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Learning from Zambia's Economic Policy Reversals

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Abstract

The economic policies of Zambia's first independent government, the United National Independence Party (UNIP), had disastrous results - turning Zambia from a middle-income into a least developed country. Following a difficult adjustment period, the Movement for Multiparty Democracy's reversal of many UNIP policies led to over a decade of rapid growth and falling poverty. Despite their apparent success, policies such as privatisation were unpopular and the Patriotic Front administration from 2011 reverted to many of UNIP's policies. This led once again to low growth and Zambia defaulting on its debt. As the United Party for National Development administration seeks to repair the damage, this article highlights four key economic lessons from the UNIP era which are crucial for sustainable growth and poverty reduction: (1) fiscal discipline is vital; (2) investment must be economically viable; (3) government should focus on public services and leave business to the private sector; and (4) untargeted subsidies do not help the poor.

1. Introduction

Zambia is the first African country to experience the peaceful and democratic transfer of power from a ruling party to an opposition party through elections three times – in 1991, 2011 and 2021. On each occasion the change of administration from one party to the other led to the reversal of many of the economic policies pursued by the previous administration. This represents a rare economic ‘natural experiment’ on the effectiveness of such policies, providing both Zambian policy makers and economists globally with valuable evidence on which policies do and do not work.

This paper attempts to draw out the main lessons from this experience. Since it is too early to assess the impact of policy measures introduced by the United Party for National Development (UPND) administration following the August 2021 elections, the paper focuses on the economic policies of the United National Independence Party (UNIP), the Movement for Multiparty Democracy (MMD) and the Patriotic Front (PF) administrations. It shows how economic mismanagement under the PF represents a failure to learn from past experience, making Zambia a perfect illustration of George Santayana’s famous 1905 warning that *‘those who cannot remember the past are condemned to repeat it’* (Santayana, 2011).

Drawing on and updating earlier work, the paper shows how economic policies under UNIP had disastrous results, turning Zambia from a middle-income into a low-income country with some of the worst poverty and socio-economic indicators in Africa (Whitworth, 2015). The MMD administration reversed many economic policies from the UNIP era. Following a difficult structural adjustment period, economic performance improved considerably from the late 1990s. This is demonstrated in Table 1. However, any suggestion that this was evidence of Zambia learning from its past mistakes was soon dispelled by the PF administration, which reverted to many UNIP policies. These had predictably damaging results, encapsulated by the Eurobond default in 2020. This was only 15 years after the Highly Indebted Poor Countries (HIPC) initiative had written off most of Zambia’s foreign debt. Under the PF, Zambia clearly ‘repeated its past’.

Given how colourful and varied it has been, the literature on the history of Zambian economic policy making is surprisingly thin. Martin (1972) is the definitive account of policy making in the early years of Independence and of how the state came to dominate the economy. Gulhati (1989) provides an overview of economic policies and results over the UNIP era as a whole. Hill and McPherson (2004) is the most complete account of the early MMD economic reforms, while Craig (2000) is the best source on privatisation. The first attempt to span Zambia’s entire history and to compare UNIP economic policies and their results with those of MMD and PF was Whitworth (2015). Barton (2016) provides a second fifty-year history, focused more narrowly on Zambia’s relationship with foreign capital and investment.

Zambia has reversed direction again under the UPND administration. Following early reforms and the start of debt restructuring negotiations with its foreign creditors, Zambia’s first International Monetary Fund (IMF) programme for over a decade was

approved in August 2022. This is aimed at tackling the acute debt and fiscal crises inherited from PF (IMF, 2022b). It is unclear how well the general public understands the causes and extent of these crises and why painful policy reforms are required. To try and ensure Zambia does not 'repeat its past' yet again, this paper highlights key economic lessons from the UNIP era and shows how, by repeating UNIP's mistakes, PF created huge challenges for the UPND government. It summarises more detailed analysis of the UNIP and MMD eras in Whitworth (2015) and extends the analysis to cover the complete PF era.

The rest of the paper is organized as follows. We look at economic policy making under UNIP between 1964 and 1991 in section 2. We then look at economic policy making under the MMD between 1991 and 2011 and under the PF between 2011 and 2021 in sections 3 and 4 respectively. We finally conclude the paper in section 5.

2. United National Independence Party, 1964 - 1991

Zambia's first decade as an independent country coincided with a global copper boom. Both world copper prices and domestic production were at record highs. With a highly effective tax regime, transferring much of the mines' profits to government, the UNIP administration received a massive 15% to 19% of Gross Domestic Product (GDP) in mining tax between 1965 and 1970. This proved both a blessing and a curse.

With huge resources at its disposal and little external debt, the UNIP administration was able to undertake a major infrastructure investment programme. Much of today's health and education infrastructure, road network and government buildings (and the Kafue Gorge Upper hydroelectric scheme) were built in the 1960s and early 1970s.

However, investment was not confined to public infrastructure and activities normally associated with government. The UNIP administration also used its plentiful resources to finance an extraordinary expansion in the role of the state across the economy. This took three distinct forms. Firstly, following Southern Rhodesia's Unilateral Declaration of Independence in 1965 and international sanctions against the Rhodesian government, the administration invested in the TAZAMA pipeline, Indeni refinery and the Tanzania Zambia Railway (TAZARA). This was in order to reduce economic dependence on Southern Rhodesia.

Secondly, in a bid to industrialise the economy, the administration invested in numerous *new* ventures (Nitrogen Chemicals of Zambia, Kafue Textiles, among others) through the Industrial Development Corporation (Indeco). Indeco became 'the main channel for applying government funds to develop industry by means of loans, share capital and the provision of factory buildings' (Martin, 1972). It was also a vehicle for 'Zambianisation' of the labour force, management of which had predominantly been expatriate. Thirdly, the administration acquired majority stakes in *existing* large-scale enterprises, starting with non-mining firms in 1968 and followed by the mines in 1969. By the early 1970s the role of the state in the economy was probably larger in Zambia than in any other non-communist country.

The expansion of the state into industrial and commercial activity was one of the most remarkable economic developments in postcolonial Africa. In just a decade, Zambia had

gone from a predominantly private economy with very weak public institutions and fewer than 100 university graduates to a country where the state dominated not just the 'commanding heights' of the economy but virtually all medium-scale and large-scale business.

This proved economically disastrous, with consequences that continue to be felt to this day, for two reasons – viability and mismanagement. Many of the investments in the first two categories were *economically unviable*. This was unavoidable with TAZAMA, Indeni and TAZARA, where the administration was forced to invest by international sanctions against Southern Rhodesia. However, once Zimbabwe became independent in 1980 and normal trade to the south resumed, they became 'white elephants'. Indeni's small ageing plant could not compete with modern refineries. Furthermore, distributing fuel throughout a territory as large as Zambia from a single point (Indeni) was more costly than direct import of finished products - because of high internal transport costs. Reluctant to close TAZAMA and Indeni (with the loss of 600 jobs), successive administrations protected its monopoly with import duty on finished products. As a result, Zambia has consistently had among the highest fuel costs in the world (Whitworth, 2014).

There were also problems with TAZARA. It is questionable whether there was enough freight for one railway line to operate profitably once copper production started declining in 1977, let alone two lines. By the time copper production rebounded in 2003, the mines had little need for railways because the trunk road network had been repaired and the trucking industry was offering highly competitive freight rates between Zambia and South Africa. So TAZARA's construction meant that neither it nor Zambia Railways was profitable, leading to higher unit costs and the deterioration of both systems (Raballand & Whitworth, 2014).

With Indeco, industries were set up for their own sake, almost regardless of cost (Martin, 1972). With Zambia's tiny internal market and poor transport links, many Indeco investments were economically not viable. While financial profitability could be secured through tariff and other protection measures on imports, this was at considerable cost to consumers (higher prices) and to competitiveness. Consequently, once protection was removed many Indeco projects were doomed. Also, the industrial sector was highly dependent on imported intermediate goods. When copper revenues collapsed from 1974, leading to a balance of payments deficit, even viable projects had difficulty accessing foreign exchange. This seriously disrupted operations. As a result, Indeco was incurring sizeable losses by the late 1970s (Gulhati, 1989).

Viability was not an issue with nationalised enterprises. These were mostly profitable when acquired. Instead, the problem was political interference and mismanagement. President Kaunda expected parastatals to be run at a profit, but also to '*keep the national interest in mind at all times*'. There was pressure to rapidly 'Zambianise' management, to create jobs and to avoid price increases. Along with problems in accessing foreign exchange, this contributed to a steep reduction in profitability across all parastatal companies from the 1970s.

The impact on the macro economy was greatest in the mining sector. The sector needs continuous maintenance and investment just to maintain, let alone increase, output because ore grades decline and mineral deposits become less accessible (more costly) at greater depths. However, the nationalisation of the mines in 1969, and particularly the sudden cancellation of the management contracts of Anglo American (AA) and Roan Selection Trust (RST) (the two main mining groups) in 1973, discouraged further investment by the former owners (Sardanis, 2003). Henceforth, investment needed to come from government. The UNIP administration's fiscal problems from 1975 made this increasingly difficult and new investment soon dried up.

In 1982 AA and RST were merged to form one giant conglomerate, Zambia Consolidated Copper Mines (ZCCM). Before long ZCCM became a '*state within a state*' and management '*yielded to the whims of the government and ...transformed ZCCM from a respectable mining group into a mindless conglomerate encompassing all sorts of irrelevant businesses*' such as maize milling, dry cleaning, commuter trains, farming, tractor assembly and tourist resorts (Sardanis, 2003).

The combination of falling copper prices, lack of investment and poor management meant that copper production and profitability fell continuously for 30 years. In the two years 1997 and 1998 alone, ZCCM's losses totalled some US\$650 million. This was almost US\$1 million per day. The sector went from being the main source of revenue after Independence to being a large drain on the budget.

While healthy mining tax revenue meant that post-independence infrastructure investments were affordable initially, they and other expenditure policies adopted during the 1960s and early 1970s built up severe fiscal problems for the future. The infrastructure programme gave rise to increased recurrent expenditure commitments. Expanded education and health facilities required more teachers and health workers, new roads needed to be maintained, and so on. The size of the public service increased sixfold between 1964 and 1974, accompanied by a significant increase in wage rates. Finally, to try and insulate urban consumers from price rises, the UNIP administration introduced subsidies for such items as maize, fertiliser and fuel. These cost an extraordinary 6.7% of GDP by 1980.

The combined result of the above was an enormous increase in *recurrent* expenditure from 18.8% of GDP during 1965–1970 to 26.5% during 1971–1975 - reaching 35% in 1975. This level of expenditure would have been unsustainable even with mining tax at 15-19% of GDP and no capital investment. However, with the end of the copper boom in 1974, compounded by changes in the mining tax regime, mining tax receipts collapsed. They decreased from 18% of GDP in 1974 to zero from 1977. The budget *surplus* of 3.4% of GDP in 1974 became a *deficit* of 21.5% in 1975 (McPherson, 2004).

Substantial expenditure cuts between 1975 and 1978 reduced the deficit but, with revenue continuing to decline, they were not sufficient. The administration gambled that copper prices would rebound before long and that in the meantime it could finance the deficits by borrowing. This proved a disastrous miscalculation. Instead of rebounding copper prices continued falling until 2002. The interest payments on the new loans added to expenditure. To make matters worse, from the late 1970s, the administration had to

bail out parastatal company losses resulting from the expansion of the state into commercial operations.

Consequently, Zambia experienced a 30-year fiscal crisis, with some of the highest fiscal deficits ever seen anywhere over an extended period. The deficit averaged 14.5% of GDP between 1975 and 1979, 13.8% in the 1980s, 6.0% in the 1990s and was not brought under control until 2004.

With deficits financed mainly through borrowing, the fiscal crisis led in turn to a debt crisis. The external debt stock doubled from about US\$800 million in 1970 to US\$1.6 billion in 1975. It doubled again to US\$3.3 billion in 1980, by which time it exceeded 100% of GDP and was already unsustainable. By 1990 it had reached US\$7.2 billion, and Zambia was effectively bankrupt with the highest public debt *per capita* in the world.

The share of interest payments in total expenditure rose from 5% in 1975 to 31% in 1985. For 30 years, government expenditure was largely restricted to interest payments, salaries, parastatal company bailouts and (until 1991) subsidies. Recurrent government funding for textbooks, drugs, road maintenance, etc and new investment were crowded out. As a result, much of the post-independence investment in social infrastructure had severely deteriorated by the 1990s. Basic social services virtually collapsed, particularly in rural areas.

With private sector investment deterred by nationalisation and macro-economic mismanagement (Barton, 2016), GDP contracted by an average of 2.6% per capita per annum between 1975 and 1991 (see Table 1). This was one of the steepest economic declines ever seen anywhere in peace time. Poverty increased substantially as Zambia went from middle income to least developed country status.

Table 1 **Zambian Economic Growth, 1965 - 2020**

	Average Real GDP Growth, %	Average Real GDP Growth <i>Per Capita</i> , %
UNIP		
1965- 1974	3.9	0.6
1975- 1991	0.6	-2.6
MMD		
1992- 1998	1.3	-1.3
1999- 2011	6.8	4.0
PF		
2012- 2020	3.4	0.3

Source: World Development Indicators, World Bank 2022

There is much to be learnt from the UNIP administration's disastrous economic management. We can particularly highlight four important lessons that recent history shows are not yet widely understood. Firstly, government must 'live within its means' and ensure expenditure commitments are sustainable, thus maintaining fiscal discipline. Secondly, government should only invest in projects which are economically viable. Thirdly, government should stick to providing conventional public services and leave business to the private sector. Fourthly, subsidies and price controls are an ineffective way of helping the poor.

The remainder of the paper examines how well subsequent administrations learned these lessons, starting with the MMD.

3. Movement for Multiparty Democracy, 1991 - 2011

The 1991 elections brought the MMD administration to power with a strong mandate for economic reform. The new administration agreed to a comprehensive reform programme with the IMF and World Bank, aimed at stabilising and restructuring the economy and stimulating real growth. In order to 'live within its means' it introduced new revenue measures, established tighter expenditure control and abolished most subsidies. Helped by a resumption of foreign aid the fiscal deficit (after grants) started to come down from 1995, averaging 4.9% of GDP between 1995 and 2000 (McPherson, 2004).

The MMD election manifesto contained a strong commitment to privatisation. It recognised the need to both stem the fiscal haemorrhage from loss-making parastatal companies and to attract local and foreign investment to enable viable companies to survive. The Zambian Privatisation Agency (ZPA) was created to convert parastatal companies from state to private ownership. By 2000, 113 state enterprises out of the original portfolio of 144 had been privatised. Although 38 parastatals were liquidated, most survived (Craig, 2000). Given that most parastatal companies were previously losing money and faced a highly uncertain future, the World Bank considered Zambia's privatisation programme up to 1996 (before privatisation of the mines) as the 'most successful' in Africa (Campbell White & Bhatia, 1998). Many of Zambia's leading firms today are 'ZPA graduates'.

Despite this evidence, many Zambians remain ambivalent about privatisation. Craig (2000) noted as early as 2000 the striking contrast between the positive view of the international community and the view held by Zambian civil society that the privatisation process was 'deeply flawed'. The latter partly reflects the highly visible hardship of workers who lost their jobs. While job losses would have almost certainly been larger without privatisation and the elimination of parastatal company losses facilitated increased expenditure on public services, benefiting all Zambians, these benefits were much less visible. In the case of ZCCM, there was a widely held view that, with ZCCM haemorrhaging money and copper prices near their lowest real level in a century, the MMD administration was in a weak negotiating position. This forced it to offer tax and other concessions to close privatization deals. This resulted in the mines being sold to foreigners for well below their true value.

Barton challenges this view. He suggests that both the MMD administration and the public had completely unrealistic valuations of ZCCM assets because they overlooked two issues. Firstly, they overlooked the considerable depletion of the country's mining assets since 1973 resulting from the under-investment, mismanagement and excessive extraction of rents in the sector. Secondly, they did not appreciate just how risky Zambian mining looked to potential investors following the chaotic nationalisation process and subsequent ZCCM mismanagement. *'On top of a considerable capital investment, ZCCM would require substantial institutional/management reform before returning to profitability. Investors realised this would take time and be expensive'* (Barton, 2016, p.145).

While poorly understood by the public, the privatisation programme was a turning point in the transformation of the Zambian economy. New investment following privatisation led to rapid growth in such diverse areas as sugar, cotton, cement, dairy, livestock, maize milling, breweries, electricity transmission, trucking, construction and hotels. The greatest impact was in mining where, despite a difficult privatisation process, substantial foreign investment triggered a rapid increase in copper production - well before copper prices started to recover in 2003. Meanwhile, the government was finally relieved of responsibility for bailing out parastatal company losses.

The above and other reforms finally produced a return to growth from 1999. This was reinforced from 2003 by a rapid rebound in copper prices, which encouraged further investment. Subsequently, Zambia experienced an unprecedented period of sustained real GDP growth - averaging 4.0% *per capita* per annum between 1999 and 2011 - and regained Lower Middle-Income status. Booming copper exports eliminated the balance of payments deficit and replenished foreign exchange reserves.

There was also a marked fiscal turnaround from 2004. The country benefitted substantially from joining the Heavily Indebted Poor Country (HIPC) debt relief scheme in 2000. 'Interim' debt relief cut interest payments on foreign debt from 5% of GDP in 1998 to 1.3% in 2002. Along with the above fiscal measures, the end of parastatal company bailouts, and GDP growth (which increased the denominator), this halved the fiscal deficit (after grants) to 2.9% of GDP in 2004. This was much the lowest level in 30 years. The deficit was sustained at a similar level through 2012, assisted by the (modest) return of mining tax. The establishment of fiscal discipline helped Zambia reach HIPC 'completion point', following which external debt was cut from US\$6.2 billion in 2005 (86% of GDP) to just US\$962 million (9%) in 2006. In per capita terms, Zambia received more debt relief than any other HIPC country, transforming the country's balance sheet overnight. Foreign interest payments fell to just 0.1% of GDP by 2007 (Whitworth, 2012).

The beneficial effects of fiscal discipline and debt relief were immense. Combined domestic and foreign interest payments fell from 4.1% of GDP in 2002 to 1.2% in 2011. Mineral tax revenues resumed in 2005, reaching 1.9% of GDP in 2010. With GDP growing by some 75% over the period, the MMD administration finally had 'fiscal space' to enable it to start tackling the huge backlog of expenditure on public services. By the 2011 elections, good progress had been made in restoring the paved road network and

expenditure on health and education had increased substantially. Poverty had also been reduced, though mainly confined to urban areas.

The dramatic turnaround in economic performance demonstrated the importance of government living within its means and leaving business to others. The MMD administration had clearly learned those lessons. It was less clear how well it had absorbed the other lessons above. While most subsidies had been removed in the early 1990s, as the fiscal crisis eased, the administration reintroduced subsidies for fertiliser and Food Reserve Agency maize purchases; together, these cost 2.8% of GDP in 2011. Meanwhile, its reluctance to allow the electricity utility, Zambia Electricity Supply Corporation (ZESCO), to increase electricity tariffs (often the lowest in Africa) meant that there was little investment in increasing electricity generation capacity for three decades from 1977. This resulted in the load shedding the country experienced continuously from 2007 until 2022, following the rebound in mining demand (Whitworth, 2014).

The MMD administration also showed little interest in economic viability. Most of the fiscal space allocated for investment in the late 2000s went to paving roads, despite their poor economics (see below). The Mongu – Kalabo road launched in 2010 was, at a cost of US\$287 million for just 34 kilometres, one of the most expensive rural roads per kilometre in the world (Raballand & Whitworth, 2014 and Brautigam, 2021) and the first of a number of white elephants built over the next decade.

Notwithstanding these caveats, the MMD administration was arguably one of Africa's most successful economic reformers. While the reforms caused considerable pain initially, boosted by the second copper boom from 2003 they laid the groundwork for the establishment of fiscal discipline and macroeconomic stability from the mid-2000s and the longest unbroken period of growth in Zambia's history.

4. Patriotic Front, 2011 - 2021

The PF administration inherited an exceptionally healthy macroeconomy, with rapid growth, a thriving mining sector, a low fiscal deficit, little debt, a single digit inflation rate, a balance of payments surplus, healthy reserves and a stable exchange rate. Mining taxes were back (albeit well below the level of the 1960s) and the administration had real fiscal space. Moreover, public expenditure was no longer limited to tax revenue. Following debt relief, the administration had an unusually healthy balance sheet and, with a good outlook for copper, was in a strong position to resume borrowing. China was keen to finance infrastructure investment and, following Zambia's first sovereign credit rating in 2011, a completely new opportunity presented itself - issuing sovereign bonds. In short, Zambia finally had a solid platform for investment and growth and a real opportunity to rebuild public infrastructure and services and to reduce poverty.

This opportunity was wasted by the PF administration through reckless economic mismanagement. This can be seen by examining the performance of the PF administration against the four lessons from the experience of the UNIP administration.

Fiscal Discipline

Seemingly oblivious to its contribution to growth under the MMD administration, the PF administration showed little interest in fiscal discipline. Instead, it took advantage of growing fiscal space and the unprecedented opportunities for borrowing to go on a decade-long 'spending spree'.

The PF administration launched the 'Link Zambia 8000' Programme in 2012. The aim was to upgrade 8,200 kilometres of roads to bitumen standard at an estimated cost of US\$5.3 billion over five years. This was equivalent to 3-4% of GDP annually (<https://www.africanreview.com/construction-a-mining/roads/zambia-launches-link-zambia-8000-project>). Then in 2013, the administration announced a huge 45% increase in the public service wage bill. As well as retaining subsidies on fertiliser and maize introduced by the MMD administration, the PF administration reintroduced subsidies on fuel. These cost US\$145 million (0.6% of GDP) in 2012 and US\$220 million (1.1% of GDP) in 2013.

With little change in revenue, the inevitable result of such expenditure increases was that the fiscal deficit (after grants), which was in the range 0% - 3% of GDP between 2004 and 2012, jumped to 6.2% of GDP in 2013. Despite occasional attempts to rein it in, the deficit continued to grow and averaged 8.3% of GDP between 2013 and 2021 (IMF, 2022a). Financing such large deficits required substantially increased (mainly domestic) borrowing.

The financing for roads and other infrastructure investment came from two main external sources, China (Brautigam, 2021) and Eurobonds. Whereas much of the UNIP administration's borrowing had been on concessional terms, PF administration borrowing was mainly commercial with higher interest rates. As more loans were signed, interest costs increased – further adding to the deficit. The first Eurobond in 2012 was marketed as finance for infrastructure investment. However, by the third Eurobond in 2015, the PF administration was mainly borrowing to finance fiscal deficits.

The pace at which debt was accumulated was extraordinary. The PF administration inherited just US\$3.6 billion of total public sector debt in 2011 (20.6% of GDP) (IMF, 2015). By June 2021 it had reached US\$26.4 billion (115% of GDP) including arrears - of which US\$16.3 billion was external and US\$10.1 billion local debt (Ministry of Finance, 2021). This excludes sovereign guarantees of parastatal company loans exceeding US\$1.5 billion. Both a 2017 IMF warning that Zambia was at high risk of debt distress and the downgrading of its sovereign credit ratings by rating agencies were ignored, as borrowing continued unabated.

Interest costs increased along with the debt stock from 1.2% of GDP in 2011 to 6.3% in 2021 (IMF, 2022b). As in the UNIP era, interest payments both added to the fiscal deficit and crowded out expenditure on basic public services. Inevitably, deficits and debt service eventually became unsustainable and in 2020, just 15 years after HIPC had wiped out most of its foreign debt, Zambia became the first African country (and first HIPC beneficiary) to default on a Eurobond.

Economic Viability

The scale at which the PF administration borrowed would have led to a debt crisis even if all the money was well spent. To compound matters, much of it was wasted on non-viable projects. Apart from the Kafue Gorge Lower hydroelectric scheme (which the International Finance Corporation offered to finance) and the Kazungulu Bridge, no major PF infrastructure investments were independently appraised and demonstrated to be viable.

With Link Zambia 8000, which accounted for much of the borrowing, it was simply taken for granted that paving roads was a 'good thing'. In reality, few paving projects were viable. To contribute to growth, the value of the *benefits* of paving a road (e.g. savings in time, fuel and maintenance) must exceed the *costs* over time – after discounting. It is globally accepted that traffic of at least 150 vehicles a day is required to make paving viable. Below this threshold rehabilitating and maintaining *gravel* roads is more economic. Being such a large and sparsely populated country, few non-urban roads in Zambia carried 150 vehicles a day - and most of these had already been repaired by the MMD administration. By ignoring viability, Link Zambia 8000 and other uneconomic projects such as airport terminals added enormously to debt - without producing the growth needed to pay for it.

Role of the State in the Economy

Despite the evidence that the involvement of the UNIP administration in economic production had impoverished the country and that privatisation under the MMD administration had contributed significantly to the economic turnaround, the PF administration rejected privatisation. Clearly reflecting public opinion (Cheeseman et al, 2014) it sought a greater role for the state in the economy, reminiscent of the UNIP era.

Its first major policy reform was to cancel the 2010 privatisation of Zambia Telecommunications Company Ltd (Zamtel) to Libya's sovereign wealth fund on the grounds of alleged corruption. This had widespread public support, reflecting the negative view of privatisation noted above. Although the process had lacked transparency, the sale proceeds of the Zamtel privatisation exceeded those of all Zambia's other privatisations combined. The US\$257 million paid by Libya probably also exceeded market value - since Gaddafi had a policy of over-bidding for privatised assets to buy political goodwill around Africa. Despite the sale proceeds and subsequent Libyan investment that contributed to a marked turnaround in Zamtel's operational performance, Zambia became the only country to renationalise a telecommunications utility company. Results have been disappointing. Having been consistently profitable prior to renationalisation, according to the Minister of Technology and Science, in June 2022 Zamtel was insolvent with debt exceeding US\$500 million. ¹

¹ Zambia: Government not ready to recapitalize Zamtel-Mutati, <https://www.lusakatimes.com/2022/06/18/government-not-ready-to-recapitalize-zamtel-mutati/>

This was followed by the unilateral cancellation in 2012 of a 20-year concession (signed in 2003) to operate Zambia Railways (ZR). As a result, the PF administration was once again responsible for servicing Zamtel and ZR debt and for financing their losses.

In 2014 the administration reincarnated the Industrial Development Corporation with a mandate to *'spearhead the Zambian Government's commercial investments agenda aimed at strengthening Zambia's industrial base and job creation'*, as well as becoming the state's investment holding company for the remaining parastatals (including ZCCM-IH, Zamtel, ZESCO, ZR). Its Board Chair was the President.

Given public attitudes towards the privatisation of ZCCM noted above, it was no surprise when the PF administration moved to reverse privatisation in the mining sector too. In 2019 it attempted to liquidate Konkola Copper Mines on the grounds that Vedanta had failed to honour commitments made when it assumed ownership. In 2020 the administration acquired 100% ownership of Mopani Copper Mines from Glencore in return for assuming a US\$1.5 billion debt owed to Glencore's parent company.

In 2021 the administration re-launched Zambia Airways. This was despite the collapse of all three previous (one public, two private) Zambian national flag carriers and growing competition from foreign airlines.

In the light of experience, the above developments represent a step backwards. History shows that political involvement in business in Zambia has invariably meant mismanagement, wasted resources, financial losses and higher fiscal deficits. The extra debt assumed aggravated the debt crisis.

Subsidies and Price Controls

Despite the fiscal situation, subsidies increased significantly under the PF administration. As noted, the administration retained subsidies on fertiliser and maize introduced by the MMD administration. These increased to 3.5% of GDP in 2020 in the run up to the 2021 elections.

Energy subsidies were particularly costly. Like MMD, the PF administration resisted electricity tariff increases. When a prolonged drought from 2015 cut hydroelectric generation, greatly increasing load shedding, ZESCO was forced to start importing power. This cost over US\$250 million in 2015 and 2016. Since the price of imported power was much higher than ZESCO's tariffs, these were finally allowed to increase. However, the increase was not sufficient to cover the extra costs. As a result, ZESCO has incurred substantial financial losses since 2015 and accrued payment arrears to independent power producers - exceeding US\$300 million to Maamba Coal alone.

Fuel subsidies also grew substantially. According to the Secretary to the Treasury, prior to cuts by the new UPND administration in December 2021:

'Zambia's subsidy on fuel [was] about US\$67 million per month or US\$800 million per year and on electricity [was] over US\$40 million per month or US\$500 million per year' (Observer 5/12/2021).

Two observations should be made. Firstly, subsidies on this scale are simply not affordable. They have contributed directly to the fiscal and debt crises and have crowded

out expenditure on public services. Secondly, unlike public services, they are of little benefit to the poor. As the Minister of Finance has noted, fuel subsidies mainly benefit car owners; and only 30-40% of Zambians (the wealthiest) have access to electricity. A World Bank study estimated that the richest 10% of households captured almost 90% of fuel subsidies in 2015 while the poorest 50% got just 1% (de la Fuente et al, 2017). Attempting to support the poor through energy subsidies is horribly wasteful. Zambia can therefore reduce both expenditure and poverty by ending subsidies and using some of the savings to make targeted payments to the genuinely poor.

5. Conclusion

It should be no surprise that reverting to UNIP era economic policies produced similar results. As well as the fiscal and debt metrics discussed above, the severe deterioration in economic performance under the PF administration can be seen in indicators such as: Firstly, *GDP per capita growth* fell from an average of 4.0% between 1999 and 2011 to 0.3% between 2012 and 2020. Secondly, the *exchange rate* depreciated from ZKW 5 to the US Dollar in 2011 to ZKW 21 in 2020. Thirdly the *Inflation rate* was 6.0% in 2011 but 19.2% in 2020. Fourthly, previously profitable utilities such as ZESCO and ZAMTEL became loss-making and heavily indebted.

With expenditure on basic services once again crowded out by debt service, it is no surprise that '*Overall poverty is estimated to have consistently increased since 2015*' (Paul et al, 2021).

Zambia received more debt relief *per person* from HIPC than any other country. This was in return for undertaking to use the savings to help the poor and to manage the economy responsibly. Instead HIPC's sponsors were double-crossed, damaging Zambia's international reputation. While factors beyond its control (e.g., drought) compounded matters, the PF administration's economic mismanagement was some of the most irresponsible the world has ever seen. The economic decline under the PF was all the more tragic because Zambia had 'been there before'. Instead of learning from UNIP's mistakes (and MMD's successes), PF repeated them. Yet despite producing the same results second time around, it is still unclear how well lessons have been learned.

Having inherited a macroeconomy in good shape from MMD, PF bequeathed huge problems to UPND. There are encouraging signs (e.g. improved fiscal discipline, removal of fuel subsidies and an IMF programme) that the new administration has learned from history. However, unless substantial debt relief can be secured (again) the need to service the PF debt will tie its hands fiscally for years to come. This casts doubt on the realism of its job creation promises. To remove the prospect of Zambia 'repeating its past' yet again, it will be important for the UPND administration not only to implement reforms that reflect the above lessons but also to communicate them (and their results) effectively to the public – some of whom still see the UNIP era as a 'golden age'.

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