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DEBT RELIEF UNDER THE HIPC INITIATIVE: ZAMBIA'S EXPERIENCE

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By Jack Jones Zulu (Policy Analyst- Jubilee-Zambia)

Introduction

Good Morning Ladies and Gentlemen. Let me take this opportunity to extend my personal welcome to both our international and local visitors.

It gives me pleasure this morning to reflect with you on some of Africa's development challenges as seen from the perspective of the experience of Zambia. For us in Zambia, this meeting is special and unique in two ways. Firstly, it comes three years after a similar meeting held here in the same City of Lusaka. The earlier meeting is synonymous with the now famous *Lusaka Declaration of 1999*. Delegates from around Africa met to ponder and act on Africa's perennial problems ranging from HIV/AIDS, rising poverty levels, unfair terms of trade, regional economic integration and the crushing external debts of our respective countries. Secondly, this meeting occurs after new initiatives such as the New Partnership for African Development (NEPAD) and the Poverty Reduction Strategy Papers (PRSPs) have emerged. These initiatives have become fashionable with the new development paradigms in Africa and are supposedly meant to meet our economic, social and political needs.

However, the current economic outlook on our continent does not inspire many Africans, especially those of us living south of the Sahara. This is so because poverty levels in recent years have not only increased in absolute terms but in relative terms as well. Most of you will agree with me that poverty among many other problems in our countries has graduated from endemic levels a decade ago to pandemic levels today, due to several factors ranging from political to economic ones. All this is happening amidst donor "support" which has been declining in the context of decreasing flows of global aid to poor countries.

AFRICA'S ECONOMIC OUTLOOK

Extreme poverty prevails in Africa, despite the economic reforms pursued vigorously in various countries since the early 1980s and through the 1990s. The stubborn persistence of high poverty suggests that there is a need to do things differently if significant improvements in the well-being of Africans are to be achieved. Africa's per capita Gross Domestic Product (GDP) has been falling with a corresponding decline in the level of industrialization in terms of manufacturing value added in the GDP, especially in sub-Saharan Africa. Child and maternal mortality rates have remained statistically high in the last decade. Indicators for

education, literacy and health are now matters of great concern to many a nation on our continent. These dismal statistics are further compounded by high incidences of communicable diseases such as malaria, tuberculosis and the HIV/AIDS.

A number of prominent scholars and development economists such as Jeffrey Sachs and Joseph Stiglitz among others have come out strongly on the need to have Africa's huge external debt completely cancelled if its fragile economy is to take off. I am aware that the West and donors in general are quick to point at our past and present economic "mismanagement" as a primary cause of Africa's development downswings. But is this accusation completely fair and realistic in light of what I will call "technical advice" on development, for lack of a better terminology?, This is the advice that the donors have consistently been giving us over a number of years now. But if the advice given is truly the sort we need, how do we account for the high number of externally designed economic policies that have failed to deliver tangible results to the African people? Can the West really absolve itself from blame by simply pointing fingers at the African countries?

Since most countries represented here are members of the Common Market for Eastern and Southern Africa (COMESA), let me give you a picture of the debt position in these countries as a way of driving a point home.

SELECTED COMESA MEMBER COUNTRIES-STATISTICS, 1997/1998

Country	Population in millions	GDP US\$ millions	GNP per capita	Total External Debt (Billions)	External Debt as % of GDP
	1998	1998	1998	1997	1997
Angola	12.0	5,884	340	9.6	123.8
Congo D.R.	48.2	6,101	110	14.4	217.5
Ethiopia	61.3	6,716	100	4.2	65.3
Kenya	29.3	9,791	350	6.4	61.5
Malawi	10.5	1,755	200	2.2	92.1
Swaziland	1.0	1,393	1,400	0.2	21.0
Tanzania	32.1	5,552	210	7.8	115.1
Uganda	20.9	6,944	310	4.0	66.5
Zambia	9.7	3,746	330	7.0	172.6
Zimbabwe	11.7	8,028	610	4.7	53.6

Source: World Development Indicators 2000, World Bank and African Development Bank (1999)

It is clear from the Table that COMESA as an economic body trying to revive economies in the eastern and southern Africa is heavily indebted as a region. At a present value of debt-to-export ratio of 396%, the region is one of the world's most heavily indebted. According to a 1996 classification of indebtedness by the World Bank, of the 21 COMESA member States, 11 economies are severely indebted, 3 moderately indebted and only 7 economies are categorized as less indebted. The total external debt stock in 1996 was estimated at US\$124 billion and since then it

has been growing by leaps and bounds (see *COMESA-Vision and Strategy into the 21st Century*, 2000). It is common economic knowledge that high external debts are a serious disincentive to Foreign Direct Investments (FDI) as they tend to raise domestic taxes on corporate profit. Thus COMESA's huge debts are frustrating efforts aimed at effective regional integration. For as long as these debts are not resolved by way of *full cancellation*, Africa will continue lagging behind in development.

When these facts are overlaid with the reality of poverty in Zambia and other African countries, the desperate and damaging nature of the debt overhang becomes self-evident.

It is against this background that this workshop is being held, in order to exchange and share country experiences on how best Africa can disentangle itself from foreign economic policies, especially those on external debt, that have failed to solve our debt crises.

I want to remind the participants this morning that as civil society representing various interest groups in our respective countries, we have the power and potential to influence our governments and donors alike to design and implement good policies for the betterment of the poor communities in our midst. It is therefore incumbent upon us to continue to campaign and lobby the creditor community to cancel our debts while at the same time urging our governments to promote open and accountable mechanisms in the management of public resources. It must be realized that Africa urgently needs to unlock and free resources tied up in debt obligations in order to attend to the various development requirements.

This paper endeavours to analyse Zambia's experience under the current creditor initiatives, the HIPC Initiative, which is being used to address the national debt impasse.

The Highly Indebted Poor Country's Initiative (HIPC) is a framework developed by the International Monetary Fund (IMF) and the World Bank in 1996 in order to address the problems of external debts in low income and heavily indebted poor countries. It is based on some of the following guiding principles:

- The objective is to get overall debt sustainability on a case-by-case basis, focusing on the totality of a country's debt;
- Actions should be envisaged only when the debtor has shown, through a track record, ability to put to good use the exceptional support provided;
- Action by the multilateral creditors should preserve their financial integrity and preferred creditor status;
- New external finance for the indebted countries should be on appropriately concessional terms

Source: Pamphlet Series No. 51, *Debt Relief for Low Income Countries, The HIPC Initiative* (IMF, 1997)

It might be said that these are indeed laudable principles. But what have they meant in practice, from the experience of Zambia?

ZAMBIA'S EXPERIENCE OF HIPC "RELIEF"

Zambia qualified for HIPC Debt Relief under the IMF, World Bank and Paris Club creditors in December of 2000. This was achieved on the basis of a track record of trade and financial liberalization of the economy, full privatization of nearly all parastatals, massive civil service retrenchments, removal of subsidies on maize meal -- our staple food. This move further saw the introduction of user fees on essential services like education and healthcare provision.

In the words of our own government, "Government will continue to implement the necessary policy and structural measures required for Zambia to reach the Completion Point in 2003 under the enhanced HIPC Initiative. These measures include 'prudential' macroeconomic management structural reforms and poverty reduction in accordance with the objectives and strategies set out in the Poverty Reduction Growth Facility (PRGF)" (see *Zambia Government Economic Report, 2001*).

Those of you who are familiar with the IMF jargon know this pledge simply means that our government has agreed to continue embracing Structural Adjustment Programmes (SAPs) as a basis for national development. Such an embrace occurs even when evidence on the ground shows that these programmes have lamentably failed in many parts of Africa and especially in Zambia. It is hard to point at a successful story of SAPs in Africa or elsewhere. Though one may argue that Zambia and its creditors (who in diplomatic terms are called "donors") are trying to bring our unsustainable debts to manageable levels, the fact is that HIPC is highly unlikely to achieve that objective for reasons I shall discuss later.

It is envisaged that Zambia under the HIPC arrangement will receive debt service relief amounting to US\$3.8 billion over the next 22 years. This is money to be "saved" by our government from reduced debt service payments. It does not necessarily mean a reduction in the actual debt stock, which currently stands at US\$7.3 billion or US\$730 in debt per capita terms. From a major Jubilee-Zambia research report (*Social and Economic Implications of HIPC in Zambia, June 2001*), it is clear that Zambia's debt service payments will continue to run in hundreds of millions of dollars for over a decade -- despite being "saved" by the HIPC debt relief arrangement.

ANNUAL DEBT SERVICE PAYMENTS FOR 2000-2005

Year	Annual total before HIPC (US\$ MILLION)	Annual total after HIPC (US\$ MILLION)
2000	193	169
2001	436	158
2002	429	148
2003	434	151
2004	434	211
2005	434	302

Sources: IMF Country Reports; 2001 Zambia Budget Speech

Both our government and the creditors have been quick to argue in *hypothetical* terms that Zambia is now paying much less in debt service as a result of the HIPC

mechanism which is in place. But as the Table above shows, in real terms these payments still remain significantly high, indeed, dangerously high. This is very true when the figures are looked at in relative terms, in comparison to what is allocated to the education and health sectors. For instance, a recent Jubilee-Zambia study, *Where Does the Money Go?* (2002) shows that the Zambian government in the last ten years has on average been spending as high as 20% of its GDP on debt service payments while education and health sectors have been receiving 3% and 2% respectively. College and university enrolments supported by government bursaries have continued to decline due to low funding in the name of balancing up the national budget.

All of you here this morning know that no nation can develop without significant improvement in the educational and health standards of the people. Economic reforms that still require substantial and unsustainable debt servicing at the expense of education and health improvements are not development-oriented reforms. Zambia's experience makes that crystal clear!

FUNDAMENTAL FLAWS IN HIPC

The expectation of Jubilee-Zambia as a campaign movement for debt relief was not just relief on paper but tangible results in terms of significant debt reduction. This would have then translated into pressure being eased off the national treasury so that more money could be spent on the social and productive sectors of our economy such as health, education and agriculture. But the HIPC initiative as it has been experienced in Zambia does not truly offer us "relief." In our perspective, this is because HIPC has several inbuilt and fundamental flaws emanating from its unrealistic assumptions and untenable projections.

For instance, HIPC is premised on the fact that the debtor countries will register and sustain annual real economic growth of between 5%-6% in the GDP and that this growth would then be used to reverse the poverty tides in poor countries. The Zambian case in the last three years defies this logic in many ways. We have consistently registered economic growth of between 3%-5% from 1999 through 2001. But these beautiful growth rates were in fact not accompanied by socio-economic development by which we mean a reduction in poverty, employment creation, increased school enrolments and better quality healthcare delivery systems.

Though this year's growth for Zambia is projected at 4%, while year-end inflation rate is targeted to fall to 13% from last year's figure of 18.1%, we really do question these figures. We wonder how these targets will be met in light of the powerful shocks such as widespread droughts and consequent food crises that have continued to hit our economy. And of course, we continue to feel the effects of the major external shock of the past year, the attacks of 11 September and the subsequent "war on terrorism."

In this regard, we echo the sentiments of the UN Secretary General Mr. Kofi Annan at the recent World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa. There he urged the participants to embrace one word, "responsibility", if the Summit were to achieve its objectives. He emphatically noted, "The model of development the world was accustomed to had

been fruitful to a few but flawed to many.” That is precisely where the problem lies. For the fact is that over 70% of the world’s wealth is disproportionately in the hands of the few people in the North, while the majority of the poor in the South have very little. So how can we talk about “responsibility” in the presence of huge external debts that are constantly diverting resources away from where they are most needed, for example, the construction and restocking of schools and the provision of medical services and health supplies? Surely the appropriate word in this context is “irresponsibility”!

Research has shown that HIPC in its current form is failing and therefore there is absolutely no justification to believe that it will work in Zambia. Indeed a World Bank Report released during the Spring Meetings this year shows that 2 out of 5 countries at the Completion Point do not have sustainable debts and between 8 to 10 of 21 countries, including Zambia, lying between the Decision and Completion Points are not likely to have sustainable debts by the same HIPC criteria.

The effects of debt have been quite devastating in Zambia. We have ample evidence to show that despite the much talked about debt relief under the HIPC initiative in our country, the quality of education and healthcare services have declined drastically in recent years. The policy of cost sharing, mandated by the SAP arrangements and pursued by the current government, has made health and education services unaffordable to many Zambians. The result, evidenced in several government reports as well as reports from the United Nations agencies, including the World Bank, show a disastrous decline in social indicators. Life expectancy has dropped from 54 years at the end of 1980s to 37 years today. One-third of primary school aged children and two-thirds of secondary school aged pupils are not in school. Thus future rates of literacy are now undermined (Jubilee-Zambia Research Report, 19 June 2001).

The Table below shows estimates of public expenditures by Zambia on education, health, the military, and debt service to foreign creditors. Although the data are for different years, the table clearly shows how debt service takes away resources desperately needed for investment in human development.

HDI Country	Rank	Education 1995-97	Health 1998	Military 2000	Debt 2000
Zambia		2.2	3.6	0.6	6.4

NB: Note that each column is expressed as a percentage of GDP.

Source: Partial extraction of Table 17 of the *UNDP Human Development Report 2002*

Zambia like many other poor African countries is so deeply indebted that the possibility of breaking out of the debt cycle seems virtually impossible. I do not need to remind you that HIPC as a debt initiative is not here to break the chain of indebtedness but to make us “good” debtors in the eyes of our creditors. Despite Zambia’s strict adherence to the IMF and World Bank prescriptions, the country has failed to take off economically and has declined socially. This is evident from the high numbers of closed and liquidated companies, the unemployed, street children and others in destitution, homelessness, etc.

Our country like many others subscribes to the Millennium Development Goals (MDGs) of reducing poverty by 50% by the year 2015. But I must be honest with you. Such a target is not only unrealistic but also contrary to what we have been experiencing hitherto. Poverty has been on the increase, having risen from a much lower figure fifteen years ago to more than 80% today. Thus the MDG targets are highly over-ambitious and not consistent with our economic capacity to generate sufficient wealth for poverty reduction.

I want to state with passion here that these are not words of a pessimistic person who has given up on the potential and future of my beloved country. Rather I am merely being factual and sincere with myself and with you. My judgements are based on experience, and that is what we must deal with in our conference these days.

HIPC AND TRADE IN ZAMBIA

Let me now deal very briefly with the issue of trade, since it is being seen by some, both inside and outside government as a vehicle that could take Zambia to a desirable economic condition of stability. This is a topic deserving much more attention, indeed, another conference. But for our purposes here, I will highlight only the pertinent questions we should be aware of when we discuss Zambia's experience.

It is evident that Zambia's resource envelope is certainly not enough to meet all its current development needs and later on accomplish the highly admirable and advantageous targets of the MDGs. This is the main reason why we of Jubilee-Zambia are calling upon the creditor community to grant us full debt cancellation. However, we are aware that though debt cancellation is a *necessary* condition for economic growth, it is not *sufficient* in itself. It should be accompanied by a set of conditions such as unrestricted accessibility to the international markets and a general improvement in the pricing structure of our commodities. These, of course, are *trade* issues.

Zambia needs to expand its trading horizons with the European and American agricultural markets. In this regard we call upon the West to urgently curb and remove subsidies on their products in order to level the playing field. We note with sadness that the rich nations' agricultural subsidies are much higher than their contribution to development aid in Africa. The EU, for example, paid \$93 billion of subsidies in 2000 while it only gave \$25 billion of development aid in 2001. European subsidies and tariffs for sugar and coffee are particularly harming developing countries. As a result of these subsidies and tariffs, European farmers produce a surplus of about six million tonnes annually, which are dumped at the world markets and depress prices.

And on our part, we need to improve our technological efficiencies in the mining and agricultural sectors in order to cut down on overhead costs and therefore remain competitive in the global markets. This must be done, of course, in a socially just fashion, without harming the livelihoods of workers through lowering wages.

HIPC AND PRSP

Let me also briefly make mention of the famous PRSP. As earlier mentioned, in 2000 Zambia became one of the countries to qualify for debt relief under the enhanced HIPC Initiative. But before receiving any debt relief, the government of Zambia was required to meet a number of conditions, among them the preparation of a comprehensive Poverty Reduction Strategy Paper (PRSP) in close consultation with civil society. The civil society effort in the PRSP process was coordinated and directed by the Civil Society for Poverty Reduction (CSPR) -- a project formed and run under the auspices of our Jesuit Centre for Theological Reflection (JCTR).

The consultative process of drawing up the PRSP ended early this year. Our own estimate is that eighty percent of views from civil society were effectively integrated into the final PRSP. The document was officially launched in July this year and currently in the process of implementation. It is certainly not a fully complete document or one that will bring us into a "heaven on earth" situation. But we do feel that it is a good document because of the intelligent and independent efforts of civil society. And it can be improved in future versions.

However, civil society organizations are now mainly concerned about the monitoring and evaluation processes associated with the implementation of the PRSP. To this end, our cooperating partners such as the United Nations Development Programme (UNDP), GTZ and Oxfam-Zambia have been funding training workshops to equip members of civil society with relevant monitoring skills.

Zambia has enormous challenges ahead if it is to make tangible progress in reducing poverty levels over the next 10-15 years. As earlier noted, the long-term aim of reducing poverty by 50% by the year 2015 is overly ambitious to say the least. While some available debt relief under the HIPC initiative might help to expand the resource envelope for the social expenditures, we know all too well that such relief tends to be fungible and hence cannot be relied upon wholly.

The current cost of the PRSP in Zambia is estimated to be around US\$1.2 billion. By far the larger part of necessary funds is expected to come from donors. But experience has demonstrated to us that the behaviour of these donors is highly unpredictable. Last year, for instance, donor assistance was delayed because of the dangerous political situation precipitated by the former President's efforts to manipulate the Constitution so that he could enjoy the safety and profit of a third term of office! In other words, smooth implementation of this important document is not guaranteed, but lies at the mercy and benevolence of our donors.

Jubilee Zambia, as a leading actor in civil society in this country, has other concerns when we look at the poverty reduction efforts. Beyond the need for increased and regularly anticipated resources are issues of weak public delivery systems that render themselves open to public abuse, serious quality concerns in basic education and healthcare, and the growing presence of corruption, which prevents financial resources from reaching the poor communities especially in rural areas. While most of these issues are not unique to Zambia, there is little

indication so far that they are being addressed with the urgency they deserve, nor is there evidence that poverty is on the wane as the case is, say, in Uganda.

Jubilee-Zambia has participated in the formation of a government HIPC Expenditure Monitoring Team, to look at the disbursements of funds under HIPC. It has not been an easy and altogether worthwhile participation. Government has already acknowledged mismanagement of HIPC funds available during the first year. For that reason, we feel it is increasingly important for independent and critical monitoring instruments.

WAY FORWARD FOR ZAMBIA

So what is the future for Zambia around this issue of debt relief and the hopes of the people for an improved standard of living? In light of our experiences with HIPC, I want to conclude my presentation here by making the following suggestions and recommendations:

- We call for deeper debt relief that takes into account the current social and economic conditions of our country. Such debt relief is of course most effectively and most equitably received as *debt cancellation*.
- We strongly demand that our government put in place a Debt Mechanism that will assure that all debt relief does in fact reach and benefit the poor. This Debt Mechanism is a statutory arrangement that assures a participative, transparent and accountable utilisation of any debt relief funds.
- We call upon the government to immediately review the loan contraction process in order to legally ensure that Parliament is involved on behalf of the Zambians. This will do away with the dangerous anomaly whereby the Minister of Finance and National Planning can contract loans without approval of Parliament.
- We urge a PRSP process that aims to break the cycle of unemployment by reforming regulations and policies that impede employment creation and job search through the provision of education, training and retraining in relevant fields.
- We expect that our government will promote financial self-reliance and discipline that will in the long run reduce on donor dependence on external aid or financing. This will lessen the rate at which the debt stock accumulates by sourcing finance for development internally or from cheaper sources, to the extent that this is viable and possible.
- We call upon the creditor countries and international financial institutions to delink debt relief from market conditions that mainly tend to favour the North at the expense of our farmers and industries through unfair terms of trade.
- We believe that debt relief should not be seen and treated as assistance to the debtor countries by way of *charity* but as a moral obligation to the poor

people of the South by way of *justice*. It is for this reason, for example, that Jubilee-Zambia has raised the issue of the unethical burden of “Apartheid-caused debt (see our major 2001 research study) and has endorsed the implementation of some sort of international arbitration mechanism. In light of this, of course, we continually and urgently repeat the call for debt cancellation.

CONCLUSION

It is not out of place, I believe, to conclude this paper by alluding to the current international scenario and the imminent threat of war. This has immediate bearing on our case here. The chief economic advisor to the US President George W. Bush is quoted in the media as having said that if the war against Iraq were to break out, estimates show that it would cost the US between \$100 billion and \$200 billion. That is equal to 1%-2% of the US domestic product per year. It is further argued that these costs will not have a large impact on interest rates or add much to federal debt that stands at \$3.6 trillion. Indeed, the immense resources for such a war effort seem to be readily accessible.

We do not ignore alleged Iraqi weapon threats – however, this is something we feel, as do most nations of the world, should be verified by United Nations inspections and not accepted on the basis of US or British sentiments. But we want to argue that such massive sums of money that the US government seems ready to make available for waging war on Iraq (a country whose innocent children and women have already suffered so much from sanctions) would be put to much better use in the long run by channeling it towards the fight against poverty and AIDS in Africa, coupled with immediate and full cancellation of debts.

This, in essence, is the Zambian experience of debt relief under HIPC. I submit that the case has been made that HIPC relief is inadequate by both *economic* and *ethical* terms, and that the case for total debt cancellation is more urgent than ever.

Thank you!