

Aid to Zambia and its Impact on  
Social - Economic Development 1964-83

by

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A thesis submitted to the  
University of Zambia in partial  
fulfilment of the requirements of  
the degree of Master of Arts in  
Economics.


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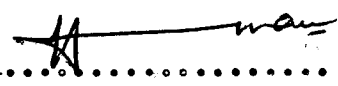
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APPROVAL

This thesis of Suya Bridget Mtonga - Chidumayo,  
is approved as fulfilling part of the requirements  
for the award of the Master of Arts Degree in  
Economics by the University of Zambia.

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DEDICATION

To our Children,

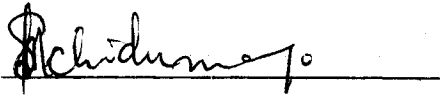
KUDANGA, TAKONDWA AND

NOZYECHI CHIDUMAYO

THEY SHOULD FACE THE UNCERTAIN  
FUTURE WITH COURAGE.

DECLARATION

I, SUYA BRIDGET MTONGA CHIDUMAYO, hereby declare that this dissertation or any part of it has not been previously been submitted for a degree in this or any other University.



SIGNATURE

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DATE

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Kudanga, Takondwa and Nozyechi went without a mother and must be happy that the work is over. For, although I was physically around I became inaccessible to them. I hope that as they grow older, they will appreciate that it was not all in vain.

My gratitude also goes to Mrs. Mary Bwalya who had the un<sup>n</sup>eviable task of typing this paper.

Notwithstanding, the views expressed here are neither those of the sponsors nor of the supervisors but those of the author. Sua Bridget Mtonga - Chidumayo.

ABSTRACT

Aid to Zambia and its Impact on Social - Economic Development 1964 - 1983. This research project tries to evaluate the effect of aid on Zambia's social - economic development. The hypothesis is that the quantity, quality and forms of aid has led to increased; gross domestic saving, investment, employment opportunities and to self - sustained development.

In order to carry out the task outlined above the study design is on the level of hypothesis-testing.

Historical data is used to test whether or not GDP, sectoral, and employment growth rates can be explained, at least in part in terms of quantity, quality and forms of aid inflows.

On the basis of the results alternative approaches to aid administration are suggested.

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TABLE (VIII) LIST OF ABBREVIATIONS

ADB/ADF	African Development Bank/African Development Fund.
BADEA	Arab Bank for Economic Development in Africa.
CDC	Commonwealth Development Cooperation.
CIDA	Canadian International Development Agency.
CSO	Central Statistical Office.
DAC	Development Assistance Committee.
EEC/EDF	European Economic Community/European Development Fund.
FAO	Food and Agriculture Organization of the United Nations.
GDP	Gross Domestic Product.
GFCF	Gross fixed capital formation
GDS	Gross Domestic Savings.
IBRD/IDA	International Bank for Reconstruction and Development (World Bank)/International Development Agency.
IFAD	International Fund for Agricultural Development.

Table viii cont'd

MOF	Ministry of Finance.
NCDP	National Commission for Development and Planning.
SIDA	Sweedish International Development Agency.
UK	United Kingdom.
USAID	United States of America/Agency for International Development.
USSR	Union of Soviet Socialist Republic.

## CHAPTER I

### HYPOTHESES AND THEORETICAL DISCUSSION

#### 1.1. Introduction

Aid flows into developing countries increased considerably in the two decades following the second World War. However, downward fluctuations have occurred during the 70's and early 80's due to recessions in donor countries. Paradoxically, a majority of developing countries who have received this aid continue to experience low economic growth. At the same time the degree of poverty has tended to worsen.<sup>1</sup> As a consequence of this phenomenon there has been growing scepticism about aid as a means of achieving development. This has led to a flurry of research on the most effective forms of aid. To date no consensus exists and the debate rages on.

The Zambian economy has been in a crisis for nearly a decade. As a result of a fall in the world copper prices and an increase in oil prices after 1973, the government of Zambia relied heavily on foreign aid to finance development.<sup>2</sup> Between 40 and 80 percent of the government capital budget has been foreign financed during the Third National Development

Plan (TNDP)<sup>3</sup>. However, these increasing inflows have neither been reflected in high growth rate of gross domestic product (GDP) nor in the social spheres of development such as employment and health<sup>4</sup>. GDP growth during the first, second and third plan periods has been below target despite a significant inflow of loan and/or investment capital in most years. GDP growth rates of 10.6, 4.5 and negative 1.3 per cent per annum were achieved in the different plan periods. These fell short of 11.7, 6.8 and 4.8 per cent per annum targets for the respective periods<sup>5</sup>. Employment increased marginally during the first period, declined during the second and third plans. In line with the economic crisis the provision of social services - housing, health and education has deteriorated in quantity and quality. So have transport and energy<sup>6</sup>.

The future outlook - short, medium and long term-is very grim indeed. Zambia is a dependent economy, so that to maintain existing patterns of production large imports are required. When export earnings fell during the 70's and 80's and debt increased, the ability to import got greatly reduced. In 1983 the government rescheduled foreign debt so that total debt - servicing burden can be expected to

increase and absorb more of the already meagre foreign exchange earnings<sup>7</sup>.

However, despite the existing crisis in the economy which has continued in spite of increasing aid inflows, there has been a general lack of discussion of the subject within institutions of higher learning in Zambia. The little clamour that has taken place has been limited to political institutions, with little research follow up.<sup>8</sup> Yet it is clear that an analysis of the subject could improve effectiveness of aid received. It could reduce the costs which create the debt servicing burden, lead to better sectoral allocation and increase domestic employment opportunities.

## 1.2. The Hypotheses of this Study

The following discussion shall investigate problems that have reduced the impact of aid on the development of Zambia by testing the following hypotheses:

- i. The financial aid inflows have been close to planned targets but that this has not been reflected in growing investment levels and economic output.

ii. By and large the sectoral aid allocation did parallel government priority, but it has taken forms that do not lead to self-sustained development i.e. tied commodity aid.

iii. Aid has led to a waste of local development resources, both financial and human. Much of it has taken the form of loans as against grants, and it has not created new employment opportunities for Zambians.

iv. There has been an apparent lack of synchronization between donor policies and those of recipient in recent years, to the extent that donors work independently of procedures laid down for aid administration. For example, they decide why, where and when to invest. Thus, they have got an upper hand in the running of the economy.

### 1.3. Theoretical Discussion

Several changes have taken place in aid theory. Initially mainstream aid theory argued that, by bringing in resources - financial and human - in the form of technical assistance, commodities and machinery, aid makes recipient economies grow. However, some authors on both the left and right are convinced

Last but not least foreign aid can be a means of bridging the skills constraint which prevails in most underdeveloped countries. Thus, manpower could be imported while local skills were being developed.

According to mainstream aid theory foreign aid is expected to result in increased economic growth rates, supply of skills, organizational ability and high investment levels. As a consequence, the long-run local savings potential is expected to grow, thus setting into motion self-supporting economic growth. Furthermore, because economic growth places more resources at the disposal of the government in the form of tax revenue, aid becomes a prerequisite for distributional goals. To this extent high economic growth is expected to lead to the simultaneous realization of social goals such as equality, health and high literacy.<sup>10</sup>

On the basis of the positive relationship purported to exist between aid and development, there have been international calls that developed countries should increase the quantity of flows to underdeveloped countries. For, by so doing they would hasten the speed of development in the latter (recipient). In

line with this thinking the Pearson Commission was appointed by the World Bank in 1968, to investigate ways in which aid could contribute to the development of poor countries. The Commission proposed that official aid should constitute 0.7 percent of bilateral donors' gross national product.<sup>11</sup> The Brandt Commission, appointed a decade later, reiterated the call for increased official development assistance<sup>12</sup>.

### 1.3. Criticism of Mainstream Aid Theory

In its original form the mainstream theory can be criticized on several grounds. Firstly, it over emphasizes the role of saving-investment in economic growth and development. In underdeveloped countries investment explains only a small percent ( $1/6$ ) of total growth achieved. Economic growth is a function of several other factors such as efficiency in the use of past investment. So that, it is possible that an increase in savings-investment levels could be accompanied by negative growth rates, even after taking into account natural lags in the relationship.<sup>13</sup>

Secondly, the theory incorrectly takes economic growth as being synonymous with development, However,

experiences of the 50's and 60's made it clear that per capita gross national product was an inadequate measure of development. For although a large number of underdeveloped countries achieved the United Nations growth targets, living standards of the masses of the people remained unchanged. To meet this challenge development is now conceived to be

"a multidimensional process involving major changes in social structures, popular attitudes and institution, acceleration of economic growth, the reduction of inequality and the eradication of absolute poverty"<sup>14</sup>.

Thirdly, underdevelopment was viewed by the mainstream economists as the opposite of development. As Karl Marx thought in his often quoted statement:

"the country that is developed industrially only shows to the less developed the image of its own future".<sup>15</sup> But as we shall see later, the dependential development theory has demonstrated that underdevelopment is not some stage below development and vice versa. Rather the two exist simultaneously and are caused by the same forces-capitalism.

To quote Szentes:

"The socio-economic state of the developing countries is not merely "economic underdevelopment," not just a sign of not having participated in development or having fallen behind in progress, but it is the product of specific development which is most connected with, moreover derived from the development of capitalist world economy".<sup>16</sup>

Empirical studies have failed to establish scientific proof that all official development aid has had a measurable, positive and significant effect on development in underdeveloped countries. Results of macro-economic analysis indicate an array of outcomes which varies with the level of economic development, geographical region and social-cultural factors. Medium income countries appear to respond more positively to aid than the very poor ones. Asian countries seem to have benefited more than African and Latin American.<sup>17</sup>

The divergence between what aid promises to do and the actual performance has led to a new wave of pessimism. Right wing criticism is best presented by Bauer and Yamey.<sup>18</sup> These two authors disagree with mainstream theory that a positive correlation exists between aid and development. Their disagreement

is on the following grounds. Firstly, they argue that no such correlation has actually emerged in the history of economic development. Development takes place in underdeveloped and developed countries alike whether or not development aid is given.

However, as Healey and Clift correctly point out, Bauer and Yamey cannot show that aid never has a positive effect. Indeed, they argue, aid may prove crucial in underdeveloped countries faced with high population growth with no new areas to take the excess to. So that unless they grow at extremely fast rates, most resources will go towards meeting immediate needs with little left for investment and future growth<sup>18</sup>.

Secondly, Bauer and Yamey argue that since official aid is insignificant relative to total external flows into developing countries it cannot be a determining factor in economic growth. However, evidence from Africa South of the Sahara indicates that for the poorest countries official development assistance has been considerable during the 1960's and 70's. It represented between 60 and 100 percent of total investment and was equal or larger

than public capital investment in several countries. Furthermore, the effectiveness of official development assistance appear to depend on the form it takes and degree of concessionality rather than quantity. Thus, a small amount of official development assistance targeted to high priority areas of a recipient economy could yield better results than rather large quantity that takes inappropriate forms and is spent carelessly.<sup>19</sup> For example, general budgetary support or non-project aid that goes towards financing critical imports - spares and raw materials - has proved invaluable to most countries in sub-Saharan Africa during the 1982 - 84 recession.<sup>20</sup>

Bauer and Yamey also argue that aid encourages inflationary monetary and fiscal policies and avoidance of foreign exchange reserves.<sup>21</sup> McQueen refutes this argument. In his view donors like Britain are usually aware that some underdeveloped countries deliberately chose to run large balance of payments deficits. In fact, however large the balance of payments deficit, it is no longer taken as an indicator of underdeveloped countries' need for foreign aid.<sup>22</sup>

The other criticism of the mainstream aid

theory has come from the left wing or dependential School of Latin America. Myrdal, Dos Santos, Patel and Holtham represent this group. The central argument from the left wing economists is that underdevelopment arises out of the capitalist production process. Foreign exchange and local savings constraints are a consequence of this same process which is caused by monopolized trade relations and foreign control of domestic money economy.

To quote Dos Santos:

"Industrial development is strongly conditioned by fluctuations in the balance of payments. This leads towards deficit due to the relations of dependence themselves. The causes of this deficit are: (a) trade relations take place in a highly monopolized international market which tends to lower the price of raw materials and raise the prices of industrial products inputs. In the second place there is a tendency in modern technology to replace various primary products with synthetic raw materials. Consequently, the balance of trade in these countries tend to be unfavourable. (b) foreign capital retains control over the dynamic sectors of the economy and repatriates high profits consequently capital accounts are highly unfavourable. (c) the result of (a and b) above is that foreign financing becomes necessary to cover existing deficit and to finance development by means of loans."<sup>23</sup>

From the above discussion, foreign capital and foreign aid come into underdeveloped countries to fill the holes they themselves created. The reason is not that the poor countries are not able to generate the required savings for growth but that the savings are expropriated to metropolitan nations.

The second argument from the left wing is that aid is usually tied to procurement/purchases in donor countries. This practice makes it amenable to overcharging leading to losses in value to the recipient. According to Myrdal, tying of aid benefits donors more than recipients, in that it promotes trade and prevents recession at home. Furthermore, it creates employment in donor countries. So that donors get involved in the aid relationship in order to develop their own economies<sup>24</sup>. He argues further that commercial motives are reflected in the terms at which most aid is given. He cites the changes in United States aid policy between 1950's and 60's to substantiate his views. According to his analysis United States aid towards European recovery program took the form of grants (100%). By the 60's, when United States started giving aid to Asia, Africa and Latin America, only 50 percent took the form of grants, and both grants and loans became tied.

According to Patel, from the 60's through the 80's an increasing share of foreign aid has taken the form of loans. New donors coming into the game followed United States practice. These shifts in aid policy have placed new constraints on underdeveloped countries - debt service burden-which exacerbate the foreign exchange constraint instead of mitigating it<sup>25</sup>. He further argues that aid inflows are subject to great fluctuations both in the short and long run, causing recipient economies to develop in leaps and jolts.

Hotham, on the other hand, has argued that donors in an attempt to secure projects to support, have distorted administrative procedures. By so doing they have undermined the central planning and finance ministries. Often donors have gone straight to operating ministries to identify projects for funding or vice versa: "without the planning division being told at all". The consequence has been funding of very low priority projects, lack of an adequate central project registry and of aid co-ordination. For, would appear that once the donor has agreed to fund, it becomes very hard for the treasury to refuse budgetary allocation for the project that is a fait

accompli<sup>26</sup>. To this extent, investment decisions are no longer governed by the importance of the project to the economy, but rather by those projects for which aid can be acquired. So that, aid determines the functions of the treasury and planning division. More than anything, it creates the feeling of dependence on outsiders and kills the spirit of self-reliance.

According to Holtham, technical assistance is a reflection of this dependence on foreign standards which require skills that are not available locally and have to be imported. According to the author project aid has been ineffective because it only funds aspects of a project, namely capital and foreign components. By so doing, recurrent expenditures have been left to the government budget which fails to adequately provide such sums due to stringent budget measures.

#### 1.5. Emerging Consensus

Despite the widely dissenting views on aid and development there is a general consensus between left and right wing economists that aid could play a useful role in underdeveloped countries if it takes new direction

One area of reform which both sides agree on is the untying of aid so that the element of subsidy to exporters and the costs to the recipients are reduced.<sup>27</sup> Also, both left and right wing agree that external aid tends to bias the development policy and process towards western prototypes which are often inappropriate and damaging to developing countries. They advocate change in this area as well,

However, there is less consensus on what the donor and recipient relationship should be. Should the former be masters of the latter or should they be equal partners? This is where the debate now focuses. The right - Bauer again is taken as a representative of this group - argues that the criteria for allocation should be drastically revised, so that government that undertake structural adjustment programmes are favoured.<sup>28</sup> Structural adjustment should involve less government participation in the economy, promotion of export production and opening up of the economies to foreign investment,

The left wing, on the other hand, tends to argue that through the aid relationship donors control the destiny of recipients. In so doing donors have failed

to bring about meaningful development. To quote Haltham:

"There seems little alternative to donors accepting that aid is something recipients are given to make mistakes with. The recipients should be given sectoral aid if plans appear to donors to be self-consistent, probably within the capacity of the (local) administration without much technical assistance and not actually permicious. The fact that donors believe they could device a better plan or could supply people who could is not the point"<sup>29</sup>.

If indeed development is for the local people it has to be undertaken by the people themselves.

The theoretical discussion above has shown that aid administration is fraught with problems. In order to highlight them here is a short summary.

One of the major problems identified in the literature is that aid investment goes into wrong sectors of the economy which do not contribute to development. Bauer identifies education, transport, health as wasteful sectors. The second problem is that a lot of aid takes the form of expensive loans,

only a small proportion is grants. As a result aid places a debt burden on the recipient. Myrdal argues that most aid takes the form of commodity aid and very little is investment oriented. The fourth problem is that aid is tied to procurement in donor countries. All the authors cited agree that this reduces the value of flows to recipients, while it increases the benefits to donors. Uncertainty has also been identified as a problem in aid relationships. Holtham brings into the discussion the policy implication of the donor - recipient relationship. He argues that donors upset the administrative procedures of recipient by not following the laid down channels when dealing with local institutions.

#### 1.5. Foreign Aid Defined

In light of the criticism that aid has tended to benefit donors rather than recipients some have argued that not all loans constitute aid even if they are from bilateral and/or multilateral sources. However, data do not generally distinguish hard and soft loans. For this reason we shall accept the conventional definition of economic aid which includes

"all bilateral and multilateral loans and grants, in cash or kind including technical assistance, from a donor government or international organization to other governments or enterprises in recipient countries."

The above definition excludes military transactions.<sup>30</sup>

Furthermore, foreign aid in this study will be used synonymously with official development assistance, technical co-operation or assistance, simply aid, and foreign assistance.

#### 1.6 Methodology of the Study

The next chapter analyzes post independence strategies. Then the hypotheses will be tested.

To test the first hypothesis I will examine the quantity of aid inflows, compare this with the planned targets and relate it to the growth in output.

To test the second hypothesis I will analyze the sectoral distribution of aid and the forms it has taken.

To test the third hypothesis I shall analyze the terms of aid, i.e. the grant element of a sample of loan transactions, and changes in employment levels.

For the fourth hypothesis I shall trace the flow of project planning activities between the finance and planning ministries and donors. Also, the actual impact will be critiqued from the stand point of stated donor objectives.

Both primary and secondary sources of data will be used to test the above hypotheses. The former will include development plans, digest of statistics and other documents of donors and the government. The latter include various reports, journals and books.

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CHAPTER II

## DISCUSSION OF RESULTS

2.1. Quantity of Aid and its Impact on Investment  
and Gross Domestic Product

In the theoretical discussion we have seen that the relationship between aid and development is ambiguous and debatable. The first hypothesis sets out to test this relationship in Zambia's development.

The role of foreign aid in Zambia's post independence era has increased as a percentage of government budgets. Thus, while only 10 percent of the government budget was to be foreign funded in the first plan, the ratio went up to 14 percent during the second and 33 percent in the third period, reflecting a gradual deterioration in the economy.

The first plan document was correct when it stated that:

"Zambia is at present in a better position than some developing countries in that she can finance a substantial part of

her development from domestic resources. If copper production continues to be strong the investment programmes proposed could be under-taken and maintained over the period of the plan while at the sametime build up high reserves of foreign currecy".<sup>1</sup>

Table I below shows the planned and actual sources of government budget during the first development plan period. From the table it can be seen that there were great divergencies between what they planned and actual performance of financial resources.

TABLE I SOURCES OF GOVERNMENT RESOURCES DURING FNDP:

(in current prices)	PLANNED		ACTUAL	
	Amount	Percent- age	Amount	Percent- age
1. Revenue Sources:	1,050	84.6	1,556	87.3
of which:				
a) Income Tax, mineral Royalties, & Copper Export tax	768	61.9	1,136	63.8
b) Customs and Excise	132	10.6	227	12.7
c) Other	150	12.1	193	10.8
2. Capital Resources:				
of which:	192	15.4	225	12.7
a) Domestic Loans	60	4.8	78	4.4
b) External Loans and Aid	126	10.1	105	5.9
c) Others	6	0.5	42	2.4
Total Revenue and Capital Resources.	1,242	100	1,781	100

Source SNDP pp 6

Actual loan and grant inflow only amounted to 5.9 percent instead of the targeted 10 percent. However, this did not have an adverse effect on the overall financial plan and the development of the economy, for government's own resources exceeded the target. Thus, instead of contributing 1,050 million Kwacha 1,556 was realized. This represented 87 percent of the budget instead of the planned 84 percent.<sup>3</sup>

In spite of little foreign aid coming in, remarkable growth occurred in both gross fixed capital formation (GFCF) and gross domestic product. Between 1964 and 1970\* gross fixed capital formation increased from 16 to 31 percent. Growth in national savings averaged 24 percent of GDP, an indication that a large portion of GFCF was financed using local resources.<sup>4</sup>

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\*For purposes of this discussion the Emergency and Transitional plans of 1964 and 1965-66 will be taken as part of the first development plan.

As a result of these favourable developments GDP registered 10.6 percent growth per annum between 1966 and 1970. Although this was below the very ambitious 11.7 percent target, it was nonetheless a remarkable achievement.<sup>5</sup>

The favourable financial position was also reflected on the international scene. Between 1964 and 1970 the country was able to take advantage of rising copper prices to build up considerable foreign reserves. In the latter year they stood at 450 million Kwacha, an all-time peak.<sup>6</sup>

However, by the end of the first plan it was clear that prosperity was not going to last long. For, by 1971 the price of copper on the London Metal Exchange (LME) had started to decline. In line with this development, foreign borrowing and grants were allocated a large share in the financial plan of the Second National Development Plan (SNDP). They were expected to contribute about 14 percent of the total budget. Government's own revenues were estimated at 80 percent, while 7 percent was to come from domestic borrowing. Less emphasis was placed on

TABLE 2 : FINANCIAL BUDGET OF THE GOVERNMENT (SNDP)

I <u>Revenue Source</u>	<u>Current Prices:</u>		3	
	2 <u>Planned</u>		<u>Actual Current</u>	
1 <u>Recurrent Account</u>				
a) Mineral		(%)		(%)
(i) Copper	650			
(ii) Other minerals	20			
Total	670	(27.2)	241	(6)
b) (i) Company	274			
(ii) Personal	245		952	(24)
Total	519	(21.1)	952	(24)
c) Customs duties	207	(19.1)		
d) Excise duties	262		755	(19.1)
e) Other revenues	285	(11.6)	324	(8.2)
Total (a -e)	1,943	(100)	2,272	(100)
2 <u>Recurrent Expenditure</u>				
Surplus (+) deficit (-)				
3 <u>Capital Account</u>				
a) Capital Receipts			610	
b) Domestic borrowing	165	(6.7)	175	
c) Borrowing Abroad	348	(14.2)	310	
d) Other receipts	153	(6.2)	120	
e) Surplus (+) deficit (-) or capital account	- 513	(20.9)	- 305	
4 Capital Expenditure	1030		915	
5 Total Expenditure			3,331	
6 Budgetary Gap			- 509	
(i) Financing by Bank of Zambia			304	
(ii) Financing through other sources			205	

Source: Column (2) SNDP pp 43

Column (3) TNDP pp 6

Note figures from TNDP and monthly Digest of Statistics (CSO) differ.

mineral revenues which were expected to yield 27 percent of the aggregate budget. The contributions of income tax and of Customs and Excise duties were estimated at 21 percent and 19 percent respectively. However, as can be seen from table II on page 5, even those figures turned out to be an over estimate.<sup>7</sup>

The president summed the changed financial position thus:

"We are greatly heartened to know that the international organizations and friendly foreign governments will give us a hand in the task of development..... We need every assistance we can get because we have little control over our major sources of income and foreign exchange".<sup>8</sup>

As can be seen from Table II the financial outturn of the Second Plan was poor. Due to a continuing fall in copper prices, mining profits declined. Consequently, government revenues from this source fell considerably. Of the targeted 670 million Kwacha only 270 million Kwacha was realized. As a ratio of actual aggregate budget this represented a paatry 6 percent. In order to avoid a financial calamity the government tried to raise more revenues from income tax and customs and excise duties, often by

increasing rates. As a result of these manoeuvres the contribution from these sources exceeded the planned targets by 83 and 61 percent respectively. However, in terms of their share in the actual aggregate budget the outcome was close to what was envisaged, at 24 and 19 percent respectively.<sup>9</sup>

Under the circumstances domestic and foreign borrowing grew by 29 and 26 percent each. Thus, foreign borrowing compensated for the fall in savings and, the economy was able to maintain a high level of gross fixed capital formation. For, although the ratio of gross domestic savings to current GDP fell to an annual average of 12 percent during the second plan period, gross fixed capital formation remained high at about 30 percent per annum. In fact gross fixed capital formation peaked in 1975 at 38 percent a year when real gross domestic product declined by 7 percent. Thus more and more foreign borrowing was used to finance investment.<sup>10</sup> But these conflicting trends in gross domestic savings and gross fixed capital formation could not continue forever, as when government borrowing expands too far debt servicing becomes a serious problem. However, neither the increased inflow in foreign aid nor the consequent increase in

gross fixed capital formation appear to have had a positive effect on output levels. For, compared to both the preceding plan and its own targets the outcome of the second plan was poor. Real gross domestic product grew at 4.5 percent per annum, far below the 6.8 percent target. The latter half of the plan, 1974-75, fared very badly. Thus real gross domestic product declined between 1974 and 1975 and improved temporarily in 1976 before entering into a deeper recession in 1977 which is still continuing.

One could, therefore, argue that foreign borrowing only prevented the government from taking urgent adjustment measures to new external circumstances. Namely, it continued to pursue the import substitution policies with their high dependence on imports embarked on in the first plan. Also, investment continued to be concentrated in the mining sector without paying adequate attention to export diversification. And when the next round of external shocks occurred during the 80's, the economy failed to cope. See Table IV.

It was not surprising, therefore, that the government's reliance on foreign aid grew even more

TABLE 3 : FINANCIAL PLAN TNDP: SOURCES OF FUNDS 80-83

	PLAN	ACTUAL
I Government Budget:		
(i) Recurrent debt amortization	+109	-1,385
a) Recurrent Revenues from non mineral	3,215	4,541
b) Recurrent Expenditure	3,409	6,295
c) Debt amortization	- 303	- 369
d) Recurrent Expenditure excluding debt amortization	3,106	5,927
(ii) Capital repayments	50	
(iii) Miscellaneous capital receipts	100	- 943*
(iv) Additional resource mobilisation	300	
(v) Net domestic borrowing	+300	287
a) Gross	400	390
b) Repayments	100	103
(vi) Net foreign borrowing	580	614
a) Gross	783	880
b) Repayments	203	266
II Parastal sector's own Contribution	1,085	
a) mining sector	450	
b) Public corporations	125	
c) Other parastals	510	
III Private corporate sector's contribution	100	---
IV Net inflow of foreign capital into parastal & private sector.	530	---
a) Gross	926	
b) Repayments	396	
V Household sector's savings	200	---
VI Total (I-V)	3,354	

(+) surplus or (-) deficit. \* Capital account net --- figures not available. Source TNDP pp 39 Actual figures NCDP TNDP Review unplished and likely to undergo some revision.

during the Third National Development Plan (TNDP). By 1977 mineral revenues completely vanished as a source of government revenue and financing of the plan had to depend on non-mining activities - custom and excise duties and income tax. Infact just prior to its launching the TNDP had to be postponed due to the critical financial position,

In line with these developments both foreign and domestic borrowing were allocated bigger shares compared to earlier plans (See Table III on page 9). Gross government borrowing was targeted at 783 million Kwacha or 23 percent of the financial plan. But it was estimated that debt servicing would take up 203 million Kwacha, leaving a net inflow of foreign credit/grants of 580 million Kwacha,

Furthermore, an additional 926 million Kwacha was expected to flow into the parastal and private sectors as foreign capital investment. After taking into account debt amortization the net inflow from this source was estimated at 530 million Kwacha. Thus of the total national budget of 3.3 billion Kwacha, 1.3 billion or one third was to be foreign financed.

As per plan, a large amount of foreign aid came in during the TNDP (1979-84) in all about 1, 2 billion Kwacha (gross). This figure only represents contribution to the government budget and government-guaranteed flows into the parastal sectors. Thus it excludes parastal unguaranteed borrowing and/or private sector inflows for which no estimate are available. Outflows were also large, at 490 million Kwacha.

However, there appears to be no positive correlation between increased aid inflows and growth in output. Although aid has helped to maintain a relatively high GFCF (in view of fall in GDS) this factor has had little bearing on output. Thus between 1979-83, the economy experienced an annual contraction of minus 0.3 percent. During 1984 there was a decline of minus 1.3 percent.<sup>12</sup> As a result national income in 1982 at constant 1970 prices was at the same level as in 1975.

During the TNDP period both gross domestic savings and gross fixed capital formation declined. Except for 1979, all the years of the plan experienced

a negative growth rate of minus 2.6 per annum in gross domestic savings. Although gross capital formation did not fall by as much due to an increase in foreign inflow, it reached 9 percent of GDP during 1983. This was the lowest ratio in the two decades of independence.<sup>13</sup>

Zambia's experience from 1964 to 1970, therefore, shows that aid does not lead to development as measured both in terms of GFCF and GDP. In Zambia both GDP and GFCF grew much faster during the first plan which was less dependent on foreign aid. And this is as it should be. For, given a well drawn up plan, execution proceeds fast and smoothly using own resources. As we shall see in the subsequent sections foreign aid brings with it a lot of uncertainty. In addition donors want to change the plan to suit their own strategies. During the second plan period aid helped to maintain high levels of gross fixed capital formation but this did not lead to major increases in output. As a result the plan failed to meet the targeted level of growth. In the third plan period both GFCG and GDP declined inspite of larger than planned aid inflows.

## 2.2 Sectoral Allocation of Aid to Zambia:

According to the aid theory we have seen that the impact of aid depends, among other things, on the sectoral distribution and the form it takes. In Zambia, it appears that aid has gone into the government's priority sectors but it has taken forms that are not particularly conducive to development notably commodity and tied aid instead of investment and general budgetary support.

To understand the post-independence sectoral policies it is important to give a brief account of the development of the various sectors of the economy on the eve of independence. Zambia inherited an economic structure that was highly unbalanced. Copper mining dominated the economic scene while the other sectors remained underdeveloped.

The presence of large copper reserves acted as an important magnet that drew colonialists and financiers to Zambia. Since 1930's economic development centred on this one activity - mining. The mineral provided large flows of rent to colonial, later to the federal, governments. The British South African

Company also drew large sums in royalties. However, copper mining did not have backward or/and forward linkages with the other sectors of the economy. Consequently agricultural growth remained poor. Instead the government chose to import food from South Africa and Zimbabwe.<sup>14</sup> Since extracted copper was exported in semi-processed form, mining had very weak links with industry. Thus, there was no meaningful industrial base prior to 1950. During the subsequent years of federal rule some industrialization took place. Nonetheless, most of the industries that existed at independence were subsidiaries of Zimbabwean and South African firms who set up offices in Zambia to service the local market better.<sup>15</sup> The transport system reflected the country's position as an exporter and importer. For there were two rail routes to South Africa via Zimbabwe and to Europe via Angola. The internal transport network remained poor.<sup>16</sup>

The African population remained on the periphery of development in that they were neither trained to participate actively in the running of the mining and/or government nor as entrepreneurs. In fact the government deliberately prevented the rise of a local

entrepreneur class through the recruitment of Asians to run commerce and trade. At the same time they were prevented from engaging in commercial agriculture through policies such as, land alienation, taxation law and biased marketing policies. The only contact with the mining sector, therefore, was through the provision of unskilled labour for limited periods of time.<sup>17</sup>

It is logical, therefore, that the post independence government placed structural change as a major development objective of the first, second and third plans. Given the initial conditions outlined above, the independent government of Zambia set out in its first plan to diversify the economy from copper and to improve infrastructure and welfare of the African population through the following strategies:

1. Development of import substitution industry.
2. Development of infrastructure especially roads into rural areas where the African population lived.
3. Manpower development with a view to indigenising the national economy.
4. Development of basic needs such as health and education.<sup>18</sup>

An evaluation of the first plan, especially when considering its strategies, was a great success. The share of manufacturing in GDP nearly doubled between 1966 and 1970. Many roads were built. As regards manpower development a large number of schools and colleges were built and a university was established.<sup>19</sup>

However, as already alluded to in 2.1, by the end of the first plan copper prices at the LME had fallen drastically from 996 Kwacha per tonne in 1970 to 708 in 1971. The prices of other metals remained static and it became evident that foreign exchange had become a constraint to development. Secondly, the failure of the first plan to create formal employment opportunities indicated to the government that a change of strategy was necessary.

To overcome the above constraints the second plan adopted the following strategies:

1. The expansion of agricultural production in order to improve nutritional standards, income, cut down on food import, expand exports and provide industrial inputs.
2. Increase agricultural productivity through the

transformation of <sup>the</sup> subsistence sector into market-oriented commercial farmers.

3. Regional development with the aim of reducing disparities between and within regions.
4. Tourism development as a new source of foreign exchange.
5. Diversification and expansion of mining and industry to enable import substitution through the processing of local raw materials.<sup>20</sup>

In terms of both targets and strategies the second plan was a complete failure as neither was realised. As a result the third plan reiterated the same strategies: Increased agricultural output in order to provide local raw materials for domestic needs in the industrial sectors so as to reduce the export and import gap. Infra-structural development was limited to finishing carry over projects only. And in order to improve plan performance planning units were to be established in ministries and provinces.<sup>21</sup> The third plan has been the greatest failure of all.

For aid to have a positive effect on Zambia's development it should have been directed into the government priority sectors outlined above. The question to be answered here, therefore, is did aid go

into the priority sectors of the economy? From Table IV on page 19 it would appear that the sectoral distribution of aid followed government priorities quite closely.

Between 1964 and 1971, 77 percent of all aid inflow went into transport and communications. Energy, education and agriculture received 15, 4 and 3 percent, respectively. However, the situation changed during the second plan period. Agriculture and tourism had been identified as priority sectors. Therefore, foreign aid was expected to be concentrated on these sectors. From Table IV again, it can be seen that the mining sector received a major share (28 percent) followed by transport and telecommunications (20 percent) then general budgetary support and industry, in that order. As already referred to in 2.1, the mining sector was faced with a major crisis following the 1973 oil increases which resulted in declining demand for copper. To maintain production the companies borrowed heavily with government guarantee.<sup>22</sup> In addition the 1973 Zambia/Zimbabwe border closure necessitated a shift of investment into transport and communication.<sup>23</sup> These two factors changed the strategies of the second plan

TABLE 4 : PERCENTAGE DISTRIBUTION OF F. AID BY SECTOR

<u>SECTOR</u>	<u>FNDP 1964-71</u>	<u>SNDP 72-76</u>	<u>TNDP 77-82</u>
Transport and Telecommunications	77.0	20.2	11.4
Agriculture	3.0	9.7	19.0
General Budgetary support		15.1	4.6
Energy	15.0	5.7	8.9
Industry	0.5	14.2	47.0
Health	0.5	-	-
Education	4.0	3.8	4.0
Mining	-	27.8	-
Housing and sanitation	NIL	3.5	5.
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source; calculated from Mof Financial Reports 1964-82

from developmental to crises management,

The implementation of the third plan has followed the second plan in that the government has been more involved in solving crises this time in the agricultural and industrial sector. As a result large amounts of

aid have gone into these sectors. Towards the end of the plan the mining sector had become the major recipient of aid again under the sector rehabilitation programme.

The flow of aid does not appear to have had any positive effect on the output of the various sectors of the economy. For example, the share of mining in GDP has declined while those of agriculture and manufacturing sectors have remained static between 1970 and 1983.<sup>24</sup> (See Table V.) This tends to negate the positive relation that is purported to exist between aid and development. Several factors explain this phenomenon.

Firstly, the mining sector is a declining sector with no growth potential. It is believed that by the end-1990's the economical ore body will have been exhausted.<sup>25</sup> So that, concentrating investment on this sector can only at best maintain production levels, otherwise the fall in output is inevitable. Furthermore, concentrating on a declining sector reduces resources available to those sectors with potential and by so doing output from these sectors is held static. In addition it prevents the development of desired long-term structural change.

TABLE 5. : GDP BY ECONOMIC ACTIVITY AT PRODUCER VALUE AT CONSTANT 1970 PRICES.

YEARS	1964		1970		1972		1976		1979+		1983*	
	value	Percent (%)	value	%	value	%	value	%	value	%	value	%
TOTAL GDP	465	100.0	1146	100.0	1394	100.0	1519	100.0	1370	100.0	1477	100
Agriculture, forestry & Fisheries	53	11.4	72	6.3	146	10.5	167	11.0	160	11.7	1722	11.6
Mining	221	47.5	446	38.9	478	34.3	503	33.1	391	28.5	470	31.8
Manufacturing	28	6.0	129	11.3	163	11.7	170	11.2	163	12.0	182	12.3
ENERGY (ELECTRICITY)												
GAS & WATER)	5	1.1	16	1.4	31	2.2	48	3.2	81	5.9	98	6.6
Construction	20	4.3	81	7.1	94	6.7	100	6.6	69	5.0	43	2.9
Wholesale & Retail trade	46	9.9	101	8.8	124	9.0	108	7.1	90	6.6	87	6.0
Hotels and Restaurants	-	-	8	0.1	18	1.3	19	1.3	17	1.2	22	1.5
Transport, Communication & Storage	21	4.5	58	5.1	55	3.9	66	4.3	63	4.6	58	3.9
Financial Institutions	6	0.1	37	3.2	48	3.4	58	3.8	45	3.3	36	2.4
Real Estate	11	2.4	33	2.9	32	2.3	43	2.8	50	3.6	59	4.0
Business Services	-	-	16	1.4	23	1.6	35	2.3	34	2.5	39	2.6
Community Social and Public Services	60	12.9	123	10.7	164	11.8	196	12.9	202	14.7	200	13.5
Import duties	-	-	25	2.2	30	2.1	20	1.3	15	1.9	13	0.9
Less Bank Charges	-	-	-	-	11	0.8	13	0.9	10	0.7	8	0.5

+ Likely to undergo revision \* Provisional  
 Source Central Statistical Office Monthly digest of Statistics 1972 - 1984

Secondly, the form that aid to Zambia has taken has not been developmental in nature. An analysis of aid into the agricultural sector during the TNDP shows that it has been in the form of food aid.<sup>26</sup> Due to poor climatic conditions the Zambian economy has witnessed successive crop failures. The fall in local production was met by foreign aid. As Healey and Clift have aptly argued, food aid is a special kind of commodity aid which does not lead to an increase in the productive capacity of the recipient economy<sup>27</sup>. In fact, as Myrdal puts it, the multiplier effect of such aid is in donor economies themselves.<sup>28</sup> If a serious classification of aid was followed this form would fall under disaster relief or emergency aid aimed at relieving an immediate and not developmental or long-term need.

According to Dodge "more than anything else agricultural output in Zambia has tended to depend on climatic conditions and diseases leading to year to year variations",<sup>29</sup> while "constant changes in strategies appear to bear no relationship to output".<sup>30</sup>

It follows from the above that meaningful aid into the agricultural sector should have aimed at

overcoming the constraints to production - irrigation and production of drought resistant seed. The Integrated Rural Development Programmes (IRDP) have tried to look into these problems. But they have concentrated on small areas. Furthermore, their package has been relatively expensive in that, they appear to concentrate on transferring of technologies and manpower from the developed world. By so doing they have failed to find appropriate local solutions to suit the financial capabilities of the government and the masses. As a result the programmes have failed to make a major impact at the macro-economic level. Also, the benefits have tended to disappear on handing over the projects to the government and the masses.

Thirdly, Zambia has been faced with a critical balance of payments situation. When copper volumes and prices declined, in the 80's especially, import volumes reduced drastically, bringing about a need for general budgetary support form of aid. An analysis of aid into industry, however, shows that most aid has been project-tied commodity aid. *This* means that it has not been available to all those who needed

to import raw materials and spares. Only a few companies could avail themselves of such aid. Only under the International Monetary Fund facility could all importers benefit. To this end serious capacity under utilization resulting from lack of raw materials and/or spares has existed simultaneously with large aid inflows during the third plan period.<sup>31</sup> The industrial sector has been worst affected by this inflexibility in aid administration.

Fourthly, the problem of uncertainty also reduced the positive impact of aid on the Zambian economy. In the theoretical discussion we saw that this was one of the major problems with foreign aid. Patel identifies uncertainty as being of two kinds;

"One, where a country could be reasonably sure of aid over sufficiently long period while having to reckon with fluctuations from year to year. Two, where there is a real danger of aid disappearing altogether or being drastically reduced at anytime".<sup>32</sup>

Although theoretically it is easy to distinguish between the two types of uncertainty, in practice they appear as one. This has been the case in Zambia.

See table 6. If we define uncertainty as the actual aid inflows as percentage of planned or budgeted amounts, the problem has been serious. Between 1973 and 1983 the figures for the loan form of aid varied from 60 to 282 percent. The data on grant aid have been even more dramatic. In 1974 only 8.5 percent of planned amounts actually came in, while the following year the figure soared to 457 percent. It would appear that the larger the amounts committed the greater the uncertainty.

Uncertainty creates problems in plan execution in that if too little comes in the projects and programmes cannot be implemented. On the other hand, if too much comes in there may arise a temporary shortage of worthwhile projects to allocate the money to — what some have termed bottleneck in the economy's absorptive capacity for aid.<sup>33</sup>

From the foregoing discussion, we have seen that during the first plan there was a synchronization between government sectoral priorities and aid allocation. In the subsequent plans both the government and aid donors have devoted attention and investment to crises management. During the second plan

TABLE 6. BUDGETARY ESTIMATED F. AID AND ACTUAL  
(UNCERTAINTY)

YEAR	GRANTS		ACTUAL		LOANS		ACTUAL	
	ESTIMATED	ACTUAL	ESTIMATED	%	ESTIMATED	ACTUAL	ESTIMATED	%
1973	1.3	.2	13.4		---	---	----	
1974	2.4	.2	8.4		53.7	58.2	108.4	
1975	2.9	13.0	457.6		86.3	100.9	116.8	
1976	2.1	5.5	259.4		110.6	52.9	47.8	
1977	27.9	10.1	36.1		120.0	97.8	70.2	
1978	16.8	18.7	11.5		99.2	60.0	60.5	
1979	10.6	24.9	235.2		149.5	180.3	120.6	
1980	18.8	23.7	126.4		144.6	300.1	207.5	
1981	41.9	22.5	53.7		98.8	278.6	282.2	
1982	23.9	27.8	118.8		270.8	193.0	71.3	
1983	64.8	52.9	81.6		84.2	93.7	111.3	
1984	42.0	22.5	53.6		57.9	66.7	115.2	

Source Ministry of Finance (MOF) Financial Report

a) Statement A

b) Statement of External debt. (Appendix D) 1973-84

--- figures not available

the border closure and the fall in copper output and prices drew away attention and investment from agriculture and tourism into mining and transport and communications. Similarly, during the third plan famine prevention has drawn food relief into the agriculture sector. At the same time the continuing crisis in the mining sector has continued to direct aid into that sector. By so doing, agriculture and industry have not been able to receive the desired amounts to bring about structural diversification. Furthermore, although Zambia has needed more general budgetary support form of aid, commodity aid, of which food aid is only a special kind has been dominant. So that those companies which have not been beneficiaries of tied commodity aid have gone without spares and raw materials, to the extent that capacity underutilization has existed *simultaneously with increased aid inflows. In addition,* the uncertainty in the amounts of inflows has made plan execution difficult and has led to what others have termed bottleneck in the economy's absorptive capacity for aid.

### 2.3.1. Impact of Aid on Debt service

Both right wing and left wing critics of aid

theory have argued that aid could be costly to the recipient if it is tied or if a large amount takes the form of loans as against grants. In other words, they say that aid generally lacks a deliberate concession element in the form of interest and subsidy on a repayable loan. To quote Patel again, "of paramount importance to any recipient is the problem of repayment since by far the larger part of foreign aid consists of loans, bearing a liability to pay interest as well as to repay the principal sum".<sup>34</sup>

Data from Zambia confirm the existence of this problem. Between 1973 and 1978 grants have represented between 4 and 6 percent of total aid inflows. Only during the TNDP (1979-84) did the proportion reach an annual average of 14 percent. (See Table 6). The debt service problem appears to have been exacerbated by the failure of the Zambian government to determine the grant element of bilateral and multi-lateral loans. An analysis of a sample of 55 loan transactions (which represents a quarter of all transactions between 1964 and 1983) shows that the terms were so hard that they essentially amounted to pure commercial transactions disguised as "aid".

The results of Tables 7 a - d are based on a random sample of at least one per country/institution. However, if one donor/institution gave more than one loan at different terms it was sampled more than once. The sample size was basically determined by information constraint in that certain transactions lacked the required data, i.e. interest rate, loan value, grace period and repayment period to run the computer programme at Appendix I.

Classification between commercial, semi-commercial and highly concessional is based on the following information. The value of most loans is estimated to be reduced by as much as 20 - 30 percent through tying.<sup>35</sup> Therefore, if a loan has a grant element of 30 percent it benefits the donor and the recipient gets zero concession. As such it is considered commercial. Between 31 to 84 percent it is semi-commercial because at that point the recipient gets between 1 and 54 percent concession. Using Development Assistance Committee (DAC) classification, only loan transactions yielding 84 percent after being discounted at 10 percent is true aid.<sup>36</sup>

From table 7 a it is clear that most aid has

been semi-commercial in nature (36 transactions), about 6 loans have been purely commercial and 13 highly concessional. The results also show that the terms of aid are not influenced by the donor countries' level of development. For example, in the very concessional donors can be found countries such as Sweden, Canada, Denmark and China and institutions such as the Arab League and Fund, the European Economic Community and International Development Association. Similarly, the commercial donors include Italy, France, the United States and India.

The magnitude of the debt servicing problem is presented in table 9. As a result of large outflow, net inflow has ranged between negative 13 and 66 percent of gross inflow. The negative figure indicates that at times total outflows have exceeded inflows. According to the World Bank negative capital transfers will characterise the next decade<sup>to</sup> 1995.<sup>37</sup>

To sum up the problem, let us quote Patel again who states that: One important aspect of the burden of repayment is that

"it represents a first charge on the earnings of a country in good times

as well as bad. Quite apart from anything else the vital necessity of preserving the reputation of a good debtor makes it so. The inflow of foreign capital adds resources of the kind that would be particularly in short supply otherwise. But the reverse side of the medal is that repayments obligations take away the most valuable resource".<sup>38</sup>

The above statement sums up the situation in Zambia between 1976 and 1982. Total transfers have nearly doubled during the period. The debt service ratio alone has represented up to 50 percent of export earnings and up to 15 percent of GDP. In order to mitigate the worsening debt crisis the government in 1983 re-scheduled the repayment of both principal and interest. But this is also a precedent to even larger debt problems. It is this fact which made the World Bank to comment that "the ad hoc combination of rescheduling by creditors and austerity by debtors could be a prologue to di<sup>s</sup>aster".<sup>39</sup>

The other factor which has worsen<sup>e</sup>d the debt

TABLE 7 a SUMMARY

DEVELOPMENT PLAN	GRANT ELEMENT CLASS				TOTAL SAMPLE SIZE
	< 30	31 ≤ 60	61 ≤ 83	> 84	TOTAL
FNDP	2	5	3	4	14
SNDP	3	5	6	4	18
TNDP	1	8	9	5	23
Total each class	6	18	18	13	55

< 30                    r Pure commercial

31 ≤ 83                r Semi commercial

> 84                   r Highly concensional

TABLE 7 b FNDP 1964 - 70

SOURCE	PERCENT GRANT ELEMENT CLASS			
	< 30	31 ≤ 60	61 ≤ 83	> 84
Italy	28.9			
France	27.9			
IDA/IBRD		37.4	69.9	
Yugoslavia		51.5		
USSR		53.6	80.5	
CDC (UK)		48.3		
FRG				
Czechoslovakia		55.3	74.6	
China				89.9
China				86.2
Canada				91.3
Denmark				85.3

Calculations based on MOF Financial Reports 1974 - 1972

TABLE 7 b continued SNDP 1972 - 76

Source Country organization	Percent Grant Element Class			
	< 30	31 ≤ 60	61 ≤ 83	>84
Exim Bank	14.4			
Italy	12.9			
Canada	7.2			
IBRD (1)		45.5		
IBRD (2)		45.0		
IBRD (3)		32.6		
ADB		51.0		
CDC (UK)		38.1		
Netherlands			76.3	
UK (Govt.)			81.1	
USAID			83.9	
JAPAN			64.4	
Romania			74.9	
Federal Republic of Germany			82.0	
Arab League				84.0
Aira Export				84.0
Sweedden				91.7
Canada (Cida)				91.7

TABLE 7 d TNDP 1977 - 83

Source Country/organization	Grant Element Class			
	< 30	31 ≤ 60	61 ≤ 83	>84
India (1)	28.3			
" (2)		41.3		
Opec Fund		57.8		
Africa Development Bank		40.2		
Badea		60.2		
Italy		32.8		
IBRD (1)		40.4		
" (2)		52.8		
Iraq		48.5		
Federal Republic of Germany (FRG) (1)			82.0	
" (2)			82.3	
Japan (1)			69.9	
(2)			77.8	
Netherlands			74.9	
Romania			64.2	
U.K. (Govt)			76.8	
USAD			79.9	
U.K. (CDC)			69.7	
CIDA (Canada)				92.6
EEC				86.7 118.3
Arab Development Fund				89.7
IDA				91.7

TABLE 8 : NET LOAN INFLOW 1970 - 84 K, MILLION

1	2	3	4	5	6	7	8
YEAR	TOTAL INFLOW	TOTAL OUTFLOW OF WHICH:	INTEREST	REPAYMENT OR AMORTIZATION	MANAGEMENT EXPENSES	NET INFLOW	NET INFLOW AS A PERCENT OF TOTAL INFLOW
1970	19.8	16.2	5.5	10.4	.3	3.6	18.3
1971	43.1	14.6	7.2	7.3	.3	28.6	66.4
1972	48.6	34.6	25.9	8.4	.3	14.0	26.6
1973	148.7	22.4	10.9	9.9	1.5	126.3	84.9
1974	58.4	40.8	19.3	21.1	.4	17.6	30.1
1975	100.8	60.0	17.9	41.6	.5	40.8	40.4
1976	52.9	46.4	23.5	22.4	.5	6.5	12.3
1977	57.9	65.8	22.7	38.6	4.6	-7.8	(-13.6)
1978	47.2	73.2	22.2	39.5	11.5	26.0	55.0
1979	182.2	86.2	30.6	42.4	13.2	121.0	66.4
1980	295.0	98.7	38.4	36.1	24.2	196.3	66.5
1981	285.4	78.3	28.7	31.2	18.4	207.1	72.6
1982	246.3	156.7	28.4	81.4	46.9	89.6	34.4
1983	173.1	90.1	53.2	34.9	2.0	83.0	48.0
1984	155	70.2	43.9	26.1	0.2	84.8	54.7

Source: MOF: Financial Report Appendix 5 (1970 - 83)

SUMMARY A.

service problem has been the government's inability to draw-down a large number of transactions because of failure to meet conditions for such drawings. These conditions have included provision of counterpart funds, advance expenditure and international tenders, while the larger donors have demanded major changes in policy.<sup>40</sup>

The delay emanating from the above have led to an increase in the management expenses. Once an agreement or commitment is made, this charge is levied whether or no benefit are made. That is, in contrast to interest payments, management fees are charged where there have been no drawings. Thus this payment represents a cost for which there has been no drawings. Thus, this payment represent a cost for which there has been no benefit.

### 2.3.2 Effect of Aid on Employment

The effect of aid could also be assessed in terms of its contribution to broader social objectives.

Employment presents a good measure in that it is closely related to incomes and poverty,<sup>41</sup> It is for this reason that nearly all governments try to increase employment opportunities for their citizens. Furthermore, according to aid proponents, recipient economies are supposed to experience growth in the use of domestic resources overtime as a result of foreign involvement. The most abundant resource that developing countries have is labour. This again justifies our choice of employment figures to measure the success and/or failure of an aid led development policy in the Zambian economy.

Apart from accelerating GDP growth and restructuring the economy away from copper, it was also the government of Zambia's major objective to increase employment levels. Thus both the first and second plans wanted to create 100,000 jobs each at a rate of 20,000 a year. Although no target was set in the TNDP, employment creating was discussed with the conclusion that rural development and adoption of labour intensive methods be encouraged.

An assessment of the three development plans

shows that the government failed to create employment even during the period of high economic growth. Thus from 1966 to 1971 only 34,000 jobs or 34 percent of target were created.<sup>42</sup> This was in spite of the large growth in GDP registered during the period.

During the subsequent plan (1972-76), a lot of firms closed down leading to loss of already low employment levels.<sup>43</sup> The period of the TNDP (79-83) witnessed some worsening in the job market, to the extent that by 1983 there were as many employed as had been after 1975. As a consequence of a successful education policy, the ranks of unemployed included University graduates.

In view of the above we could argue that the employment situation has been inversely related to the aid inflow. An increase in the aid inflow during both the FNDP and SNDP has been accompanied by growing unemployment. Several factors appear to account for this phenomenon. The first is what we have already alluded to, that is, the form of aid received was not geared to employment creation. Commodity aid in the form of food aid, machinery etc, at best can only maintain existing capacities and

employment in the recipient economies. The multiplier effect of such forms of aid remains in donor countries.

The second factor is that even when aid has not been tied to purchases in donor countries,

TABLE 9 EMPLOYMENT IN THE FORMAL SECTOR 1965 - 1983

YEAR	DECEMBER		
	ZAMBIAN	NON ZAMBIAN	TOTAL
1965	363,180	32,880	296,060
1968	325,150	29,050	354,200
1971	339,000	26,550	365,550
1974	351,590	33,300	384,890
1977	344,040	26,410	370,450
1980	359,440	19,860	379,300
1983*	348,270	15,530	363,800

Source C.S.O Monthly Digest of Statistics Vol. XX  
No. 7 to 9 July/September 1984

\* 1983 figures are preliminary for June as December figures are not available.

most bilateral donors bring their own nationals to run the projects. Multilateral donors recruit by international tender from member countries. Recruitment policies of the former appear to be influenced by the desire to create structures that they can be identified with Swedish, Japanese, British etc. This can only come about if they design, control and administer the projects themselves.<sup>44</sup> However, with increasing unemployment during the late 70's and 80's in their own countries, it appears at least possible that bilateral donors have used foreign aid as a means of creating jobs abroad for their own nationals.

On the other hand multilateral agencies' recruitment habits appear to be motivated by the desire to exploit their international standing. In principal, even local individuals can apply. But if one critically looks at the development of education in this country the possibilities of employing Zambians is virtually non-existent. Most Zambians with professional qualifications only acquired them within the past two decades. These institutions want candidates with post-qualifying experience that runs into a decade or more. Of course, those they have dealt with in the past, who are familiar with their

procedures, stand an even better chance. As a result these institutions recruit from the same markets, the United Kingdom, Germany and other industrialised countries and more recently Asia.<sup>44</sup>

In either of the above cases the effect on the local labour market has been the same - discrimination against locally trained manpower.

However, there have been exceptions to the above. Aid that involved construction work: roads, railways, Schools etc did add to employment even though it was temporary. One project worthy noting is the construction of the Tanzania - Zambia Railway Authority (TAZARA), also known as Uhuru railway. TAZARA was a very labour-intensive project. It employed 60,000 workers - 43,000 Africans and 15,000 Chinese - using the cheapest and simplest technology. This figure is very large compared to that the World Bank had quoted of 1,500 workers.<sup>45</sup> Yet there is no evidence that efficiency and standards were compromised. For, TAZARA was constructed in four years instead of the scheduled 6 years. But like most construction work, the permanent employment gains have not been as large, at 1,400 workers.

#### 2.4. | Lack of Aid Coordination:

In the preceding section, I have argued that unless deliberate efforts are made to direct aid into the sectors required and in the form that meets the crucial demands of the recipient's economy, benefits are reduced. Evidence from Zambia shows that donors have invested when and where they want and at their terms with minimum guidance from the recipient government. Decisions have thus been determined by their own policies and not those of the recipient. However, if the government wants to increase the benefits from aid it has to understand the policies of the various donors that it deals with, so that it determines whose aid is best suited to its own needs.

The effect of uncoordinated aid effort can be seen in regional planning where under the Integrated Rural Development Programme (IRDP) already referred to, one or more donors run <sup>programmes</sup> completely independent of each other but each drawing some form of support from the government. On this issue one national daily had this to say;

"We have allowed the donor countries,

to dictate to us where they want to invest and why and carry out feasibility studies at a great cost to the nation. Projects are not fairly distributed. The West Germans have concentrated their aid in N/Western Province, the Dutch in Western Province, the EEC in Luapula and Northern Provinces".<sup>46</sup>

Although other provinces are not mentioned, Swedish International Development Agency (SIDA) has been in operating in Eastern Province for a long time. Northern Province has received British and Danish aid, while EEC and IBRD have been in Southern Province for a while. The crux of the matter, however, is that all these donors require services from the government i.e. budgetary allocation, for housing counterpart personnel. It follows, therefore, that the pattern of government's own resources has been exogeneously determined.

#### 2.4.2 Diverging Macro-economic Policies Between Donors and Recipient:

The lack of coordination is also seen at the national level, resulting in completely diverging macro-economic policies between the various donors and the recipient government. Often the donors'

policies have prevailed over those of the recipient. As pointed out in the preceding sections Zambia has received aid from a multitude of donors. As might be expected, some of these have quite different policies from the recipient. Unless, therefore, attempts are made by the latter to synchronize donor policies vis-a-vis domestic ones, the effect of aid will remain small.

Gordenker argues that policy influences work both ways.

"it is conceivable that some programmes offered or actually operated by international (donor) institutions cause governments to influence the nature of programmes themselves. They attempt to manipulate the international institutions i.e. influence them".<sup>47</sup>

While possibilities do exist when donor institutions are small, such chances do not appear when poor countries like Zambia deal with internationally powerful institutions like the International Monetary Fund (IMF) or the International Bank for Reconstruction and Development (the World Bank). Since the 70's these institutions have become very active and powerful in Zambia. This situation led Hodges to remark that

"with the deepening of the economic crises in Zambia, capitalist institutions have overtaken the efforts of the national ruling classes to develop the economy. The direction in which the economy is heading is to discard economic nationalism..... The country now is run more overtly by the dictates of consortia of western aid agencies and western banks and governments".<sup>48</sup>

Donors have macro-economic strategies which result in support for different sectors from the government projects. In addition, they differ about the appropriate terms of aid, with many providing commercial loans. However, it is important for the government to know a priori what areas each donor concentrates on and at what terms. So that, aid received is appropriate to recipient requirements. From the sample in section 2.3.1 a small number of donors was drawn for purposes of evaluating the different strategies of each donor. The sample only includes those donors and institutions the government deals with most frequently. Although China and USSR have given aid to Zambia in the past the number of transactions have gone

down recently and have therefore, not been included.

The Commonwealth Development Corporation (CDC)

The operations of the CDC in Zambia date back to the colonial and Federal era through financing of projects like the Kariba dam. "The CDC by virtue of the terms of reference set out in the Act which require it to pay its way operates on commercial lines. It does not make grants but offers investment in the development of resources at between 5 to 7.5 percent in such areas as energy production, commercial agriculture, cash crop farming and industrial plantations<sup>49</sup>. So that although the loans are long-term they are hard and, therefore, contrary to government policy of cheap financing.

The International Bank for Reconstruction and Development (IBRD) or the World Bank

The IBRD lending terms are the same as those of the CDC, i.e. commercial interest rates so that it also fails to provide cheap funds although it is long-term.

The role of the Bank's Special Action Programme (SAP) should be seriously looked into and understood by the Zambian officials.

The SAP aims at:

1. The expansion in lending for high priority operations i.e. production for export, fuller use of existing capacity and maintenance of crucial infrastructure
2. Accelerated disbursements under existing and new commitments to ensure timely implementation of high-priority projects.
3. Expanded advisory services on design and implementation of appropriate policies.
4. Efforts aimed at enlisting similar action from other donors.<sup>50</sup>

The SAP has several implications for domestic policies. Firstly, agricultural development will remain largely rhetorical, since it is not on the bank's list of priority sectors. Secondly, continued emphasis on the export sector will mean failure to embark on self-sustained and resilient development. Thirdly, it increases vulnerability to external economic forces.

Fourthly, it has placed conditionality on development assistance in that unless a recipient accepts structural adjustment as laid down under point 1 above, it will not benefit from other multilateral and bilateral donors who now coordinate with the IBRD. Last but not least, by focusing on balance of payments problems the World Bank's role has now become similar to that of the International Monetary Fund. There is evidence that the IBRD insists that a country adopts IMF conditions before it can avail itself to the bank's resources (cross-conditionality). Furthermore, because the bank also coordinates bilateral aid this has also been subjected to **cross - conditionality**.

The implication for Zambia has been that the mining sector lending under the banks rehabilitation programme has expanded and has been able to draw co-financing from the EEC and the African Development Bank (ADB). But the mining sector is a declining sector, so that this money will not lead to increased output. In the long-run, the policy is a precedent to increased debt crisis in that the mines might not be able to generate enough resources to repay the loans. At the same time, the output of the other sector

will not have increased enough because they did not receive the desired investment required for structural change.

The European Economic Community and  
European Development Fund (EDF)

Until their recent involvement in the mining sector under the mining rehabilitation programme, the EEC and EDF activities in the third world generally and in Zambia in particular have been in projects in agriculture and rural development. However, as with the CDC, emphasis in these areas has been on cash crops.<sup>51</sup> Only under Lome III agreement has food self-sufficiency got some attention. The EEC and EDF give extremely soft loans and a substantial amount of grants, which makes their aid suitable to the government of Zambia.

• The International Monetary Fund (IMF).

The IMF has differed from the other multilateral agencies in that it has been the only agency that has provided general budgetary support instead of project or programme aid, usually to members who face balance of payments problems and agree to adjustment policies.

"The central purpose of conditionality has been to ensure that financial assistance provided by the Fund is used to support economic policies aimed at restoring a viable BOP within a reasonable period of time".<sup>52</sup>

Because of the publicity that has been given to the effects of these policies some details are provided here. The standard adjustment programme has the following prescriptions:

- a) Limiting the increase in money supply
- b) Balancing the public budget, usually through increased taxation, reduction in public expenditure especially social services i.e. health and education.
- c) Abolition of currency control.
- d) Devaluation of domestic currency.
- e) Tighter bank credit and raising interest rates.
- f) Limitation of wage and salary increases.
- g) Elimination of price controls.
- h) The creation of a favourable climate for foreign investment.

All the above measures are directed toward ensuring repayment of external obligations by making national exports more competitive. However, this increased involvement in export trade leads to extreme vulnerability to international prices. The measures hurt the local communities in that decline in wages and lack of access to social services lead to deterioration in socio-economic conditions. To this extent, IMF conditions lead to the reversal of general developmental goals set out by the government.

Furthermore, IMF finance is relatively short-term in maturity and is not developmental in motivation, although it possesses some concessionality.

The financial resources from the Fund itself are usually not substantial. But international banks and investors usually regard a Fund programme as essential to their involvement - cross conditionality. It is this lead role which gives power to the Fund.

Furthermore, it is the uniqueness of the financial aid the IMF gives - general budgetary support,

untied in terms of project and purchases-which compels recipients like Zambia to depend on it.

### Bilateral Aid

Bilateral aid to Zambia has been more bountiful than multilateral aid, representing between 80 and 95 percent of gross inflows per annum. Even in this group considerable diversity exists between the policies of individual donors as well as between donors and recipient government.

### Sweedish International Development Agency

#### (SIDA)

SIDA aid to Zambia takes the form of sectoral support to the agricultural, health and education sectors, rather than financing new capital projects. Thus we could argue that SIDA aims at strengthening existing institutions, by so doing increases the efficiency of the delivery system. However, because it is project or programme tied it is not available to meet general imports in short supply.<sup>58</sup> The terms of loans are extremely soft and, <sup>SIDA</sup> also gives large quantities in the form of grants. The loans are

given for a very long term, thus it meets both criteria for aid.

Germany (FRG)

FRG aid's main objective appears to be the promotion of trade between donor and recipient in that most of the aid to Zambia has been in the form of commodities - buses, trucks, railway locomotives. But as Healey and Clift have argued this form of aid is provided by commercial entities, though officially underwritten by the FRG government. Furthermore, it is neither long term nor wholly concessional.<sup>54</sup>

United States Agency for International  
Development (USAID)

USAID is similar to FRG above except mostly it provides food aid under PL 480 title I.<sup>55</sup>

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## CHAPTER III

### ~~8~~ CONCLUSIONS AND RECOMMENDATIONS

In the foregoing discussions we have seen that the Zambian economy is contracting. All indications of development, gross domestic product, gross fixed capital formation, balance of payments and employment, reflect this trend. The future outlook is poor. The foreign exchange constraint on development will probably be aggravated by declining mineral output and consequently export receipts.

We have also seen that the contractionary trends have occurred despite the increased aid inflows. Therefore, the conclusion drawn from the experience of Zambia is that aid does not guarantee development. However, this is not to say that aid does not have potential to bring about development. If certain reforms in aid administration could be instituted, aid promises to have greater positive potential than the case has been in the past. Aid could bridge the expected increased trade gap and bring about the sectoral change from mining to agriculture and

manufacturing. The greatest challenge is to acquire the desired aid without increasing the debt problem which past involvements have brought about,

First and foremost a clear-cut development policy is required, so that there is a criterion for accepting or rejecting aid offers.

However, in view of the increasing debt burden some measures have to be taken immediately. To this end I propose that a pre-determined grant element should be adopted as a bench-mark for denying or accepting any aid offer. It is an elementary calculation for most purposes, but it represents one step in the right direction. From available evidence the government of Zambia has accepted anything called "aid". Yet when critically analyzed this so-called aid has fallen short of what is required.

The above method has advantages over others. For example, the World Bank has suggested that in view of the poor international financial position Zambia is facing the government should not contract

any new loans which have an interest rate of 10 percent, maturity of 15 and grace period of 3 years respectively

Using these <sup>VALUES for the</sup> variables to calculate grant element we get about 30 percent. However, this result is not unique. Varying any of the three variables will give us the same result. It follows therefore, that adopting the World Bank bench-mark the administrator is not presented with all the alternative conditions which can give him the same answer.

Furthermore, the grant element can be used to match the cost of aid to the financial benefit expected from carrying out a given project/programmes, thus alleviating the debt problem further. That certain sectors in the economy yield a lower financial rate of return on investment is a fact. It is also true that projects in certain sectors have a longer gestation period than others. It follows, therefore, that if foreign loans with low grant element are allocated to low yielding sectors - social services, i.e. housing, health/and education, and economic infrastructure, such as roads and railways and agriculture - debt service problem worsens. Such projects fail to raise the foreign costs that bring them about. Which means they place a new

TABLE 10: SECTORAL ALLOCATION OF AID BASED ON GRANTELEMENT

1	2	3
Class	Grant Element	Project Sector
1)	1 - 50	Rejected on basis that grant element is too low and thus too costly.
2)	51 - 65	Loan is semi-commercial but could be useful if project is foreign exchange generating i.e. mining, manufacturing
3)	66 - 75	Fairly concessional terms and could be used in high priority non-export commercial sectors such energy, transport, agriculture.
4)	76 - 100	Very soft terms could go into social services with low financial return. Long gestation period such as health education, roads and railways.

constraint on both the government revenues and the foreign exchange generating sectors of the economy.

The mechanism for screening is as follows:

Firstly, establish the bench-mark. I suggest here 50 percent grant element instead of the World Bank's 30 percent referred to above, due to the seriousness of the debt problem.

Secondly, stratify the loans on the basis of the grant element i.e. < 30, 31 - 50, 51 - 65, 66 - 75, 76 - 100 percent.

Thirdly, match the above classes to given projects programme and sectors. The final analysis should be as in table 10 on page 94.

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## APPENDIX I

## COMPUTER PROGRAM OF GRANT ELEMENT CALCULATION

```

10 PRINT CHR$(27)&"&k3S, ** Grant element calculation program. ** "
20 DISP ' ** Grant element Calculation **'
30 PRINT
40 INPUT 'Dev. org. (in quotes): '; A$ @ PRINT CHR$(27)&"&k0SDevelopment of
   ation: ";A$
50 PRINT
60 INPUT 'Face value of the loan= '; F @ PRINT CHR$(27)&"&k0SFace value...
   =" ;F
70 INPUT 'Currency (in quotes): '; C$ @ PRINT 'Currency.....C= ';C$
80 INPUT 'The maturity of the loan= '; T @ PRINT 'Maturity of loan..T=' ;T
90 INPUT 'Rate of discount= '; Y @ PRINT 'Rate of discount..Y=' ;Y
100 INPUT 'Rate of interest= '; R @ PRINT 'Rate of interest..R=' ;R
110 INPUT 'Grace period= '; G @ PRINT 'Grace period.....G=' ;G
120 P=F/(T-G) @ PRINT 'Principal.....P=' ;P
130 Z=0
140 PRINT
150 IF G>0 THEN 230 ELSE 160
160 FOR Q=1 TO T
170 S=Q-1
180 I=(F-S*P)*R/100
190 Z=Z+(P+I)/(1+Y/100)^Q
200 NEXT Q
210 PRINT 'Grant element= ';F-Z
220 PRINT 'Grant element in %=' ;(F-Z)/F*100 @ STOP
230 FOR Q=G TO T
240 S=Q-G
250 I=(F-S*P)*R/100
260 Z=Z+(P+I)/(1+Y/100)^Q
270 NEXT Q
280 PRINT 'Grant element= ';F-Z
290 PRINT 'Grant element in %=' ;(F-Z)/F*100

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