of 64 percent, from 50 percent the previous year. The official target for 1988 was a rate of 40 percent. The primary cause of this accelerating trend was excessive monetary expansion stemming from the budget deficit, strong credit expansion to the agriculture sector, and the improvement in international reserves. Liquidity also swelled as a result of nonpayment by the parastatals of the local currency counterpart to external debt payments that fell into arrears. With the kwacha pegged at K 8 per U.S. dollar from May 1987 until November 1988, the currency appreciated sharply in real terms (Chart).

The imbalance in consumption/saving patterns evident since the early 1970s has persisted. A number of factors have militated against a resumption in savings and a sustained recovery in productive investment and economic growth, including the large budget deficit, highly negative real interest rates, and the virtual drying up of foreign assistance. In 1988, consumption still accounted for over 85 percent of GDP, while fixed investment remained at only 10 percent of GDP; after account is taken of depreciation, this implies a shrinking of the capital stock that has been evident in a deterioration of the infrastructure of the economy.

Zambia is experiencing a chronic shortage of foreign exchange. This shortage has deprived the economy of essential inputs and basic consumption goods and constrained the servicing of debt, which in turn has stifled access to new external credits. The scarcity of foreign exchange has been reflected in foreign currency trading at a substantial and growing premium outside the official market. 1/ Smuggling has

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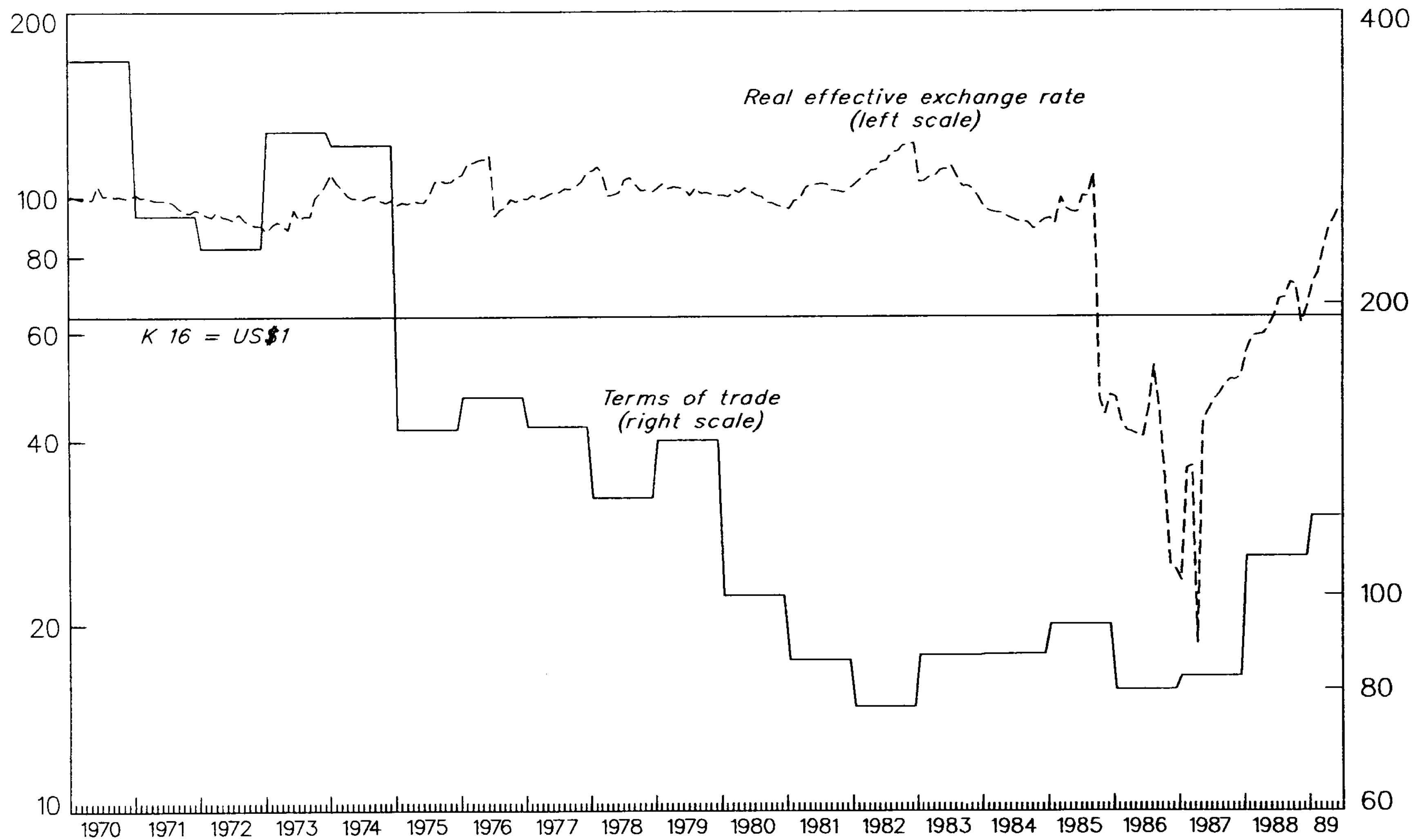
1/ Indications are that imports are currently trading within the economy at rates equivalent to K 35-K 40 per U.S. dollar.

CHART

ZAMBIA

REAL EFFECTIVE EXCHANGE RATE AND TERMS OF TRADE, JANUARY 1970–JUNE 1989

(Semi-log scale; index 1980=100)



Sources: IMF, *International Financial Statistics;* and staff estimates.

therefore become increasingly attractive, as has the incentive to under- and over-invoice trade documents. The net result is that an increasing proportion of international trade has been taking place outside official channels and that some of this trade is financing capital flight at the very time when foreign exchange inflows are urgently needed.

Shortages of certain essential commodities have also intensified as a result of supply problems and the imposition of price controls. This situation has created incentives for smuggling, black-marketeering, and hoarding, and has diverted scarce resources away from more productive activities.

Zambia is faced with an acute external debt problem. At end-December 1988, total debt was estimated at SDR 5.1 billion. Arrears on principal and interest, including on short-term debt, amounted to SDR 2.1 billion. Overdue payments to the Fund stood at SDR 657 million, and to the Bank at US$175 million, at end-June 1989. The heavy debt burden of Zambia is underscored by a debt per capita of US$950 (compared with the US$260 for Zaire and US$480 for Sudan). Much of Zambia's external debt was contracted on commercial terms when per capita income was very much higher; its debt profile is therefore similar to that of a middle-income country such as Brazil which has a per capita debt of US$880. In 1988, scheduled external debt service payments amounted to the equivalent of 83 percent of exports of goods and services. It is clear that, even with the best of intentions, Zambia cannot fully service its external arrears and due maturities on a sustainable basis without causing serious dislocations to the economy and probably internal social unrest.

A number of remedial economic measures were taken in late 1988 and early 1989 to address some of the problems identified above. In November 1988, the kwacha was devalued by 25 percent in local currency terms and pegged to the SDR, while steps were taken more recently to remove some of the restrictions on the "no-funds" imports scheme. 1/ On the monetary front, minimum reserve requirements were increased in November 1988 by 5 percentage points and interest rates lifted by 4-5 points. To reduce the budgetary cost of maize subsidies and discourage smuggling, maize meal prices were tripled in January 1989 and a coupon scheme was introduced aimed at cutting the cost of the subsidy by one half. 2/ These actions laid the basis for the launching of the Fourth National Development Plan (FNDP) at the beginning of this year.

1/ This facility allows imports to be purchased with foreign exchange from sources other than the Bank of Zambia.

2/ The scheme provides one coupon per person per month. The coupon can be used as cash in designated stores toward the purchase of maize meal. Any maize meal over the coupon amount must be purchased at the new higher prices.

III. The Adjustment Strategy

The rapid acceleration in inflation in the past year, if allowed to continue, could undermine the country's adjustment effort. Consequently, first priority must be given to stabilizing the economy, while beginning to eliminate market distortions. The major objective of the framework reflected in this PFP is to bring about a stable economic environment, while at the same time continuing and/or initiating some of the major reforms required to restructure the economy. It represents, therefore, the first phase of Zambia's medium- and long-term adjustment program. Further broadening and deepening of this program will be the major focus of the next phase, which will be contained in the update of the PFP next year.

Considerable structural realignment of the economy will be required over the medium and long term if recovery and growth is to be achieved. Other sources of exports must be developed rapidly to substitute for the heavy dependence on copper, which is facing a declining market and exhaustion of ore reserves and which renders the economy highly susceptible to external shocks. The Government is committed to a competitive exchange rate policy which assures adequate incentives for the production of tradable goods. Also, with such a shift in relative prices, the import intensity of production and consumption could be reduced and brought into balance with the country's long-term capacity to earn foreign exchange. Capital intensity needs to decline if the economy is to provide employment and income opportunities commensurate with the size and growth of the labor force. Similarly, saving and investment ratios need to rise and the pattern of investment must be such as to support the structural changes required in the economy. The present low efficiency in the economy generally must be redressed. Consequently, the highest priority for investment must be to rehabilitate and refurbish existing productive capacity and infrastructure, rather than to create new capacity. In addition, there is a critical need to develop the country's manpower base in line with the needs of the economy, to reduce the high population and labor force growth rates, and to protect the environment.

The distortions in the economy are deepseated and their resolution will take time. Many of the basic policies and reforms needed to restructure and raise the efficiency of the economy (exchange and interest rates, price decontrol, expenditure and parastatal reform, enhanced role of the private sector, etc.) have been initiated and are reflected in the present policy framework. These need to be built upon and elaborated further in future programs. The task for the medium term is to ensure that the measures needed to maximize the effectiveness of the reforms are taken. It is also important to ensure that the necessary resources, both domestic and external, are mobilized.

With appropriate pricing Zambia has good potential in agriculture, including export potential, and in industry. These sectors will need to substitute for metals mining as the latter declines. There is also good potential for the expansion of small mining, particularly gemstones. The reforms and policies contained in the present framework are designed to encourage production and exports in these sectors by eliminating pricing distortions, raising productive efficiency, and stimulating investment. As a result of these actions, agriculture and industry are expected to become the focus of economic growth and to provide employment and income opportunities for the growing labor force.

The second phase of the adjustment program will focus on the medium-term structural aspects of the strategy. These would be expected to include, inter alia, a broadening of the parastatal and public expenditure reform efforts in order to raise efficiency and to increase the productivity of resource use by the public sector; establishing an environment conducive to private sector investment; additional actions to promote the development of nontraditional exports; rationalization of the role of the mining sector in the economy; continued implementation of the ongoing institutional improvements in the major sectors; and a strengthening of the role of the financial sector.

IV. Economic Incentive Policies for Restructuring and Growth

Zambia is faced with the dual challenge of bringing down sharply the rate of inflation while setting an environment that will encourage growth of the nonmining sector, particularly nontraditional exports, in order to permit a reversal of the long downward slide in real incomes and create employment opportunities for a rapidly growing labor force. Realistic exchange rate, pricing, and other incentive policies that improve the allocation of resources and provide an environment conducive to new investment will be essential to attaining these objectives. They will be complemented and supported by implementation of macroeconomic policies aimed at bringing the growth of the money supply under control and generating increased domestic savings and investment. The Government considers the policies outlined herein to be the beginning of a process. These policies will need to be reviewed regularly and adjusted as necessary in light of progress made in achieving the program's objectives, particularly with regard to the reduction of inflation and the growth of nontraditional exports.

1. Pricing policies

Until June 1989, there were 23 commodities whose prices were set by statute and enforced by the Prices and Incomes Commission (PIC). For other goods the PIC could request an explanation in advance of the factors causing a firm to increase its price, but neither PIC approval nor advance notification was legally required.

The Government believes that prices are a key factor affecting the efficient allocation of resources and an important stimulus to domestic production and enterprise profitability. Smuggling and black-marketeering in basic goods and foreign exchange are a mirror of the malfunctioning of the economy, particularly the price mechanism. It is therefore considered necessary that prices be allowed to adjust to realistic levels. With this principle in mind, prices for all products except maize were decontrolled in June 1989. No prior or ex post approval for price increases will now be required nor will any pressure be brought to bear upon producers or retailers to fix prices or delay increases. The role of the PIC will be modified to that of a "think tank" to conduct research studies on the labor market, provide incomes policy advice, follow general price developments, and help improve data collection in these areas.

2. Interest rates

The structure of interest rates is highly negative in real terms. To correct this situation, interest rates will be raised in stages with the aim of having positive real rates prevail in 1991. This would generate the additional savings necessary for a durable recovery in investment and permit a more efficient allocation of credit. Moreover, by raising the return on holding kwacha deposits relative to foreign currency, this measure will help discourage capital flight. As the first step in this process, the maximum bank lending rate was raised in July 1989 from 25 percent to 35 percent, with corresponding increases for all other interest rates.

3. Exchange rate

The Government of Zambia believes that the exchange rate must play a pivotal role in spurring rapid growth of nontraditional exports, reducing reliance on imports, and ensuring that scarce foreign exchange resources are allocated efficiently. The Government is therefore committed to adjusting the exchange rate for the kwacha so as to attain a rate that clears the market. This objective is to be achieved as rapidly as conditions permit but in any case by no later than mid-1992. As a first step in this process, the kwacha was devalued from K 10.81 = US$1 to K 16.08 = US$1 on June 30, 1989. Understandings on the exchange rate objectives for each period will be reached with the Fund at the time of the discussions of the annual program and the midyear reviews. In order to further strengthen export incentives in the meantime, additional action will be taken prior to the beginning of the Fund-monitored program to liberalize the retention scheme in order to make exporting more remunerative. The Government of Zambia also believes that fiscal and monetary policy must play a critical role in establishing conditions conducive to achieving greater stability in markets for both goods and foreign exchange, and this objective will be reflected as well in the understandings to be reached.

4. Other exchange and trade policies

Most goods are subject to export licensing. The export licensing system is intended to ensure that goods are not underinvoiced and that export proceeds are surrendered; the system will be reviewed and streamlined to make sure that it does not act as a brake on exports. Additional incentives are provided to exporters (other than the copper company) by allowing them to retain 50 percent of their foreign exchange earnings; the foreign exchange can, upon approval by the Bank of Zambia, be used to acquire raw materials, machinery, and other inputs to be used in production, either for themselves or for others.

Regulations governing "no-funds" imports were liberalized in March 1989. No questions are asked as to the source of the funds, and items to be imported are subject only to a limited negative list composed mainly of food products. Further import liberalization will need to be paced pari passu with adjustments in the exchange rate. It is intended that, at the market-clearing rate to be reached by mid-1992, there will no longer be a need for administrative allocation of foreign exchange for imports and foreign exchange will be made available for all bona fide current transactions. Zambia will of course only be able to eliminate its large stock of outstanding arrears if sufficient resources are made available, including through rescheduling.

5. Tariff policy

A 1985 World Bank industrial sector report indicated that the average tariff level in Zambia was not excessive, but that the dispersion of tariffs was high and there were a number of goods exempt from tariffs and others that carried zero duty. A subsequent tariff reform reduced maximum tariffs and eliminated most of the exemptions. Duties were levied on many of the zero duty items. Except for a small number of additional exemptions, these reforms have been continued.

During the course of the adjustment program further tariff reform will be an important part of the Government's effort to raise the efficiency and international competitiveness of domestic production and reduce the bias in production toward capital-intensive activities. To this end, protective tariffs are to be kept to a minimum and the dispersion of protection is to be reduced. In addition, except for limited, exceptional cases, minimum tariff rates for each import category are to be levied on items presently duty free, including those currently zero-rated and those that are subject to discretionary exemptions and rebates. No additional discretionary exemptions or rebates will be granted. Moreover, there will be no further increases in maximum tariff rates, which currently are levied mainly on luxury goods. The uplift of import values for sales tax purposes will be abolished because of its cascading effects in terms of taxes on imports. Also, in an effort to further improve the tariff system, the Tariff Commission will undertake a review of the tariff structure and make recommendations on further adjustments that may be needed. This review is to be completed by August 1990 so that its recommendations may be included in the 1991 budget.

6. Role of the private sector

The Government places considerable importance on encouraging participation of the private sector in the economy and is committed to promoting greater competition as a means of improving economic efficiency. The pricing, exchange rate, tariff, and other reforms described above, including the reduction in the regulatory environment, will make an important contribution in this regard. The Government will ensure that, within the overall macroeconomic program, sufficient foreign exchange and bank credit are made available to the private sector, consistent with the increasing role it is expected to play in the economy. The emphasis placed in the adjustment program on the agricultural sector, which is almost entirely in private hands, is an indication of the confidence the Government attaches to the contribution that the private sector can make to the process of diversification and growth. It should also be noted that many of the parastatals have private participation. Moreover, to promote increased participation of private enterprise, a number of steps elaborated upon below will be taken in the areas of food and fertilizer marketing, small-scale mining, and the social sectors. Revisions to the 1986 Investment Act will be introduced in order to provide incentives for domestic investors comparable to those presently offered to foreign investors.

V. Macroeconomic Framework, 1989-93

1. Macroeconomic objectives

Copper production is likely to decline somewhat after 1989, restraining overall growth in the economy. The Government has, however, targeted a steady acceleration in the growth of the nonmetal sectors, from 1.9 percent in 1989 to 5.5 percent in 1993, and believes this objective can be obtained. At the same time, structural and sector policies are geared to shifting growth toward more labor-intensive activities, including smallholder agriculture and small-scale industry, which should permit employment to increase more rapidly than GDP.

The Government is firmly committed to reversing rapidly and sharply the recent acceleration in inflation. For 1989, the rate of consumer price increase, which exceeded 130 percent at an annual rate in the first four months of the year, will be brought down to 95 percent for the year as a whole, which represents a substantial deceleration; thereafter, the Government intends to reduce inflation steadily to no more than 55 percent in 1990, 40 percent in 1991, 25 percent in 1992, and 15 percent in 1993. The monetary and fiscal policies described below will be critical in this effort.

At the same time, policies will be geared to increasing savings and investment in the economy. In view of the anticipated decline in copper prices, some widening in the external current account deficit in the initial phase of the adjustment program is inevitable. However, a strong fiscal program, based on measures equivalent to a total of 8 percent of GDP in 1990-93, will aim at containing the size of the fiscal deficit. If the fiscal objectives are met, and the targeted change in savings by the nonmetal private sector achieved, gross investment could increase from 14 percent of GDP in 1989 to about 27 percent by 1993.

2. Balance of payments outlook and objectives

The prospect of a substantial fall in copper export revenues has strengthened the Government's determination to diversify Zambia's export base rapidly by encouraging nontraditional exports. In the near term, copper export earnings are expected to fall sharply as a result of a weakening in prices, and around the end of the next decade volumes will decline rapidly as Zambia's main copper mine is depleted. Copper prices are projected to fall from US$1.21 per pound in 1989 to US$0.79 per pound in 1991 contributing to a 37 percent drop in total export proceeds. Copper export volumes are expected to decline from 450,000 metric tons in 1989 to 425,000 metric tons in 1992 and stabilize at that level until around 1997, when production will start declining again as reserves are depleted. Estimates suggest that export volumes could stabilize at about 200,000 metric tons around 2002, by which time the real per capita purchasing power of copper exports is expected to be less than 15 percent of the level in 1989.

Nontraditional exports have been stagnant for a number of years at a level of approximately SDR 50-60 million. To reduce the country's overdependence on copper, the medium-term strategy must entail a strong export drive and the Government will take the exchange rate and other measures needed to increase the contribution of nontraditional exports. An Export Promotion Board and an export revolving fund have recently been established, and the export licensing system is to be streamlined. The objective would be to achieve an annual rate of growth of nontraditional export volumes of 10 percent over the program period and set the stage for even stronger growth thereafter. Areas of export potential, particularly in agriculture, are discussed further under Sectoral Policies (Section VI).

It will not, however, be possible within the next decade for other exports to replace lost copper receipts, and imports will have to bear their share of the needed adjustment. To sustain copper production, the copper company (ZCCM) will require direct and indirect imports of SDR 250-280 million a year in the period 1989-1993, and the needed adjustment in the external current account will have to come primarily through nonmetal sector imports. Thus, if Zambia is to grow in the face of declining copper receipts, production and consumption patterns will have to be fundamentally restructured to reduce dependence on imports. The policies outlined above are directed toward this end. However, over the near term, substantial additional external resources will be needed to permit the investment necessary to diversify, rehabilitate, and restructure the economy.

The targeted level for "other" imports (i.e., imports excluding petroleum and fertilizer and those by the metal sector) is SDR 425 million in 1990 compared with SDR 448 million in 1989. For 1991, a further reduction to SDR 400 million is projected, after which imports are expected to remain constant in real terms. After reaching a peak in 1989, the import/GDP ratio is projected to taper off in response to exchange rate and other measures and a reallocation of resources to more labor-intensive production.

The services balance, which has traditionally recorded a large deficit, should also improve somewhat. Policies introduced to promote exports and reduce import dependence should also lower the nonfactor services deficit, particularly through an expansion of tourism. Interest payments are also expected to fall as concessional funds replace finance on market terms. Consequently, the current account deficit of the nonmetal sectors is projected to decline by SDR 177 million between 1989 and 1993. However, the overall current account deficit will widen sharply in 1990 as copper receipts fall off, and despite the adjustment by the nonmetal sectors, will rise from SDR 167 million in 1989 to SDR 337 million in 1993.

Zambia's gross official reserves are projected to reach two and a half months' imports by the end of 1989 and will be kept at that level in terms of SDRs during the program period. This level would provide a cushion that is considered necessary to maintain confidence given Zambia's vulnerability to developments in copper or to temporary shortfalls in other external receipts.

3. Fiscal objectives and strategy

a. Objectives

The major fiscal objectives of the program are to bring inflation down sharply by curtailing recourse to bank financing and to generate the resources necessary for a revival in investment. The fiscal program for 1990-93 provides for fiscal measures totaling some 8 percent of GDP, of which at least 3 percent will be implemented in 1990. Despite this effort, the overall deficit measured on a commitment basis will rise over the next two years, reflecting the impact of exchange rate policy on the deficit and, in particular, on foreign interest expenditure. At the same time, however, a more depreciated exchange rate will increase substantially the kwacha receipts from foreign financing--both project financing and balance of payments assistance--and it is expected that the Government will not need to have recourse to domestic bank financing from 1991 onward. Excluding foreign interest expenditure, the overall fiscal position on a commitment basis is projected to improve from a deficit of 6 percent of GDP to a surplus of almost 2 percent of GDP in 1993. The fiscal strategy will emphasize measures to reverse the decline in the revenue/GDP ratio over recent years, while expenditures will be kept firmly under control and restructured to channel more resources into productive areas and away from consumption.

b. Revenue reforms

The Government will introduce structural reforms of the tax system with the objectives of: (1) broadening the tax base; (2) strengthening the tax system's incentive effects on the promotion of exports and growth; and (3) improving tax collections. In addition, measures will be taken to improve receipts from nontax sources.

First, the principal objectives of tax reform will be to broaden the tax base significantly and to improve the revenue yield and the elasticity of tax revenues. The Government will initially broaden the base of the personal income tax by taxing fringe benefits (at the employer level); reviewing personal allowances and deductions with the aim of eliminating them; and converting primary allowances into income tax credits. It will expand the base of the sales tax by bringing into the tax net all imports (rather than dutiable imports only), all locally manufactured consumer goods, including excisable goods (rather than 64 items only), and many other services (beyond the 18 presently covered). It will broaden the base of import taxes and excise duties by eliminating virtually all exemptions and reliefs. The base of excise duties will also be expanded with the addition of a range of luxury goods and similar duties will also be levied on imports. The Government will extend the base of the company tax by limiting the claims of the parastatals for exchange losses to those realized during the tax year. Additional revenues will be forthcoming from the levy of a fee on idle agricultural land and the upward revision of the valuation of urban properties.

Second, in order to improve incentives for growth, the following measures will be undertaken. The excessively high marginal tax rates on individual incomes will be lowered, tax brackets adjusted for recent high levels of inflation, and the level of the primary allowance raised to remove the lowest income earners from the personal income tax net. Ad valorem import duties will be imposed on those imports currently "zero-rated" for tariff purposes, which should help domestic industry, and the statutory overvaluation ("uplifting") of imports for import sales tax purposes will be removed. Company income tax relief and incentives currently given to farming, manufacturing, and nontraditional export incomes will be retained initially to help achieve the Plan's strategy of restructuring for growth, but they will be reconsidered as growth in these sectors materializes. Export prospects are expected to be further improved by simplifying administrative procedures of the existing relatively underutilized import duty drawback scheme; in due course drawback schemes relating to import license fees as well as sales taxes on intermediate goods will be instituted.

Finally, a comprehensive program will be launched to improve the tax administration and efficiency of both the Income Tax and the Customs and Excise Departments. Existing penalties for various offenses under tax laws will be raised; a minimum company tax, creditable against final tax liability, will be introduced; and measures will be taken to simplify and rationalize individual tax structures and procedures, including fewer tax brackets under income tax, fewer tax rates under sales tax, and removal in the medium term of the cascading effects of the sales tax base by substituting a value-added tax.

With respect to nontax revenue, significant returns will be expected from the dividends policy on parastatals described below and the imposition of a mineral resource levy on the copper company. In addition, the Government has already started, and will continue to implement, cost recovery measures by levying charges and fees in the education and health sectors. The rates of charges and fees collected by government agencies will be adjusted periodically to reflect the true cost of services provided. The Government will deregulate charges and fees on nongovernmental schools and health clinics (and hospitals); this measure will provide the incentive for these facilities to supplement the public sector services by caring for individuals with paying capacity, which would thereby allow the public sector to allocate more health resources for the poorer sections of the population.

c. Expenditure restructuring

The Government will embark on an expenditure reform strategy to achieve the following objectives over the program period: (1) to reduce the budgetary burden of subsidies; (2) to provide adequately for recurrent departmental charges (RDCs); (3) to strengthen the expenditure control and budget execution systems; and (4) to improve the efficiency and morale of the civil service. An initial restructuring of expenditure has already been identified. A specific public expenditure program will be drawn up and reflected in the FY 1990 budget.

In June 1989, it was announced that no more than six dependents in each family would be eligible for maize meal coupons and that eligibility would be withdrawn for households with gross incomes in excess of K 20,500. It was also announced that, in order to effect further savings, the National Agricultural Marketing Board (NAMBOARD) would be abolished; its functions relating to fertilizer importation and marketing would be taken over by Nitrogen Chemicals of Zambia, while responsibility for maintenance of the maize reserve and for maize marketing would be transferred to the cooperatives. In addition to these measures, the Government will phase out handling subsidies for maize and fertilizer, as well as the price differential subsidy for fertilizer. This will require increases in prices, but, in addition, the operations of the cooperative unions will be subject to efficiency audits to help contain the handling costs. The cooperatives will be required to take cost control measures and will be held accountable to the Government through a strictly supervised performance-based budgetary system that monitors and evaluates the costing of their activities in detail. Financial limits to budgetary provisions for the coupon program for maize meal will be established to contain and reduce its cost; the distribution of such coupons will be confined to the most needy.

As a consequence of the severe resource constraints in recent years, recurrent departmental charges have been falling in real terms and this has resulted in a serious deterioration in the provision of economic as well as social services. To correct this trend, the budget expenditure pattern will be restructured to provide adequate funding for RDCs of government departments in the key sectors of agriculture (particularly extension and other support services), roads (for maintenance and rehabilitation), and health and education (for supplies and maintenance of equipment). By ensuring that RDCs are directed at truly productive uses, the increase in RDC allocations in real terms can be expected to yield high returns in terms of contribution to growth.

The large end-year supplementary appropriations in the past few years have reflected difficulties in expenditure control and lax fiscal discipline. Measures to address the problems of expenditure monitoring and control will include implementing strict enforcement of expenditure accounting and control procedures; requiring ministries to maintain commitment ledgers on a timely basis; streamlining the operations of the nine provincial accounting units with a view to making provincial Permanent Secretaries responsible for all government financial transactions in their respective provinces; limiting transfers to district councils; and undertaking a thorough review of the levels of expenditures allocated to grant-aided institutions, particularly with regard to payroll and fringe benefits.

A task force was commissioned to study the present structure and size of the civil service and to recommend ways to reduce and rationalize the government labor force so as to free resources that would support the reform. The retrenchment exercise, which has already begun, is aimed at reducing the numbers of lower level staff, and will continue to be implemented during the program period. In addition, the current system of employing temporary workers will be reviewed with the goal of strictly limiting this practice. Civil service salaries, especially at the upper grade levels, will be increased in order to improve retention rates and increase motivation of the remaining skilled staff, enhance the quality of public sector management, and aid civil service recruitment especially in the professional and technical fields. Lastly, cost recovery has been extended to the social sectors as a means of further curtailing public expenditure.

4. Public investment program and priorities

The Government will prepare a priority public investment program (PIP) for the period 1990-93, as part of the process of the preparation of the 1990 budget. The PIP, which will be consistent with the resource availability and growth targets of the policy framework paper, will give high priority to rehabilitation and maintenance of existing assets and facilities, with particular emphasis on completion of ongoing projects. No new projects will be undertaken outside the framework of the PIP.

It is expected that an increasing proportion of the total amount of the proposed PIP will be financed from domestic sources, although a significant share will be foreign-financed. Of the latter, nearly all is expected to come from bilateral donors and multilateral sources. These resources will be invested strictly in keeping with the criteria for rapid economic growth and diversification of the economy of Zambia. Accordingly, it is planned that resources in the agricultural sector will be devoted to promoting smallholder agriculture through improved research and extension services, increased agricultural credit, and more efficient marketing arrangements. Investments in the transport sector will in turn aim at restoring and repairing the road and railway network while investments in the energy sector will be directed toward rehabilitation and maintenance of existing assets, including repair of the power plant at the Kafue Gorge. Increased resources will also be directed toward arresting the deterioration of the social infrastructure through better funding of recurrent and departmental charges in health and education. Resources will be earmarked for programs designed to protect the vulnerable groups during the adjustment process.

In order to implement the PIP in accordance with the above priorities, it will be essential to strengthen and streamline the government machinery for project planning, evaluation, and review. To this end, the Government will integrate the annual capital expenditure planning process with the budgetary process on the basis of the recommendations of the earlier study on planning and budgeting. The Government will ensure that sectoral planning activities within ministries fully subscribe to the objectives and operational targets of the PIP resource allocation process, as broadly described in the FNDP. This will be achieved by the adoption of a program budgeting approach that will be phased in for key sectors, beginning with agriculture, industry, transportation, and the social sectors. Efforts to improve fiscal discipline, particularly expenditure control, and performance auditing of projects should ensure that the PIP stays within the broad framework of resource availability in the short and medium term. Similarly, improved management and proper accounting of foreign grants and loans should enhance the achievement of the goals of the PIP. Finally, a program of technical assistance to improve the institutional and analytical capability for management of public investments will be formulated by the Government by end-1989.

5. Parastatal reform

Parastatal reform will be guided by the objective of improving the sector's financial and economic viability. The aim is to eliminate government budgetary support for the parastatals, increase the parastatal contribution to government revenues, and strengthen their ability to compete in foreign and domestic markets. It will complement the public enterprise restructuring program completed earlier this year, under which 18 of INDECO's 36 enterprises were subjected to efficiency audits. These firms were financially and organizationally restructured, with certain product lines discontinued in some cases and with significant retrenchment in the labor force in almost all cases. With a few exceptions where results are not in yet, these firms are now operating profitably. The reform of the parastatals will involve a number of measures.

First, to improve the sector's efficiency and competitiveness, the Government lifted price controls in June 1989 to allow parastatal enterprises to charge prices that reflect a fair return on the investment. To complement this measure, the Government will implement tariff reform to expose parastatal enterprises to foreign as well as domestic competition, and will revoke tax exemptions and relief for parastatals. To further complement the measures of price and tariff reforms, the Government will facilitate a phase-out of nonviable parastatal operations, and encourage joint ventures with the private sector.

Second, the Government will undertake a comprehensive review of each major parastatal enterprise to assess its financial and economic viability. Particular attention will be given to parastatals providing transport services. This review will examine the parastatal's cost structure, international competitiveness, technical and managerial capability, and the degree of tariff and nontariff protection. The outcome of this review will form the basis for evaluating the parastatal's investment and restructuring program, formulating recommendations for tariff reform, and identifying ways to strengthen managerial and technical capabilities.

Third, in order to enhance government revenue and reduce the burden on the budget, the Government will subject parastatal enterprises to the same tax laws applicable to the private sector and disallow various deductions relating to fringe benefits, capital transactions, depreciation, and exchange losses. The Government will also introduce a mandatory dividend payment for parastatal enterprises, impose penalty and interest charges on parastatal arrears to the Government, and discontinue budget transfers, subsidies, and guarantees, except for budgetary support to finance investment. For its part, the Government will reduce outstanding arrears to the parastatals.

6. Monetary policy

The primary objective of monetary policy during the program period will be to contain and reduce the rate of inflation. In doing so, care will be taken to ensure that adequate credit is made available to the nongovernment sector and that credit is allocated to those productive activities with the highest potential rates of return. A firm monetary policy will also help the Government in attaining its exchange rate policy objectives at an early date and in an environment of increasing exchange market stability.

Recent trends indicate a sharp acceleration in both monetary growth and inflation. The money supply expanded at an annual rate of

83 percent (seasonally adjusted) in the final quarter of 1988, while retail price inflation jumped to 86 percent in the 12-month period through April 1989. The potential for even greater monetary expansion was underscored by the highly liquid position of the commercial banks. In response to these developments, remedial action has already been taken. In July, the Bank of Zambia announced an integrated action plan that provided for a targeted reduction in money supply growth to less than 50 percent in 1989. The major elements of this plan were an increase in minimum reserve requirements; payment into the Bank of Zambia of the kwacha counterpart to overdue parastatal external debt obligations; and the introduction of a nonrediscountable government bond aimed at absorbing excess liquidity in the banking system and reducing credit expansion; and an increase in interest rates of 10 percentage points. For the program period, the monetary targets will be progressively reduced in line with the program's inflation objectives.

Some increase in the velocity of circulation is to be expected during the interval between when the monetary brakes are applied and when the inflation rate decelerates. However, the Bank of Zambia will monitor developments in velocity very carefully and move promptly to raise real interest rates to positive levels should there be any evidence of a significant flight out of money.

Since the end of 1986, the Bank of Zambia has approved a number of debt-equity swaps as a means of liquidating external commercial (or "pipeline") arrears. The kwacha cost of the equity investment has been borne by the Bank of Zambia and this has given rise to money creation. It has, moreover, not always been possible to ensure that the claims issued have been put to the uses intended. In light of these considerations, the Bank of Zambia intends to limit approval of debt-equity swaps to those cases where it is fully satisfied that only investment in productive activities will be undertaken.

7. Employment and incomes policies

Both employment and incomes have been declining for a number of years. Since 1980, total Zambian employment in the formal sector has stagnated, while the labor force has increased by about 30 percent. Employment in mining and quarrying has fallen by 13 percent, largely as a result of cost-saving programs of ZCCM, and the outlook is for a continued, and perhaps even sharper, decline in the future as ore reserves are depleted. (The mining sector accounts for 15 percent of formal sector employment at present.) Mainly as a result of a downward slide in both the terms of trade and output per worker, by 1988 real average annual cash earnings in the formal sector stood at 15 percent of their 1980 level, though this does not take into account the increasingly common practice of granting up to 100 percent of salary increases in the form of fringe benefits.

There is an urgent need to reverse these trends. The Government's objective of increasing employment will be supported by the various policies that aim at raising production and by the correction of the distortions--particularly those arising from price, tariff, exchange rate, and interest rate policies--that have encouraged excessive reliance on capital-intensive production techniques. Furthermore, a reorientation of production, especially toward labor-intensive sectors, such as agriculture, will also expand employment opportunities. The latter policies will be supported by improved vocational training, particularly in those areas where there is a shortage of skilled employees, such as accountants, managers, and technicians.

Incomes policy in the private sector will continue to encourage free collective bargaining, while in the public sector focus will be placed on a reversal of the narrowing in salary differentials that has occurred in recent years.

VI. Sectoral Policies

During the past two years (since May 1987) many of the sectoral adjustment measures adopted by the Government earlier have been continued. The sectoral measures the Government intends to undertake under this PFP would build upon and reinforce these measures. For instance, the regular adjustments to producer prices have been continued, the public enterprise restructuring program was completed with satisfactory results, many marketing and administrative reforms were continued in the agricultural sector, and cost recovery measures were introduced in several sectors. Nonetheless, more in the way of adjustment needs to be done.

1. Agriculture

Development of an internationally competitive agricultural sector is an essential element of the Government's structural adjustment strategy as set out in the FNDP. The objectives are to maintain self-sufficiency in staple food production and to encourage a production structure in line with international comparative advantage as well as to generate a major share of the country's future export growth. This structure, supported by improved agricultural services (particularly to smallholders) and a well-focused public investment program, will raise efficiency and maximize production growth, employment creation, and income opportunities in the sector. Agricultural policy will also aim at providing security of maize supplies and encouraging full exploitation of the country's large potential for supplying primary commodities to agro-industry and exporting agricultural products (such as coffee, cotton, tobacco, fruits, vegetables, horticultural goods, and beef).

To achieve these objectives, the Government will continue to restructure the agricultural marketing and pricing systems. As noted earlier, some important actions have already been taken in this regard. A large reduction in the cost of the direct maize meal subsidy to consumers has already been achieved, and the Government intends to phase out the handling subsidy by the end of the Plan period. Some efficiency gains are expected as a result of the shift of maize marketing from NAMBOARD to the regional and local cooperatives. Further efficiency gains and reduced costs are expected as a result of increasing private participation in the marketing of maize over the period through 1993 as the handling cost subsidy is phased out. Economic pricing of all other agricultural crops and commodities is now possible, following the removal of consumer price controls. The restructuring of agricultural production is to be facilitated by the adoption of regionally differentiated floor producer prices that approximate border price equivalents and by the removal of all restraints on exports of agricultural commodities (including maize in surplus years). In addition, fertilizer marketing is to be made more efficient through a restructuring of the system and the introduction of private trading beginning in the 1990/91 crop season. Programs to achieve this, as well as to eliminate the subsidy on fertilizer by 1993, are already under way.

The intended effect of these various policy changes will be to realize the efficiency gains from regional comparative advantage and to encourage the production of export crops. It is expected that export production will take place in both the smallholder sector and commercial agriculture. Zambia's agricultural strategy during the Plan period will be to focus on promoting smallholder production by redirecting and augmenting research and extension services, strengthening agricultural credit, and improving the administration of services by the Ministry of Agriculture and Cooperatives. Specific programs, such as market research, are to be developed to facilitate the export of crops with high potential.

2. Industry

a. Manufacturing

Recovery and restructuring of the Zambian economy will require an efficient and outward-looking manufacturing sector with lowered import intensity. The macroeconomic policies being adopted, together with the decontrol of prices, will help considerably in achieving this objective. The general thrust of these actions, and of industrial policy in general, is to provide greater freedom of action to managers and entrepreneurs, and to develop a dynamic and expanding industrial sector. In this vein, additional supporting measures are to be undertaken. Access to the duty drawback scheme is to be eased and procedures for obtaining export licenses streamlined. To facilitate diversification and growth of the country's industrial export base, the Government has already established the Export Promotion Board and Export/Import Bank; these organizations will be further strengthened with additional staff and resources and specific emphasis will be placed on focusing production and investment on external markets. Efficiency and international competitiveness will be promoted by restructuring and improving effective tariff protection, while revision of the Investment Act should produce a more positive and constructive policy climate for business.

The investment policies of ZIMCO, 1/ as the entity responsible for overseeing much of the investment in industrial parastatals, will give highest priority to maintenance and rehabilitation of economically efficient units. New public industrial investments will be subject to careful economic and commercial analysis and be undertaken only if rates of return are high and resources are available. Following on the successful review and restructuring of INDECO's public enterprises over the past two years, efficiency audits of the remaining major ZIMCO parastatals will be undertaken and, where appropriate, they will be restructured, dissolved, or offered for sale. To further strengthen the parastatals, ZIMCO intends to continue with the management improvement initiatives begun in the mid-1980s, including the granting of greater autonomy to managers and further extension of the merit-based remuneration system.

b. Mining

Notwithstanding the Government's efforts to diversify the country's economic base, the copper industry will remain the mainstay of the Zambian economy in the medium term as a major source of foreign exchange, employment, and fiscal revenue. The sector's longer-term outlook is, however, overshadowed by diminishing ore reserves and, consequently, rising production costs. In addition, the poor prospects for copper prices will impose a further strain on ZCCM's financial viability. In the light of these trends, it is vital that competitiveness of the company be maintained through a realistic exchange rate policy consistent with the macroeconomic objectives outlined in previous sections. Furthermore, the company will need to continue implementing cost-saving measures at the operating level as well as maximizing the productivity of its investments. To this end, a review of the company's five-year production and investment program will be undertaken to ensure an efficient use of scarce investment and foreign exchange resources within the company and between it and the rest of the economy. A detailed phase-down plan will also be drawn up in order to minimize the adverse effects of the prospective retrenchment of the industry. Because of its overriding importance in earning foreign exchange over the medium term, ZCCM will be allowed to retain sufficient foreign exchange to ensure that its priority capital expenditure and operational requirements are met. Finally, ZCCM will be subject to the same company tax obligations as all other enterprises operating in Zambia and it will also be subject to the mineral resource levy referred to above.

1/ ZIMCO stands for the Zambia Industrial and Mining Corporation, of which the Industrial Development Corporation (INDECO) is a subsidiary.

With regard to nonmetal and small-scale mining, the Government will expand incentives, including those within the context of the export retention scheme, and improve export marketing arrangements. Particular attention will be paid to the gemstone sector, where Zambia is considered to have important export potential.

c. Energy

Zambia is largely self-sufficient in energy, the major exception being petroleum, which is imported primarily for use in transportation and mining activities. The Government's objective in the energy sector is to strengthen the sector's critical role in support of the economic recovery program; to take full advantage of available generating capacity to expand power exports; to arrest the depletion of woodfuel resources; to ensure access to, and efficient supply of, household energy; and to protect the environment. Accordingly, the Government has adopted an expenditure program that provides priority to the rehabilitation of the sector's infrastructure and efficient utilization of existing capacity rather than creating new investment. The pricing policy in the sector will ensure that energy prices reflect economic costs and promote energy conservation as well as the sector's financial viability. To arrest the depletion of woodfuel resources and reduce the use of hydrocarbon fuels, the Government will promote use of energy efficient charcoal stoves and help develop alternative and renewable energy sources such as biogas and solar energy. The Government plans to increase stumpage fees for household fuel to reflect replacement costs for such resources.

d. Transport

Since independence, Zambia has developed an extensive network of transport facilities, particularly roads and railways, in response to regional conflicts and the need to ensure access to ports for its international trade. However, the emphasis on creation of new transport infrastructure has not been matched by expenditures on maintenance and repair, and the sector's infrastructure has thus deteriorated badly and is causing especially serious delays in the shipment of copper exports. The Government recognizes this problem, and accordingly is determined to give high priority in its medium-term expenditure program to repair and maintenance of roads and railways. In particular, the provision and maintenance of feeder roads is important for the success of agricultural growth and diversification programs as heavy rains have compounded the problems caused by lack of maintenance. Investments in the railway sector will focus on the repair and rehabilitation of locomotives and rolling stock as well as on replacement and rehabilitation of worn-out track.

Resources will be mobilized for the sector through the expansion of user charges and tolls. In this regard, the United Bus Company has already been restructured and has doubled its bus fares. In addition, a review of the operations and performance of the public transport sector will be initiated in 1989 with a view to improving the efficiency of the sector where necessary.

Emphasis will be placed on the rehabilitation of the road and railway systems which will be given priority over the construction of new facilities. This will permit improvements in the transportation of copper and agricultural produce in particular, and allow the sector to generate the resources necessary to sustain its rehabilitation programs.

e. Environment

Although environmental concerns are not critical in Zambia at this time, there are growing problems which, if not corrected, could result in serious environmental damage in the medium and long term. The authorities have implemented a number of ordinances and laws over the years to reduce abuse of the environment, including the recent adoption of a comprehensive National Conservation Strategy.

One of the more pressing environmental issues is that of poaching, which is robbing the nation of some of its most valuable wildlife resources. The hippopotamus, elephant, and rhinoceros populations in particular have been reduced substantially over the past several years. Government efforts to cope with the problem have not been effective because of the vast areas that need to be covered and the lack of resources available to the park authorities. Zambia also faces problems of deforestation, particularly around the major urban centers where most of the trees have been felled for firewood. Soil erosion, chemical pollution in agriculture, mining, and industry (especially fertilizer production and oil refining), and the lack of clean water, sanitation, and housing for the rapidly growing population are additional environmental problems that require serious attention.

In response to these problems, increased resources and training were made available to the park service in the 1989 budget to step up the war on poaching; the seriousness with which the Government views this problem will be reflected in future budgets. With regard to energy conservation, the National Energy Strategy developed with World Bank and UNDP support contains a series of measures to reduce deforestation and land degradation caused by the need for household energy; they will be implemented during 1990-93. The institutional structure as it relates to environmental issues will also be strengthened and increased resources made available. The private sector will be expected and encouraged to exercise greater responsibility in this area through appropriate incentives and penalties. Zambia is one country where there is still time to preserve the environment, but a significantly greater effort will be required if this is to be achieved. Increased support from the international community to reinforce the Government's own programs will be essential in this effort.

VII. Social Policies and Social Impact of Adjustment

1. Health and population

The deteriorating economic situation is exacting a heavy toll on the performance and viability of the social sectors in Zambia, and efforts to reverse this trend will be central to the adjustment process. In order to improve access to health facilities for the rapidly growing population, the Government is committed to taking extensive remedial measures by channeling resources to the rehabilitation, consolidation, and maintenance of the sector. This will be achieved through better planning and budgeting systems in the Ministry of Health; introduction of cost-recovery measures, particularly for non-life-saving services; and encouraging greater contribution by the private sector in the provision of health services. The Government will also identify a priority expenditure program for the period 1989-93 that will focus on the rehabilitation and maintenance of existing health facilities, with emphasis being placed on primary health care and preventive medical services. This program of expenditure will entail allocating adequate budgetary resources to supplies, equipment, and auxiliary manpower engaged in the delivery of primary and family health care programs. In the meantime, the introduction and proposed expansion of cost-sharing measures and improved coordination and integration of donor and nongovernmental contributions should increase the flow of budgetary resources to the sector.

The Government has also initiated a national population policy aimed at reducing the high rate of population growth. This will be achieved through concerted efforts in family and maternal health care programs and increased public education on family planning methods. The Government will step up its efforts in general education on the prevention of AIDS.

2. Education

The Government of Zambia is, within the broad resource constraints of the adjustment program, determined to reverse the decline in the quality of and access to education that has resulted from the difficult economic situation. To this end, emphasis in education expenditures is to be given to primary education, particularly in the very poor urban and rural areas. Increased resources within the expenditure program on education will be channeled to rehabilitating existing facilities, while the distribution of recurrent expenditures will be focused on providing adequate teaching materials and equipment, quality improvements (curriculum development, upgrading of teachers) and on strengthening management and supervision in the sector. To relieve the Government of part of the budgetary burden of providing educational facilities, local communities will be expected and encouraged to play a more active role in the construction, operation, and maintenance of educational institutions. In addition, current regulations and measures governing the establishment of private education facilities will be reviewed and ways and means of improving technical training explored. In order to strengthen the financial resource base for education, Zambia has introduced user fees for the beneficiaries of secondary and higher education and instituted cost-efficiency measures. The Government's intention is to use the resultant savings to meet the additional recurrent expenditures stemming from the limited increase in primary expansion. As a consequence, it is expected that the current wide disparities in levels of expenditure between primary and higher education in Zambia will be reduced.

3. Protection of vulnerable groups

The Government believes that, particularly during the early phases of the adjustment program, it will be necessary to provide protection in various ways to certain vulnerable groups. It intends therefore to target the maize meal coupon system to the most needy and lowest income groups; retain on a transitional basis and on a limited scale the fertilizer subsidy for small-scale farmers; implement the financial incentives to encourage resettlement of urban dwellers to rural areas that were announced in June 1989; strengthen the National Food and Nutrition Commission as a means of increasing the distribution of nutritious foods to the very poor; and maintain the tax exemptions for pensions granted in 1989. The Government is reviewing other areas where support for the most vulnerable would be warranted. To finance its efforts to protect the most needy, the Government will seek assistance from the international donor community.

VIII. External Debt Management and Financing

As noted above, Zambia, a low-income country, has one of the highest per capita debt burdens in the world. Not only is the debt burden large, but much of it was contracted in more prosperous times on relatively hard terms. In 1989, SDR 644 million in principal and interest payments are scheduled to fall due, which even with this year's very high copper prices, represents 80 percent of export earnings (net of the import requirements of ZCCM). Given the near-term outlook for a fall in copper prices and the sharp decline in export volumes expected to begin in the latter part of the 1990s, Zambia will not--even with a very strong program of adjustment and restructuring--be in a position to service its debt fully on a current basis at any time in the foreseeable future.

The Government assigns great importance to a normalization of its relations, and a regularization of its position, with the international donor and creditor community, and it recognizes that a workable and realistic solution to Zambia's current debt-servicing difficulties will require strong efforts and full cooperation among all parties concerned. The Government intends to work together with the international community to pursue that objective in all available fora. Between

February and June 1989, Zambia made payments to the Fund totaling SDR 13 million.

Of Zambia's outstanding stock of debt, about 42 percent is owed to bilateral creditors, 36 percent to multilateral organizations, 10 percent to financial institutions, and the balance to various nonguaranteed private creditors. The Government intends to request from Paris Club creditors beginning from 1990 a rescheduling of its pre-cutoff date debt service in arrears or falling due and to seek at least comparable terms from other bilateral creditors. In view of Zambia's low per capita income and very high debt service burden, the Government intends to request reschedulings on the most concessional terms possible. The Government will seek bilaterally to be included among those countries eligible for debt forgiveness or other exceptional assistance under the specific programs that have been announced by various creditor governments. Zambia also intends to begin discussions with its bank and other private creditors on possible options, including debt or interest reduction, for addressing realistically--and on terms at least comparable to the effort being made by the official community--the arrears and current debt service owed to such creditors.

Even after near-total deferral or forgiveness of nonmultilateral debt service on the terms outlined above, Zambia will require substantial assistance from donors in order to support its adjustment effort and help finance the investment that will be needed to fundamentally restructure its economy and, over the near term, permit the country to regularize its position with the multilateral institutions. As discussed above, Zambia's current account deficit, excluding interest and official transfers, is expected to reach SDR 128 million in 1990, and an additional SDR 281 million would be needed to meet 1990 debt service payments to the multilateral institutions. Total assistance required during the period of a Fund-monitored program for 1990 would therefore reach SDR 409 million, before payments to nonmultilaterals. It is hoped that about SDR 159 million of this financing requirement could be met with donor assistance through normal channels, and the Government intends to request that the World Bank convene a consultative group meeting as soon as possible to seek and gauge donor support for Zambia's restructuring effort. Even with normal donor support of this magnitude, and before providing for any agreed payments to nonmultilateral creditors, exceptional assistance of SDR 250 million would need to be mobilized for 1990.

The foregoing outlines assistance needed during a program for 1990, that is, after the 1990 budget has been presented and a Fund-monitored program is in place. It should be underscored, however, that the Government has already taken strong actions to set the economy firmly on an adjustment path, and an early response by the donor community at this time would be important to ensuring the sustainability of the program, both economically and politically.

While the measures already taken constitute an important start to the process of economic stabilization, the Government intends to take additional strong actions which will be set out in its annual programs. Also, the Government recognizes that there is a need to elaborate further the policies it will adopt and the programs it will undertake to achieve its longer-term objectives of economic restructuring and growth. The Government attaches high priority to early initiation of these further policy reviews, and it will be asking the international community to support those efforts by providing technical assistance where needed. These additional policies and programs will be incorporated in annual updates of the policy framework, which the Government views as an evolving strategy paper.

At the end of 1990, and on the basis of such further elaboration of its policies and progress achieved during the year, the Government would ask the international community to make the very exceptional effort that will be necessary to enable Zambia to clear its arrears to the multilateral institutions and permit a resumption of financial support from those institutions. Such arrears, which would have been frozen at the end-1989 level, would amount to SDR 750 million to the Fund and SDR 169 million to the Bank. It is expected that the Bank would be able to provide financial support to Zambia's adjustment program on the basis of the progress achieved during the stabilization phase and with adequate incentive-oriented measures put in place.

Total financing requirements for the four years through 1993 are set out in Table 2. Zambia's current account deficit, excluding interest and official transfers, is expected to average SDR 171 million a year over 1991-93. After allowing for normal donor flows, and including amounts needed to clear arrears to the Fund, the Bank, and other multilaterals, Zambia's total exceptional financing requirement is expected to reach SDR 1,501 million for 1991 and to average nearly SDR 490 million a year during 1992 and 1993. Once arrears have been cleared, Zambia intends to request support from the Fund under the enhanced structural adjustment facility (and possibly under other facilities) and support from the Bank under both project and sectoral programs, as well as Bank assistance and donor cofinancing under the Special Program of Action. While Bank and Fund assistance and cofinancing, combined with normal donor flows, are expected to cover Zambia's post-rescheduling financing requirements from 1992 onward, a very exceptional effort by donors will be needed to cover the gap for 1991. In addition, substantial short-term bridge financing will be required.

In view of Zambia's extremely limited debt-servicing capacity, both at present and over the foreseeable future, it is hoped that normal and exceptional financing requirements during this period can be met almost entirely from funds available on grant or very concessional terms. Indeed, no other approach would be realistic. More generally, Zambia, while seeking to re-establish normal trade financing, will otherwise severely limit short-term borrowing and other borrowing on nonconcessional terms. Zambia also intends to strengthen its public and publicly guaranteed debt management and monitoring.

Table 2. Zambia: Program Financing, 1990-93 1/

(In millions of SDRs)

	1990	1991	1992	1993
Current account (excluding interest and official transfers)	-128.3	-180.7	-177.0	-154.9
Current debt service	-619.1	-482.5	-493.3	-470.8
Fund	-150.6	-52.0	-10.8	-8.1
Bank	-65.6	-53.9	-52.3	-50.1
Other multilateral organizations	-65.0	-64.3	-81.2	-65.3
Other creditors	-326.3	-274.2	-301.9	-296.5
New credits	-11.6	-38.2	-47.1	-50.8
Change in arrears	-1,619.2	-1,002.9	—	—
Fund	—	-750.2	—	—
Bank	—	-168.7	—	—
Other multilateral organizations	—	-83.9	—	—
Other creditors	-1,619.2	—	—	—
Accumulation of reserves (increase -)	—	—	—	—
Gap before external assistance	-2,366.6	-1,666.0	-670.3	-625.8
Possible sources of financing				
Normal flows 2/	158.9	165.4	160.9	160.1
Loans	81.8	88.2	87.1	86.0
Grants	77.1	77.2	73.8	74.1
Residual balance	2,207.7	1,500.6	509.4	465.7

Source: Staff estimates.

1/ Assumes an average interest rate of 5 percent on rescheduling, 4 percent on normal loan flows, and 1 percent on the financing of the residual gap.

2/ Excludes IDA and IDA-related financing and cofinancing.

Table 3. Zambia: Key Indicators for Policy Framework Paper, 1985-93

	1985	1986	1987	1988	1989	1990	1991	1992	1993
					Projections				
					(Percent change)				
Real GDP	1.7	0.9	2.2	6.7	2.2	1.9	2.8	3.9	4.9
Real nonmining GDP growth	2.5	5.0	-0.7	8.2	1.9	2.5	3.5	4.5	5.5
Real per capita GDP	-1.8	-2.7	-1.4	2.9	-1.5	-1.7	-0.8	0.2	1.2
Terms of trade	-5.9	-24.3	3.1	32.8	10.0	-29.8	-15.3	--	--
Consumer prices (period average)	36.9	52.4	44.4	54.3	92.6	75.5	47.5	32.5	20.0
Consumer prices (end period)	58.3	34.6	50.4	64.1	96.1	55.0	40.0	25.0	15.0
GDP deflator	41.1	77.0	51.5	59.1	91.7	67.3	42.5	35.3	20.5
Export volume	-4.0	-8.3	7.9	-12.5	10.3	-0.9	0.2	0.0	1.1
Copper	-14.2	-6.0	8.9	-16.2	13.0	-2.2	-2.3	-1.2	--
Noncopper	39.2	-31.3	-3.0	16.3	--	10.0	10.0	10.0	10.0
Import volume	6.5	-27.7	1.1	7.7	20.4	-5.2	-6.4	-1.1	-2.4
Metal sector	...	-19.8	-6.1	11.7	21.6	3.8	-6.0	-5.1	-9.4
Nonmetal sectors	...	-33.0	5.4	6.0	19.8	-9.4	-6.6	1.0	1.1
Money supply (M2)	23.5	93.1	54.3	61.6	50.2	40.0	35.0	25.0	20.0
					(In percent of GDP)				
Gross domestic savings	14.7	27.8	17.3	15.6	17.6	13.9	15.5	17.4	21.6
Gross national savings	4.5	10.5	1.7	5.6	8.9	1.0	2.1	3.0	8.0
Central Government	-10.8	-21.0	-7.6	-6.8	-5.9	-6.4	-8.2	-4.9	-0.6
Nongovernment	15.3	31.5	9.3	12.3	14.7	7.4	10.2	7.9	8.6
Gross domestic investment	14.9	23.8	12.7	11.4	13.6	17.1	22.5	24.9	27.4
Central Government	2.6	3.9	2.9	1.9	3.4	5.1	8.5	9.2	8.8
Nongovernment	12.3	19.9	9.8	9.5	10.3	12.0	14.0	15.8	18.7
Consumption	85.9	77.9	86.0	86.1	83.0	88.6	87.7	85.8	81.4
Central Government	18.3	16.2	15.5	11.4	9.5	11.3	12.9	13.3	13.0
Nongovernment	67.6	61.7	70.6	74.7	73.5	77.3	74.8	72.5	68.4
External current account	-10.4	-13.3	-11.0	-5.9	-4.8	-16.2	-20.5	-22.0	-19.5
Exports of goods and nonfactor services	37.0	42.2	41.6	28.0	30.3	35.2	39.3	43.2	42.6
Imports of goods and nonfactor services	36.5	43.9	40.4	25.4	27.0	40.9	49.6	53.9	51.4
Government revenue and grants 1/	22.3	24.7	22.3	16.7	15.4	22.4	23.0	24.3	25.5
Government expenditure 1/	36.7	53.2	33.2	28.0	24.6	33.9	39.7	38.4	34.9
Government deficit									
Commitment basis 1/	-14.4	-28.5	-10.9	-11.4	-9.2	-11.5	-16.7	-14.1	-9.4
Excluding foreign interest	-8.3	-15.6	-5.4	-8.0	-6.0	-3.2	-5.4	-1.9	1.9
Domestic financing of government deficit (net) 2/	8.4	8.2	6.9	5.1	5.7	0.8	-2.3	-10.2	-16.0
					(In percent of GDP at constant real exchange rate) 3/				
Imports of goods and nonfactor services	54.2	31.3	34.9	33.8	31.1	30.1	28.5	26.9	25.3
External current account	-15.2	-9.5	-9.5	-7.8	-5.5	-11.9	-11.8	-11.0	-9.6
Metal sector	...	11.0	18.8	20.7	20.8	10.6	7.5	7.4	7.9
Nonmetal sectors	...	-20.5	-28.3	-28.5	-26.3	-22.5	-19.3	-18.4	-17.5
External interest (accrual)	15.1	12.7	13.7	13.8	10.6	10.2	8.3	7.8	7.3
External debt	255.8	223.2	267.6	223.2	177.6	179.8	172.9	153.8	136.5
					(In percent of current account receipts)				
Debt service (accrual)	74.9	109.9	99.8	82.4	59.9	77.8	72.6	67.8	62.1
External interest (accrual)	28.7	41.8	36.5	39.8	29.9	38.2	35.9	35.2	33.8
					(In percent)				
Commercial bank lending rate (end period)	29.7	33.5	18.4	25.0	35.0	...	...	...	...

Sources: Zambian authorities; and staff estimates.

1/ Including discretionary budget measures.
2/ Includes net change in domestic arrears.
3/ GDP converted at exchange rate to keep real effective rate unchanged at level prevailing on July 1, 1989.

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93

(Asterisks indicate areas for priority early action)

	Objectives and Targets		Strategy and Measures	Timing of Measures
I. External Policies				
1. Exchange rate	Increase earnings from nontraditional exports, reduce import dependence, and improve allocative efficiency.		Adjustment in rate from K 10.8 = US$1 to K 16.1 = US$1.	Implemented June 1989
		*	Attain market clearing exchange rate as rapidly as possible, but no later than mid-1992, and maintain thereafter.	Mid-1992
		*	Never lose ground in adjusting exchange rate for inflation.	Mid-1989 through mid-1992
2. Exchange and trade system		*	Liberalize export retention scheme in order to make exports more competitive.	January 1990
			Streamline export licensing.	1990
	Liberalize import system.		Reduce list of prohibited import items.	1990-91
			Liberalize import licensing procedures in line with implementation of understandings on exchange rate and exchange system.	1990-93
			Establish window for disbursement of World Bank assistance.	1991
	Eliminate exchange restrictions.		Make foreign exchange available at market clearing rate for all bona fide current transactions.	Mid-1992
3. Tariff reform			Tariff Commission to review the tariff structure and recommend measures to remove excessive protection and to reduce tariff dispersion.	June 1990
4. External debt	Normalize relations with external creditors.	*	Eliminate, with help of external assistance, arrears to multilateral organizations.	1990
		*	Seek rescheduling of pre-cutoff-date debt service to Paris Club countries under recent initiative for highly indebted low-income countries, and comparable terms from other bilateral creditors.	1990
		*	Approach individual creditor countries for inclusion in bilateral debt forgiveness programs for low-income countries.	1989-90
		*	Discuss with commercial banks and other private creditors possible options--including debt or interest reduction--to address arrears and current debt service realistically.	1990
	Improve debt management.		Seek to re-establish normal trade financing, while strictly limiting other short-term borrowing and borrowing on nonconcessional terms.	1990-93

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (continued)

(Asterisks indicate areas for priority early action)

		Objectives and Targets	Strategy and Measures	Timing of Measures
			Improve monitoring of public and publicly guaranteed borrowing and timely availability of debt statistics.	1990-91
II. Monetary Policy				
1.	Money supply	Bring monetary growth under control; M2 growth not to exceed 50 percent in 1989.	Implement integrated policy package consisting of:	Announced July 1989
			. Increase in minimum reserve requirements.	
			. Redefinition and strict enforcement of liquid assets ratio.	
			* . Payment into BOZ of parastatal counterpart deposits against overdue external debt payments.	
			. Introduction of nonrediscountable government bond with an adjustable interest rate.	
			Limit use of debt-equity swaps as means of clearing arrears pipeline.	1989-93
2.	Credit	Ensure adequate credit availability to nongovernment sectors.	Limit recourse to bank financing of budget deficit.	1989-93
3.	Interest rates	Encourage savings; discourage capital flight; achieve a more efficient allocation of credit.	* Adjust interest rate structure upward to achieve positive real levels by 1991, and maintain rates at positive real levels thereafter.	1989-93
			Implement initial adjustment in maximum lending rate from 25 percent to 35 percent and corresponding increase for all other rates.	Implemented July 1989
III. Fiscal Policy				
1.	Tax reform	Broaden tax base.	Widen the income and company tax base:	
			* . Disallow fringe benefits deductions to employers.	1990
			* . Limit deductibility of exchange losses by corporations only to those realized in the tax year.	1990
			. Disallow all unreasonable and excessive claims of business expenditures.	1990
			. Convert primary allowance into income tax credits.	1991
			. Reduce the levels of allowable personal deductions.	1991
			. Levy a minimum company tax on turnover, creditable against company tax.	1991

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (continued)

(Asterisks indicate areas for priority early action)

	Objectives and Targets	Strategy and Measures	Timing of Measures
		Expand the base of sales tax and excise duties:	
		* . Levy sales tax on all imports with few exceptions.	1991
		. Cover all locally manufactured consumer goods and services under sales tax, including all excisable goods and excluding a very limited number of items.	1990-91
		. Identify and tax additional luxury items under excise duties and levy excise duties on imported items as well.	1991
		* Impose a mineral resource levy and keep it under constant review.	1990
		Continuously revise urban property valuations for tax purposes.	1990-93
		Levy a fee on idle lands.	1991-92
	Provide incentives for growth and for promotion of exports.	Reform income tax:	
		. Reduce top marginal income tax rates.	1990-91
		. Adjust income tax brackets for past inflation and raise the primary allowance.	1990-91
		Reform of tariff structure and import sales tax:	
		* . Levy duty on zero-rated imports with a limited number of exceptions.	1990-91
		* . Remove discretionary exemptions and rebates from import duties and levy import sales tax on those goods.	1990
		. Eliminate the "uplifting" of import values for sales tax purposes.	1990-91
		Promote existing duty drawback scheme for exports and study its applications to other domestic indirect taxes.	1990-92
	Improve tax compliance and tax administration.	Raise penalties for noncompliance and other tax offenses.	1990
		Update tax laws and redesign tax returns.	1991
		Reorganize the working of the Income Tax and Customs and Excise Departments after a thorough review.	1990-93
2. Other revenue policies	Increase revenue mobilization from parastatals.	* Institute a mandatory dividend policy on government equity in parastatals or the parastatals' net worth.	1990

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (continued)

(Asterisks indicate areas for priority early action)

	Objectives and Targets		Strategy and Measures	Timing of Measures
	Recover fees and charges on selected government services.		Raise health and education fees gradually to adequately cover costs.	1990-93
3. Expenditure reform	Reduce and target subsidies and provide for poverty alleviation.	*	Phase out handling subsidies for fertilizer and maize.	1990-93
		*	Phase out fertilizer price differential subsidy, but retain in the transitional stage a limited subsidy for small-scale farmers on a fixed and limited-quantity basis.	1990-93
			Introduce efficiency audits for the cooperative unions.	1990
			Contain/limit budgetary provisions for the maize-meal coupons program.	1989
			Strengthen monitoring of current coupon system.	1990
		*	Introduce a targeting scheme to limit access to coupons to low-income groups only.	Commenced in 1989
			Abolish NAMBOARD and transfer maize and fertilizer functions to cooperatives and Nitrogen Chemicals of Zambia, respectively.	Announced June 1989
	Control less productive expenditures and increase allocations for maintenance and operating expenditures.		Review expenditure allocations to grant-aided institutions especially with regard to payroll.	1990
			Limit transfers to district councils to encourage self-financing.	1990-93
			Improve control and monitoring of recurrent departmental charges, especially in areas where there is large scope for abuse/waste, and ensure adequate provision of recurrent departmental charges for key sectors.	1990-93
	Implement public service reform.		Raise civil service salaries, especially at upper levels.	1990-92
			Reduce number of lower-skilled and temporary employees.	1990-92
			Review current system of employing temporary workers.	1990
			Limit civil service recruitment to reflect realistic staffing requirements.	1990
	Improve fiscal discipline.		Strengthen procedures concerning the maintenance of commitment ledgers by all ministries.	1990
			Enforce rules and regulations concerning control of expenditure.	Beginning in 1989

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (continued)

(Asterisks indicate areas for priority early action)

	Objectives and Targets		Strategy and Measures	Timing of Measures
		*	Reduce domestic arrears.	1990-93
			Streamline the operations of the nine provincial accounting units to improve financial management.	1990
			Introduce standard object codes for accounting and appropriation purposes.	1990-91
			Strengthen training programs for Ministry of Finance accounting and audit personnel.	1990-93
	Integrate planning with budgeting.	*	Initiate a phased introduction of program budgeting starting with the key sectors in the PIP.	1990-93
			Review and strengthen the current financial management and information system in key areas such as MOF, BOZ, CSO data processing units, and reporting systems of line ministries.	1990-93
			Strengthen accounting for foreign grants.	1990
4. Public investment program		*	Within foreign and domestic resources available for the government budget and for parastatals, establish a priority sector investment program focusing on major sectoral objectives and following economic rate of return criteria.	Prepared in 1989 for 1990-93
5. Parastatal reforms	Enhance financial viability of parastatals.	*	Charge market prices that reflect costs of production and investment.	1990-93
		*	Agree on terms of reference and action programs. Undertake systematic economic/financial review of major parastatals.	1989
			Agree on action program for restructuring of nonviable parastatals.	1990
	Increase generation of receipts to government budget.		Ensure equal treatment under tax law with private sector.	1990
			Disallow expenses for fringe benefits, transactions of capital nature, and excessive depreciation and exchange loss provisions.	1990
			Revoke all tax exemptions and reliefs.	1990
			Introduce mandatory dividends policy.	1990
	Discontinue current transfers from government budget.		Clear arrears and make arrears to Government subject to penalties and interest.	1990
			Discontinue current transfers and subsidies and guarantees from government budget.	1990
	Enhance competition and efficiency.		Encourage joint ventures with private sector.	1990-93

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (continued)

(Asterisks indicate areas for priority early action)

	Objectives and Targets		Strategy and Measures	Timing of Measures
			Close down unprofitable operations, and ensure full costing of noncommercial objectives owing to government policy.	1990-93
IV. Agricultural Sector				
1. Price policy reform	Provide incentives for growth, efficiency, and structural change in the sector.		Remove all price controls, except on maize.	Announced June 1989
			Other than maize, let no agricultural commodities be subject to controls.	1989-93
		*	Set floor producer prices in line with international market prices.	Beginning 1990/91 crop season
			Revoke statutory powers of PIC to review and approve producer prices.	Announced June 1989
2. Subsidies	Introduce economic pricing of agricultural goods and inputs.	*	Eliminate interprovincial and intraprovincial transport and handling subsidies on maize and fertilizer during the Plan period.	Beginning 1991/92 crop season
		*	Phase out maize consumption subsidies, except for targeted vulnerable group by end-1993.	Beginning in 1989
		*	Phase out all subsidies on fertilizer by end-1993.	Beginning in 1989
			Ensure that all future increases in the producer price of maize will be passed on in full in the consumer price.	Beginning 1989/90 season
			Announce that all people in formal employment earning more than K 20,500 will no longer be eligible for coupons.	As of July 1989
3. Expenditure program	Increase the effectiveness of recurrent and investment expenditures.	*	Increase RDCs for priority activities, particularly research and extension services; maintain adequate levels in real terms thereafter.	1990 budget
			Establish priority expenditure program for the agricultural sector, emphasizing agricultural extension, research, credit, veterinary services, input supply and marketing, and rural transportation.	1990 budget
4. Agricultural exports	Diversify agricultural exports.		Draw up and begin implementing action plans to promote exports of agricultural commodities, particularly coffee, cotton, tobacco, groundnuts, fruits, vegetables, beef, and wood products.	1990
5. Marketing reforms	Lower cost through improved marketing efficiency.		Decontrol road haulage rates for all agricultural commodities and fertilizer.	Implemented 1989
			Liberalize licensing of agricultural exports and streamline system.	1990

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (continued)

(Asterisks indicate areas for priority early action)

	Objectives and Targets		Strategy and Measures	Timing of Measures
			Allow maize exports as long as national requirements are met.	1989-93
			Implement recently adopted fertilizer marketing system.	Beginning 1990/91 crop season
			Allow private traders to participate in marketing of fertilizer.	Beginning 1990/91 crop season
V. Industry				
1. Price reforms	Raise efficiency and productivity.		Eliminate all forms of price control and price regulation.	Announced June 1989
2. Tariff reform			Remove excessive protection of domestic industry (see fiscal section for more detail).	1990
3. Legislative reforms			Review the implementation of the investment code to enhance use of existing incentives by simplifying and streamlining procedures for access to benefits.	1990
4. Operational reforms			Review operations of major parastatals to ensure their competitiveness and economic viability.	1990-93
			Develop action programs to promote and facilitate small-scale industry and informal sector activities.	1990
		*	Ensure that INDECO's investment program will give a higher priority to rehabilitation and maintenance than new investments. Make certain that new investments are undertaken only if they carry high economic rates of return. INDECO will consult with the World Bank on its new investment program.	1990-93
			Ensure that new investments will be undertaken by INDECO and ZIMCO only if resources are available and they carry high economic rates of return.	1990-93
5. Role of private sector	Enhance private sector investment.		Elaborate measures to enhance private and foreign investment.	1990 budget
VI. Mining				
Mineral exports	Improve competitiveness.		Strengthen and intensify the implementation of the cost-reduction program for ZCCM.	1990-93
		*	Review ZCCM's five-year investment program and formulate a detailed medium-term phase-down program.	1990-91
			Ensure adequate allocation of foreign exchange to ZCCM during the phase-down period in order to meet its operational requirements.	1990-93

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (continued)

(Asterisks indicate areas for priority early action)

	Objectives and Targets		Strategy and Measures	Timing of Measures
	Development of noncopper mining sector.		Enhance incentives to noncopper mining sector.	1990
	Marketing of precious stones.		Improve processing facilities to achieve higher value added.	1990
VII. Transport				
1. Expenditure reforms	Raise the efficiency of transport services.	*	Give high priority to maintenance, rehabilitation and repair of existing road and rail transport system.	1990
	Facilitate transport of agricultural produce.		Devote adequate resources to rehabilitation and maintenance of feeder roads.	1990-93
2. Revenue reforms			Expand user charges and tolls to increase resource mobilization in the sector.	1990 budget
3. Operational reforms		*	Review public sector transport operations and performance.	Initiate 1989
			Strengthen planning and managerial capacities of the sector.	1990-93
VIII. Energy				
1. Operational reforms	Supply adequate and economically priced energy to industrial and household users.	*	Implement energy sector strategy recently formulated by Government with UNDP and IBRD assistance.	1989
			. Raise electricity tariffs and decontrol prices of diesel oil and charcoal to promote conservation and reflect economic costs.	
			. Increase stumpage fees for woodfuel to reflect replacement costs.	
			Implement recommendations of recently completed household energy study.	1989
2. Expenditure reforms			Direct expenditures to maintenance, repair, and rehabilitation of existing infrastructure rather than to create new capacity.	1990-93
3. Price reforms		*	Establish and maintain petroleum product prices at economic levels.	1990-93
4. Institutional arrangements			Strengthen the management and planning capabilities of the energy sector.	1990-93
IX. Education				
1. Expenditure reforms	Improve access to and quality of education.		Give priority in education expenditures to primary education, particularly in the poor urban and rural areas. Reduce the disparity between expenditures on primary, secondary, and higher education.	1990-93

Zambia: Summary and Timetable of Adjustment and Structural Measures, 1989-93 (concluded)

(Asterisks indicate areas for priority early action)

	Objectives and Targets		Strategy and Measures	Timing of Measures
			Focus expenditures on rehabilitation and maintenance of existing facilities as well as teaching materials.	1990-93
			Encourage local communities to play an active role in construction, operations, and maintenance of educational institutions.	1990-93
			Encourage private sector to play a more active role in providing education.	1990-93
2. Revenue reform			Introduce user fees to the beneficiaries of secondary and higher education.	Commenced in 1989
X. Health and Population				
1. Expenditure reforms	Improve delivery of health services.	*	Adequately fund health sector activities and give priority to maintenance and repair of existing primary health facilities.	1990-93
			Shift emphasis to preventive health care from curative care.	1990-93
			Prepare and implement a priority investment plan that stresses maintenance and rehabilitation, and primary and family health programs.	1990-93
2. Revenue reforms			Continue and expand cost recovery program based on ability-to-pay concept.	1990-93
3. Population growth		*	Adopt and promote a national population policy aimed at significantly reducing the high rate of population growth.	1990 onward
XI. Vulnerable Groups			Target maize meal coupon system to most needy and lowest income groups.	Commenced in 1989
			Retain on a limited and temporary basis the fertilizer subsidy for small-scale farmers.	1989-93
			Maintain tax exemptions for pensions.	1989 onward
			Announce financial incentives to encourage rural resettlement.	Announced 1989
			Strengthen National Food and Nutrition Commission.	1990
XII. Environment				
1. Wildlife protection	Conserve wildlife resources.		Increase resources for park service.	1989-93
2. Energy conservation	Reduce deforestation and land degradation.		Carry out National Energy Strategy.	1990-93