Part One: Zambia’s Debt History

A. Introduction

The reduction of poverty and improvement of the living conditions has in recent years become the overarching goal of most national governments and donor agencies. The debates on how these goals are going to be attained dominate the development planning process everywhere. One issue on which there is general consensus is that there should be immediate and significant reductions in external debts of the Highly Indebted Poor Countries (HIPCs) that will free resources to be used in various poverty eradicating programmes.

In this report we do not claim or pretend to address all the social and economic challenges facing Zambia but rather ours is an attempt to highlight the heavy burden that the external debt imposes on Zambia’s prospects for development. At a time when poverty levels in the country are abnormally high, the burning question in every Zambian is: where does government money go? In answering this question we echo the sentiments of Julius Mwalimu Nyerere former and late president of Tanzania who observed that “the constant need to borrow in order to service debt; the constant need to service our debt in order to borrow—we can no longer get out of this vicious circle…Is human development a possibility when so much of Africa’s wealth is channeled into debt servicing?” Thus this study sets as its objective to reach policymakers and the public (NGOs, trade unions, church bodies, professional organisations, etc) interested in affecting change in the public expenditure patterns in Zambia both at the national and international levels for favourable outcomes of the Zambian poor people. We must mention from the onset that we have had difficulties in obtaining reliable data for this research work. In order to minimise the distortions associated with data mixing we have had to confine ourselves to two sources only: Bank of Zambia and the CSO. Therefore our findings should be seen in this context.

Furthermore for purposes of future research and deepening the outcome of this study we propose that another research be conducted to look specifically at the following issues: why were there significant fluctuations in Zambia’s external debt stock between 1990 and 2000? What were the political and economic consequences of Dr.Kaunda’s move in 1987 to limit debt service to only 10% of Zambia’s export earnings? What have been the contributions of the BOP support towards debt servicing during the period under review? How much debt relief has Zambia received in recent years in form of debt cancellations? We are aware that the government is in the process of releasing a major document to show all loans, debt service payments, debt relief and foreign grants for Zambia and we hope that such a document will go a long way in answering the questions that this paper has not adequately addressed.

The external debt for many years now has been robbing the country of the opportunity to invest in its people--a condition essential and necessary for accelerated poverty reduction. Zambia like many other poor countries is trapped in a debt overhang that has been blocking eligible children from accessing schools and mothers from receiving health care. The cost of servicing debt is quite enormous on the national treasury. For instance, in 1990 Zambia spent 23.5% of its GDP on debt repayments while in 2000 the figure had dropped to 7.8% representing a decrease of 15.7%. The decrease in debt service payments in 2000 can be attributed mainly to the Paris Club partial debt cancellations and reschedulings offered to Zambia after a track record of macroeconomic "performance" as interpreted by the IMF and the World Bank.

A very influential development economist, Hans W. Singer, as quoted in Defege (1992), described the 1980s as a lost decade for the developing countries as a group. The 1950s and 1960s were seen as "golden years" not only because the rate of growth of the economies was high, but also because the achievement was home grown. These were decades in which Least Developed Countries (LDCs) increased their investment and had less dependence on external resources. The 1970s on the other hand, were "debt-led" in the sense that these countries ran a persistent current account deficit in the Balance of Payments (BOP), and borrowed heavily on the international money and capital markets to finance the payments gap. The 1990s can at best be described as wasted years for most of the poor countries. This is so because of the economic, political and social crises that have hit these countries and are reflected in high debt burdens, unstable governments and endemic diseases such as tuberculosis, malaria, and HIV/AIDS.

B. **Zambia's Social and Economic Picture**

Indeed the LDCs in Africa in the 1990s had witnessed a dramatic change both in their economic and political orientation. Multiparty politics and liberal economies had become fashionable and synonymous with the new "enlightened" leadership of the 1990s. Such a scenario aptly describes Zambia today. However, one of the strongest economic challenges to have hit our country as earlier alluded to, in the last three decades and especially the 1990s, is the external debt burden whose deathly effects have been felt far and wide in the nation. The severity of the problem should be seen in terms of the size and magnitude of the current debt relative to the national income, and the yearly unsustainable debt service payments. The problem is further compounded by a high average annual population growth rate of over 2.3%, a dismal export base, high import bills and a high infection rate of HIV/AIDS, which currently stands at 20% in the adult population. With this myriad of problems the Zambian government has often been left with very little financial resources to adequately tackle the social and economic challenges of our time.

For instance, in the 2001 national budget, 52% of its component was donor funded and such funding usually comes with strings attached. A careful analysis of donor conditions to Zambia clearly reveals that donors are not keen to commit their funds in the provision of subsidized services such as free education and health care to the economically disadvantaged people. This is seen in terms like "cost-sharing" or "user fees", which simply mean that the end user of a service must pay for it. The practical question that arises from this is: can the majority of Zambians meet these costs in the present economic setting? Indications are that with unprecedented high poverty levels coupled with high unemployment levels obtaining in the nation most Zambians cannot afford to pay for the health and education services. This now becomes the sole responsibility of government to take care of its economically disadvantaged and vulnerable people. Furthermore, in the Zambian case the national budget does not adequately address or cushion the poor from the dictates and impact of economic reforms. In order to appreciate the magnitude of these problems one has to look at the options available to Zambia for financing its ever-increasing public expenditure demands.

For a long time now, the country has used a number of options to finance its public sector deficit. The government has usually resorted to:

- Printing money,
- Export earnings at the central bank,
- Borrowing domestically,
- Domestic tax revenues,
- Borrowing externally.

But each of these methods has its own demerits with serious consequences on the economy.

The first option of printing money exerts pressure on the growth of money supply in the economy thereby pushing up real interest and inflation rates in the money market. High interest rates tend to discourage investments as business people find it expensive to borrow or source capital. The second option tends to deplete foreign reserves at the central bank--meaning that a country risks failing to meet its import requirements. The third alternative which is characterized by government engaging in the buying and selling of securities (Open Market Operations, OMOs) crowds out the private sector from the domestic financial market and thus deprives it of loanable funds needed for investments. This also tends to increase government domestic debt. The fourth option is hampered by a small formal sector on which it is based and a blossoming informal sector that does not pay taxes as currently there are no devised mechanisms to tap it. The last option if not checked, leads to an external debt crisis a situation where Zambia is today. It is the last option that mainly explains Zambia's heavy indebtedness and therefore forms the focus of our analysis.

It is in this context that this study was undertaken by the Jesuit Centre for Theological Reflection (JCTR) Debt Project in order to bring to the fore the adverse effects of the debt service payments on Zambia's social and economic development plans. Time and again, authorities have lamented over the huge amounts within the national budget that are allocated to debt service payments at the expense of dire needs in the education, health and agricultural sectors of our country. The immediate effect of such lopsided funding has been an unenviable increase in poverty levels across all strata of the Zambian society. Presently, according to World Bank statistics, 80% of Zambians are living below the poverty datum line with a high proportion of these people being found in the rural areas.

From a sound economic base (income per capita of over US$700) at the time of political independence in 1964, Zambia has moved to join the list of the world's poorest nations. The SADC Human Development Report (issue 2000) shows that by 1998 Zambia had slid from a well-placed status of a High Human Development Category to a Low Human Development Category. Life expectancy had dropped from 54.4 years in 1990 to less than 37 years in 2000. Zambia's Human Development Index (HDI) in 1998 stood at 0.49 while South Africa's was at 0.72 and Zimbabwe's at 0.57 respectively. Too low an index in relation to other countries indicates deterioration in living standards--a common malaise in Zambia. In the same year (1998) real per capita GDP stood at US$381 while the debt per capita was hideously high at over US$500.

People are now asking with a sense of hopelessness: what has gone wrong? Further more, Zambia's place and influence in the global economy is insignificant with low levels of foreign direct investments trickling in while the rate of brain drain to other regions remains unreasonably high. Though Zambia has undertaken some major economic facelift in the last ten years through the IMF/World Bank sponsored SAPs, there has been very little qualitative and quantitative success achieved so far. The effects of SAPs are vivid and clear-- for example, high numbers of job losses, several companies shut down, appearance of 'ghost towns' due to lack of economic activities, a bloated and disorganized informal sector engaged in various forms of trade and business, the list is endless. Meanwhile, the IMF/World Bank continues with austerity measures manifested in stringent economic reforms on one hand while providing concessional loans to Zambia on the other.

C. Early Attempts aimed at resolving the Debt Crisis

There have been attempts in the past by creditors to deal with the LDCs' debt crisis. For instance, in October 1985, at the annual IMF-World Bank meeting in Seoul, the U.S. Secretary of the Treasury, James Baker, proposed a three-part "programme for sustained growth" to deal with the debt problem:

- First and foremost, the adoption by principal debtor countries of comprehensive macroeconomic and structural policies supported by the international financial institutions, to promote growth and balance of payments adjustment, and to reduce inflation
- Second, a continued central role for the IMF, in conjunction with increased and more effective structural adjustment lending by the multilateral development bank
- Third, increased lending by the private banks in support of comprehensive economic adjustment programmmes.

It was argued that austerity would fight inflation and produce the trade surpluses needed by the debtors to make their debt service payments. Structural reforms and new lending would generate growth needed to reduce the burden of those payments. Sadly, neither of the two expected outcomes ever happened. Despite the massive programme failures in several countries that had experimented with these over ambitious reforms, the IMF and the World Bank do not seem to have learnt a lesson. They continue to push for these same programmes camflouged in new names of ESAF, PRGF and the latest to be added to the list is the HIPC Initiative. Market based principles of dealing with Third World debts (i.e, loans are seen as commodities to be purchased by those who can afford them) have continued taking root in HIPCs even when it is clear that most financial markets are imperfect and therefore fall short of dealing with the social effects of these reforms.

At national level there were attempts especially in the 1980s to deal with the debt crisis. For instance, in 1987 the former president of Zambia Dr. Kaunda delinked from the IMF and World Bank economic programmes. And in a dramatic effort to induce economic growth under the theme "Growth From Own Resources" he restricted debt service payments to 10% of Zambia's export earnings. Though it is said by many Zambian economic analysts that this move was a step in the right direction as the country was able to register real growth, it was not without economic costs to the Zambian people. The immediate reaction by the creditors was to wage a veiled international campaign aimed at isolating Zambia-- a move that saw a substantial decline in the flow of foreign aid and other forms of assistance to the nation. According to government sources it is said that a substantial amount of money was slapped on Zambia in penalty charges for restricting debt service to 10% of export receipts which in one sense would be interpreted as defaulting on loans falling due during the period in question. The consequence of these huge penalties was to increase the stock of Zambia's external debt.

Part Two: Zambia's Current Debt Situation

D. Debt Versus Human Rights

While we are aware that debt is not the only cause of Zambia's economic and social miseries, however, it has both direct and indirect consequences on the fundamental human rights. These are social-economic rights like access to clean and safe water, affordable health care, and education for our children, decent meals and shelter. Zambia is a signatory to the United Nations conventions and the OAU basic and fundamental human rights. But needless to say that these rights have been grossly undermined and violated by the creditors through their tough stance and demands to have their money back no matter what it takes. A lot of studies from the UNDP, UNICEF, Women for Change, CSO, and indeed from the JCTR Basic Needs Basket show that the social conditions in Zambia have worsened over the last decade as reflected in dilapidated schools and hospitals. Most schools lack teaching aids while hospitals do not have essential drugs. Thus the social sectors continue to be deprived.

Surely Jubilee-Zambia is not against paying back what was borrowed but is simply saying that the country is unable to do so without denying its children food, school places, health-care and other basic needs of life. Debt payments in Zambia like elsewhere take away money meant for developmental needs. This limits the opportunities for the nation to provide for its people and this in turn leaves people susceptible to the vagaries of nature. Zambia is like a country at war with tens of thousands of its people marginalized by the economic and social effects of poverty and deprivation of various forms and all linked to the external debt.

As earlier mentioned, 80% of Zambians are classified as living below the poverty line, and are in desperate need of equitable, broad based economic growth that can be translated into significant poverty reductions. The current economic outlook is not inspiring and therefore offers very little hope for the majority of Zambians in terms of achieving economic gains that can impact meaningfully on the poverty levels in the country. Zambia will have to devise, albeit with the support of all cooperating partners, strategies for economic growth that provide viable opportunities for the poor to be able to earn a sustainable livelihood and the PRSP process is one such strategy. But in order to achieve this, Zambia needs total debt cancellation as a basis for a 'fresh start' to national recovery.

Jubilee-Zambia is quick in this study to mention that the current economic programmes and plans in Zambia developed with a heavy input from the donors are not going to reverse poverty tides significantly. This is so because they are out of touch with our environment and needs of the Zambian people. For example, the donors would rather support production of roses for export market in order to earn foreign exchange than production of maize for home consumption. The former, it is argued, is more profitable than the latter as an earner of foreign exchange. We should be careful here not to be hoodwinked into believing that maize production is and can never be profitable. It is just that the crop has not been adequately supported. For example, during the farming season inputs such as seed maize and fertilizers are never delivered on time. Regrettably the market is usually flooded with foreign imports that are heavily subsidized, thus making it difficult for the Zambian farmer to compete favourably. Thus the western brand of development strategies tends to militate against the wishes and needs of the local people.

The government should take the lead and initiative in realigning the economy by designing policies that encourage domestic production of goods and services and exploring the issue of export diversification seriously. The idea is to depart from a monoeconomy to a broad based one that is buoyant and flexible enough to adapt to changes in the global trends. In the last couple of years, over 85% of Zambia's export earnings used to come from copper-- a commodity whose prices are very volatile. With imminent threats from some investors of pulling out of Zambia's largest copper mine, the KCM, the resulting effects would be catastrophic on the rest of the economy. There is therefore need to support agriculture, tourism, forestry and other sectors that would then act as a buffer in times of economic distress.

E. Zambia's Debt Profile

Like other low-income countries (LICs), Zambia's heavy indebtedness is as a result of both domestic policy failings, and exogenous factors beyond government control. As it was fashionable then, Zambia borrowed heavily in the 1970s and early 1980s for development purposes. This was also meant to close the gap in the current account deficits in the Balance of Payment (BOP) but with very little success. It has been argued that some of these borrowings were wasted on 'white elephant' projects such as the Chipata-Muchinji rail that never took off or the Mwinilunga Pineapple Cannery that failed to make a mark at the world commodity market. However, most of the borrowings were prudently invested in human, physical and social infrastructure and water reticulation systems.

From the early 1970s Zambia's total external debt has had a phenomenal growth pattern and the trend continued almost unabated in the 1980s and for most parts of the 1990s. For instance, between 1970 and 1974 the debt was US$776 million while for the period 1980-1984 it stood at US$3629 million representing a staggering increase of 367.5% from the previous period. By the time the government was breaking ranks with the IMF in 1987 citing adverse effects of the creditor programmes on the Zambian people, the foreign debt had soared to US$6620 million—an increase of 82.4% over the 1980-1984 figure. When the government finally resumed dealings with the two lender institutions in 1989 the debt had risen to US$6716 million-- registering a marginal increase of 1.45% over the 1987 figure and this was mainly in penalties on debt. By 1995 the external debt had peaked at US$7041 million. However, what should be appreciated in these significant increases in debts is the fact that Zambia's capacity to sustain them had long been eroded and national development plans seriously undermined due to insufficient financial resources in the national budget.

Other major and compounding factors contributing to the increase in our external debt were the 1973-4 and 1979 world oil shocks, frequent regional and global recessions, increase in the interest rates at the international money and capital markets, accumulation in arrears falling due while copper prices continued with a downward spiral.

The other important factor that explains Zambia's heavy indebtedness can be classified as a political factor. During the latter part of the 1970s and early 1980s, Zambia actively supported liberation struggles such as the ANC in South Africa and the ZAPU-PF in Zimbabwe that were waging war against the racist regimes in the Southern region. According to a study conducted by the JCTR in 2000, it is estimated that Zambia incurred a total debt of US$5.3 billion in opposing the Apartheid system of governance. This is besides the human loss and physical infrastructure damaged through frequent bombings from foreign aggressors.

F. Zambia's Debt Stock

At the end of 2000, Zambia's external debt stock stood at US$6,252 million including arrears on amounts falling due thus representing a paltry reduction of 9.4% from the 1990 figure of US$6,898 million (see Table 1). This reduction as we earlier mentioned was due to Paris Club debt cancellations[1]. This translates into approximately US$625 debt per capita as contrasted with a per capita income of US$381. Zambia's debt per capita is very large going by standards of other HIPC countries where figures in some cases are below US$400 per head. Of the total amount, 55% is owed to the multilateral creditors such as the IMF, World Bank, and the ADB, 33% to the bilateral creditors (Britain, France, Japan, Canada, USA, etc), while 7% is owed to the private commercial lenders (such as big northern banks).

TABLE 1 (US$' MILLIONS)

TOTAL EXTERNAL DEBT AND DEBT SERVICE PAYMENTS

Year	External Debt	Scheduled Debt Service
1990	6898	647
1991	6827	718
1992	4981	678
1993	5102	522
1994	6397	541
1995	7041	590
1996	7085	453
1997	6971	376
1998	6613	315
1999	6407	361
2000	6252	169

Sources: Bank Of Zambia annual reports and staff estimates

From Table 1 above we observe the following:

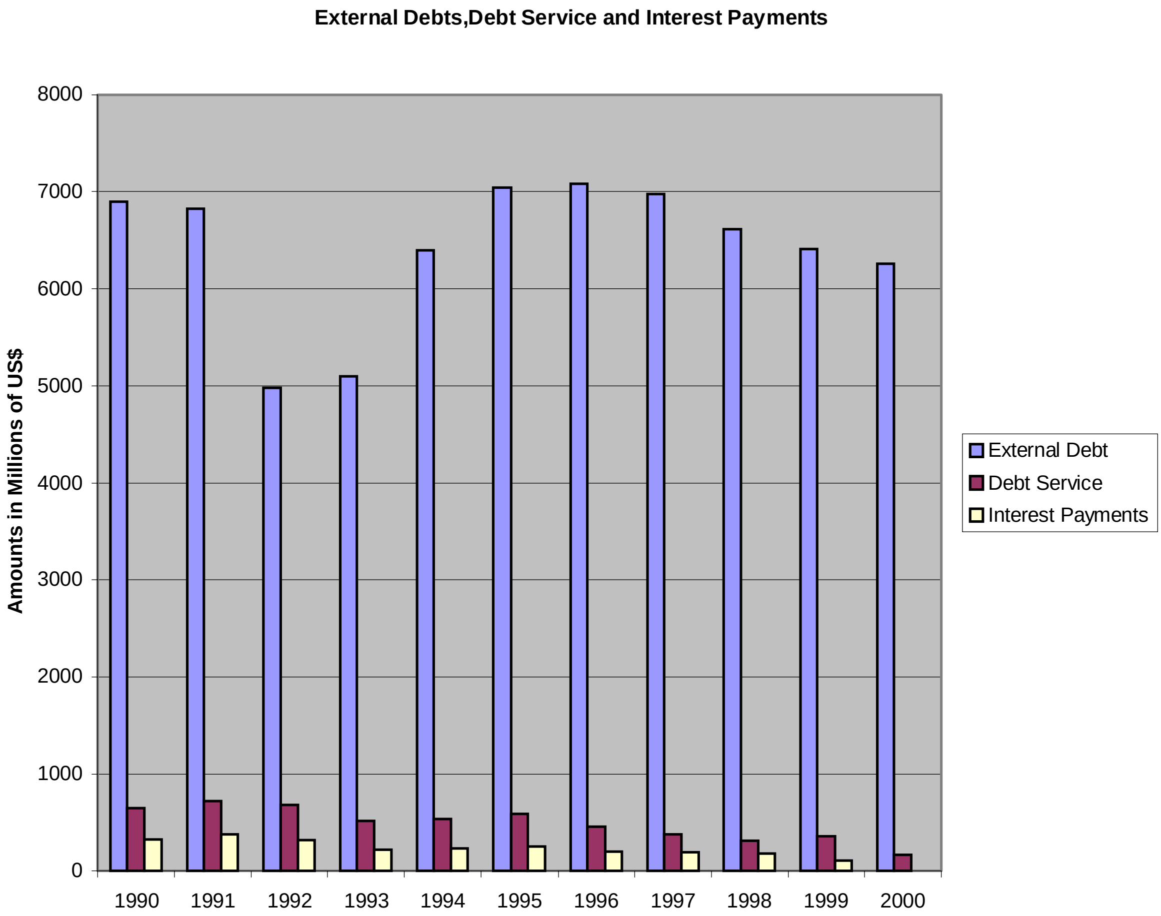
- Annual debt service payments are all above US$200 million save for one year, an amount too high for a poor country whose current account in the BOP is usually negative while government accounts are in perpetual fiscal deficits.

- It is also evident that the amounts of debt service relative to the debt stocks in all the years under review are insignificant (see also Graph A). It should be noted that in terms of annual debt service payments composition, just slightly over

[1] The date of January 1, 1983 indicates the date when Zambia first went to the Paris Club to seek debt relief and therefore all the debt contracted by Zambia before then is eligible for relief under the Paris Club while that which was contracted after is not eligible (see Economic Report, 2002)

50% of the payments have been made toward debt stock reduction while the rest have gone to meet interest payments (as shown in Graph A). Yet the debt service figures seen in our national budget terms represent huge amounts of financial resources.

GRAPH A



G. Debt Service Payments

Consequently, the debt service payments, though comprising a huge proportion of our national budget expenditure, are not significantly reducing the debt crisis. For instance, in 1990 debt service payment as a proportion of the total debt stock was only 9.4% while in 2000 there was an adjustment downwards to a mere 2.7%. As we mentioned earlier, the fall in debt service payments in 2000 is attributed to the Paris Club arrangements. Currently Zambia is under the enhanced HIPC Initiative having reached the Decision Point[2] in December 2000. It is argued by creditors that when a country under the HIPC arrangement reaches the decision point then it is guaranteed massive debt relief provided it proceeds to the Completion Point[3]. We are yet to see this in Zambia especially in light of recent donor inconsistencies in keeping their promises. But though debt relief under current arrangements of HIPC is necessary it is not sufficient in itself as it merely reduces annual amounts serviceable and not the actual debt stock (see Graph A). The debt service payments represent huge proportions of budget resources, which consequently place high strains on the national treasury. It is hard to talk about meaningful human development in Zambia when the nation is made to part away with huge financial resources every year in form of debt service payments. In the current debtor-creditor arrangements, it would take more than just debt service payments to enable Zambia escape its heavy indebtedness. This is why Jubilee-Zambia continues to call for realistic and pragmatic steps in dealing with Zambia's debt burden and that is, a **total cancellation** for **poverty** eradication.

Debt repayment inevitably imposes constraints on a debtor country's growth prospects since it involves transfer of massive financial resources to the bilateral and multilateral institutions (see our HIPC Report, 2000). On average Zambia spent nearly 20 % of its GDP on debt service payments between 1990-2000 while on the other hand, education and health sectors received 3% and 2% respectively. Such huge disparities in resource allocation between debt service payments and our social sectors are a matter of serious concern to all Zambians and they impede efforts aimed at sustainable human development.

Thus in order to appreciate the severity of our indebtedness, it is necessary to relate the debt and its repayments to some income resources generated by Zambia out of which repayments are made.

A number of macroeconomic aggregates and the debt data are used to assess the debt burden of a country. The commonly used ratios are:

- Total debt service to export of goods and services
- Total external debt to GNP
- Total external debt to export of goods and services
- Interest payment to GNP
- Total debt service to GNP
- Debt outstanding and disbursed to GNP
- Interest payment to export of goods and services

From common and standard economic practice, the most used ratios to measure debt burden are the debt service payment to export of goods and services (debt-service ratio)

[2] **Decision Point**-a point at which a HIPC country completes its 3-year track record of good performance under adjustment programs supported by the IMF and the World Bank, and when based on debt sustainability analysis, a country's eligibility for assistance under the HIPC Initiative is determined.

[3] **Completion Point**-a point at which after having implemented the full Poverty Reduction Strategy Programme for at least one year, the country concerned receives a stock of debt relief and the bulk of the assistance under the HIPC Initiative without any further policy conditions (see Economic Report, 2002).

and total external debt to income (GNP). The higher these ratios, the greater the debt burden (see Defege, 1992).

Table 2

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
TDS/XGS	0.512	0.662	0.599	0.525	0.489	0.492	0.455	0.324	0.367	0.477	0.226
EDT/GNP	2.508	2.786	3.153	2.319	1.950	2.242	2.300	1.920	2.524	2.272	2.869
INT/GNP	0.119	0.155	0.203	0.098	0.071	0.080	0.060	0.054	0.068	0.039	-

Note

I. : Ratios computed from Bank of Zambia statistics
II. Interest payments for 2000 were not available at the time of this study

EDT: Total External Debt
XGS: Export Earnings
GNP: Gross National Product
TDS: Total Debt Service
INT: Interest

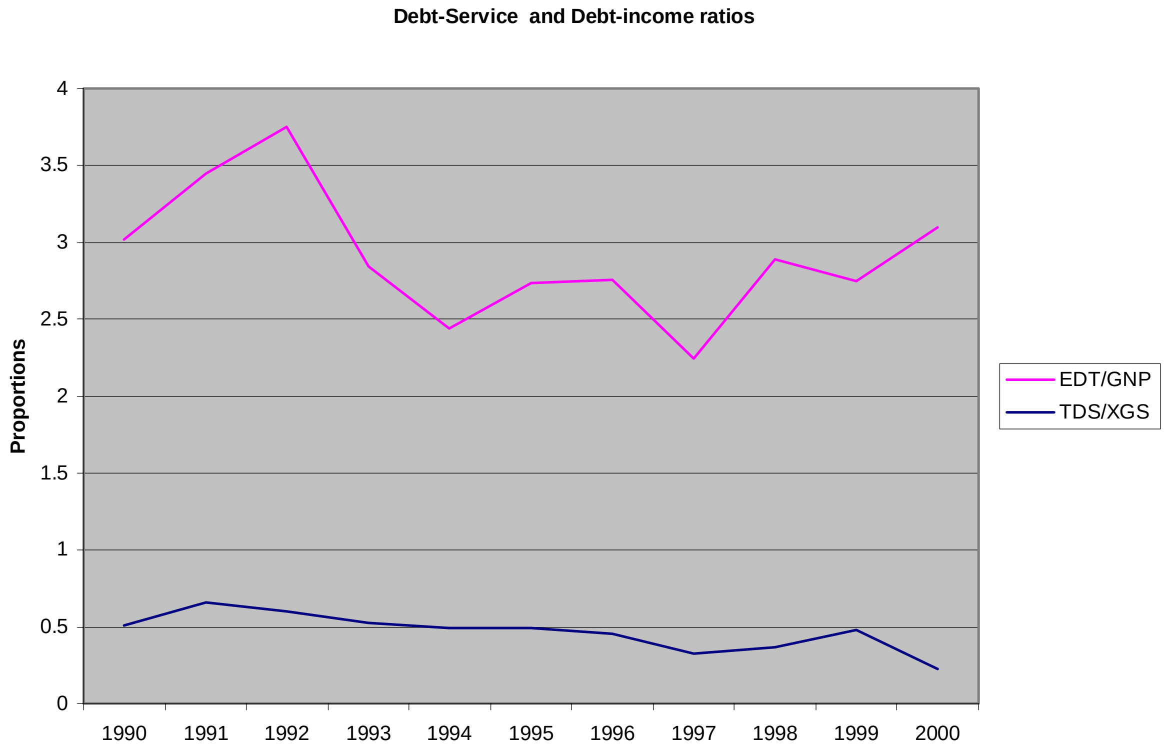
From the Table 2, the following can be deduced:

- The debt-service ratio shows an initial increase and then followed by a steady decline especially after 1996. The same pattern is exhibited by the debt-income ratio (see Graph B) where the upper graph represents total debt service as a proportion of GNP while the lower graph shows debt service as a proportion of export earnings

- It is also clear that the early 1990s saw a rise in interest charges on debt as a proportion of the national income but like in the other two ratios, it began to decline significantly after 1996

- From the two points above, it can be deduced that the early 1990s experienced a sharp increase in levels of indebtedness as the new government that had just assumed political power embarked on fresh borrowings in order to sustain its programmes and activities and also support the macroeconomic reforms that had been instituted in the country.

GRAPH B



TDS/XGS = Total debt service ratio
EDT/GNP=Debt-income ratio

Generally speaking, Zambia's debt burden has been growing progressively over time though towards the end of the 1990s it began to decline partly due to partial debt cancellations and debt rescheduling that had taken place.

But a high debt burden is usually reflected in reduced social sector spending as huge financial resources are channeled into debt service payments. Debt service ratio and the debt-GNP ratio are also used as indices for measuring liquidity and solvency, respectively[4]. A liquidity problem refers to the inability of a country to service its debts now in the amount initially contracted. This is the problem that Zambia is currently facing today-- it has no capacity to service its debts without inflicting pain on the social

[4] Liquidity and solvency may also be determined in a number of ways. A simple rule for solvency is that the export growth rate be greater than the interest on debt (Eaton and Taylor, 1986). And, the difference between net debt (total indebtedness minus foreign reserves) and export earnings may also be used as an indicator of liquidity problem (Ajayi, 1991).

sectors. Debt servicing at current levels carries high social costs, especially in an impoverished country like Zambia. Nutritional indicators are extremely poor and have continued to deteriorate. For instance, in 1998, 53% of children aged 3-59 months were stunted (too short for their age), 24% were underweight (having low weight for their age), and 5% were wasted (having low weight for their height). Moreover maternal mortalities were as high as 650 per 100,000 deliveries--one of the highest in the world (see Living Conditions in Zambia Survey, 1998).

Table 3
Budgetary Allocations to the Social Sectors Compared with Debt Service Payments

Amounts in Millions US$

Year	**Education**	**Health**	**Social Security and Welfare**	**Scheduled Debt Service Payments**
1990	65	44	9	647
1991	78	50	12	718
1992	39	22	7	678
1993	68	40	14	522
1994	78	74	8	541
1995	94	56	13	590
1996	94	56	7	453
1997	157	72	7	376
1998	59	46	6	315
1999	64	46	4	361
2000	100	67	8	169

Source: CSO
: Bank Of Zambia and staff estimates

From Table 3 above:

- It is evident that all the three sectors education, health and social security and welfare combined have been receiving very little funding compared to what is spent on debt service payments

- For instance, in 1990 government spent nearly 10 times more on debt service payments than what was given to the health sector, 15 times higher than what the education sector received and 72 times more than what was allocated to the social security and welfare

- In 2000, government spent 1.7 times more on debt service than education, 2.5 times higher than health and 21 times more than social security.

One would be quick to argue that there has been some marked improvement in the budgetary allocations to the social sectors in 2000 compared to the 1990 situation. But one should not be blind to the fact that debt service payments have continued to occupy the number one position on the government expenditure list. With this poor pattern of public expenditure in the social sectors, there is very little hope in terms of revitalizing the health and education sectors in order to bring meaningful development to Zambia. Undoubtedly, debt service takes more financial resources in Zambia than what is left for developmental needs. It is in this light that the debt problem in Zambia becomes not just an economic problem but also a moral, social and political imperative.

Health

This sector continues to suffer from low levels of funding while morbidity and mortality cases are on the upswing. Debt service payments have continued crowding out health sector spending. For instance, using the last estimated census population results of 10.3 million people, in the year 2000 for every Zambian child, woman, and man US$16.9 was spent on servicing the external debt but only US$6.5 was spent for each Zambian on the operational health budget. However, if the debt were cancelled in full as per our demands, and if donors and creditors continued supporting us with grants and other forms of assistance, the government would then be able to devote more resources to the health sector and hence reduce some of the preventable deaths in the country.

With the current low levels of spending in the health sector, the government is unable to subsidize its poor citizens on the HIV/AIDS anti retroviral drugs whose average price is around US$15 per day. Put differently, the creditors have prevailed on the government to abandon 20% of the sexually active portion of our population aged between 16-45 years currently infected with HIV in order to meet debt service obligations! It is morally and socially unacceptable for the creditors to insist on user fees in hospitals when a sizable number of people are income poor and others have been rendered jobless through retrenchments without being paid their benefits. For us as civil society any little money saved under debt cancellation means an opportunity opening up for a child to attend school, a chance for a hospital to stock essential drugs and a hungry mouth fed.

Education

Like in the health sector, there is urgent need for public investment in Zambia's education system. In effect, external debt problems are eroding the Zambian government's capacity to direct domestic resources to where they are most needed. For instance, from the joint study conducted in 2001 by Oxfam-Zambia and the JCTR entitled "Will The Poor Go To School?" the results clearly show that households currently are spending on primary education nearly twice the amount that is provided through the public budget. But the economic constraints on households are increasingly intolerable and as a consequence many young people are not being sent to school. We have always argued that education is not a privilege for a few people but a basic human right and therefore no one should be alienated from one's rights on account of debt service payments.

Countries like Singapore, Malaysia and South Korea have managed to record remarkable developmental strides in all spheres of human life because they have had a deliberate policy to invest in the human capital. But in Zambia education continues being under-funded as though it did not matter to the well being of the nation. In 2000 alone, external debt gobbled a whooping sum of US$169 million while the education sector received only US$100 million to be shared among all primary and secondary schools, college, university and all other government institutions offering tertiary education. In comparative terms this means that the government in 2000 alone spent 3.2% on debt service payment above what was allocated to the education sector. This is equivalent to more than the health-care and education operational budgets combined for the year.

Although it is the intention of the Zambian government to raise social-sector expenditure to 38% in the national budget, proportionately the burden of debt service payments will remain heavy, since total debt service is still significantly high (see our HIPC Report, 2000).

Part Three: Zambia's Debt Future

H. Critique of the Proposed Solutions from Creditors

Over the years the creditors have proposed and tried a number of economic options such as SAPs in their varied forms in order to solve Zambia's heavy indebtedness. But these "curative" initiatives from the creditors have not yielded the desired results for the following reasons:

- While the fundamental objective of creditor debt relief schemes such as HIPC are to reduce poverty in recipient countries, we fail to see how this will happen in Zambia where the initiatives are still tied to macroeconomic reforms whose failure rate is well documented. Thus the formulas are seriously flawed and cosmetic. They offer too little and come too late.

- The main focus of the creditor debt initiatives is to ensure that the debt obligations are complied with regardless of the social and economic costs this may entail to the Zambian people. They are designed to serve and protect the interests of creditors and international financial institutions.

- ESAF, PRGF, and HIPC are all creditor impositions on the hapless debtors and used as leverage tools to control and manipulate debtor countries' economies. What debtors need urgently are conditionalities from below—that is from the debtors themselves.

- The creditors have so far demonstrated insensitivity to the needs of the debtors by insisting on debt repayments as a basis for fresh funding.

- Debt sustainability computed and understood purely in economic terms without recourse to the social needs of the debtor country is unwarranted and uncalled for.

- Debtors are not exiting the debt crisis because new loans are being used to service old loans thus moving in a vicious loan cycle.

- The international money and goods markets in terms of trade are dominated by the rich and powerful countries of the North who use their influence to dictate unfavourable terms to the poor countries of the South.

I. But Why Debt Cancellation? An Economic Answer

From the various creditor initiatives that have been tried out on an "experimental" basis in most HIPCs to cure debt crises, it is evident that none of them is a solution to the real problem of heavy indebtedness. The creditors' efforts aimed at dealing with the world's debt impasse all fall short of pragmatism as they try to cure economic failure in debtor countries without at the same time addressing policy failure on the part of creditors.

Krugman (1989) argued that debt reduction can raise economic efficiency in a heavily indebted country, and thus raise the debtor's real income, reducing the probability of default. A large debt overhang as the case is for Zambia, reduces economic efficiency in two ways. First, high debt service payments require high tax rates that discourage capital formation and the repatriation of flight capital; see Krugman (1989) and Sachs (1988). Second, the government is the main maker of debt service payments in most of the heavily indebted countries, and its payments figure in its budget. Thus they can prevent a devaluation from improving the trade balance, because a devaluation raises the domestic-currency cost of servicing foreign currency debt, increasing the budget deficit, raising the growth of money supply, and raising the inflation rate. Therefore, debtors in most cases resort to less efficient methods to produce the trade surpluses required to make the debt payments.

Thus it is clear simply on economic terms that debt cancellation is not only desirable but also essential for Zambia to make meaningful progress in human development.

From our analysis so far, it is evident that the burden of debt payments is contributing to profound economic crises and growing social instability in Zambia and the picture is not different from other heavily indebted countries. A wide range of analysts now concurs that the debt burden should be reduced, not only for the sake of debtors, but also for the sake of the creditors, who have an important long-run stake in allowing Zambia and other HIPCs to surmount the current debt crisis

J. Conclusion

This study has demonstrated that debt service payments in Zambia are an impediment to economic growth and sustainable human development. A continuation of debt payments without first addressing the social and economic needs of our people is an affront on our human rights and integrity and therefore must be resisted. The study further notes that the current creditor initiatives aimed at resolving the debt crisis in Zambia are inadequate as they only deal with the side effects and not the cause of debt. While debt service represents a huge budget component in terms of expenditure, yet it is doing very little to reduce the actual debt stock. It is like trying to draw out all the water from the ocean using a tablespoon!

It is now apparent that the governments of many LDCs will not repay their debts as initially contracted. While we hail the efforts by some creditors by granting partial cancellations to some selected countries of which Zambia is but one, we feel that more should be done by granting total cancellations while at the same time increasing grants. Zambia like other HIPCs does not need an ad hoc response to the debt impasse that has arisen between debtors and creditors. Pragmatic efforts should be taken to deal with debt in the most significant and humane way. International capital and financial markets should be reformed to include the social dimensions of all its activities.

The debt crisis that began in the 1970s and 1980s arose from serious defects in how international capital markets operate. The goal of any redesign of the institutions involved in these markets should be not only to resolve the current crisis, but also to keep it from happening again. In summary, achieving resource transfers from poor borrowers to their creditors has imposed serious hardships on the very poor people. Even if we were to set humanitarian concerns aside, full repayment is simply not feasible under any set of new policies.

The HIPC initiative should be delinked from macroeconomic reforms and in particular privatization of strategic industries (e.g. ZESCO). And user fees in health-care and education should be abolished as a matter of urgency. Presently user fees are acting as a major deterrent to medical care and school enrolment. It should be appreciated that debt service payments are an ongoing diversion of scarce resources away from development needs to creditors.

Jubilee-Zambia strongly urges the lender community to consider a total debt cancellation for Zambia. Short of this, the next best alternative would be to convert the existing debt stock into a grant. The Zambian government should be reminded to put the welfare of its citizens first before the needs of the creditors are met. But this would only be possible if the Zambian government adopts a "Debt Mechanism"—a system where all freed up resources from debt cancellation are put to good use in an open, transaparent and accountable manner. In addition the government should reform its institutions to make them service delivery oriented. Corruption in high government offices should not only be acknowledged through the Auditor General's annual reports but also made seriously punishable and this is possible if the investigative arms of the law are strengthened and delinked from the Executive wing.

As a campaign movement we are skeptical about high export growth rates projected by the IMF and World Bank that are supposed to act as a springboard for Zambia's economic recovery. Growth appears to have been unimpressively low in Zambia for reasons other than its high debts, and the argument does not seem to be made that reducing or restructuring its debts will increase growth much. In contrast, we are bound to argue that the debts of Zambia and other HIPCs impede growth, and that reducing debt service obligations will improve efficiency of overall resource allocations.

The response to the debt crisis in Zambia and elsewhere should be framed in terms of overall foreign aid objectives and policies. The argument for debt relief is primarily humanitarian, and debts can be restructured without interfering with private international capital markets. We are aware that there is a counter argument to debt relief which states that cancellation of debts will lead to a reduction of funds available to poorer countries. But is that really so? Evidence on the ground does not support this fallacious reasoning from proverbial 'Merchants of Venice' bent on collecting the last drop of blood from the debtor! Professor Jeffery Sachs of the Harvard University in his recent analyses argues that total debt cancellation at market rates is practically possible without disturbing the international resource envelope

Like Jonathan Eaton (1987) argued: "The rationale for debt relief is that debt contracts must be modified within the overall legal context in which international capital markets operate. In particular, any solution must address the ultimate distribution of the debt burden among the debtors, private creditors, and the public in creditor countries". Thus, any proposed solution raises practical questions about the structure of the North-South financial relations and the design of the institutions involved. As the world rapidly moves toward globalisation, humanity should never be allowed to be enslaved and chained by the yoke of debts!

K. RECOMMENDATIONS

In light of the findings of the study and challenges posed by debt servicing for Zambia, Jubilee-Zambia has come up with the following two sets of recommendations focusing at the international and national levels

International

1. **Need for human development in Zambia**: We call upon the international community - donors, development agencies and creditors to make human development their number one priority in Zambia. Debt servicing is a dangerous obstacle to human development, especially in terms of health and education. The failure by Zambia's creditors to define human development as the central objective is reflected in the manner in which they have handled Zambia's debt crisis. Forcing an impoverished country like Zambia to use its scarce resources to service debts rather than invest in the well being of the people is economically expensive and morally wrong.

2. **Debt cancellation**: Total cancellation of Zambia's external debt is the only solution to the current debt crisis. Creditors have been unacceptably slow in responding to this call. The creditors' past and current efforts are not adequately resolving the debt and poverty crises of Zambia. Yet these pervasive situations prevailing require urgent and effective responses – total debt cancellation is the only answer!

3. **No debt service payments until total debt cancellation**: The creditors must stop receiving debt service payments from the Zambian government. This concern stems from the fact that it is through debt servicing that the Government loses most of the available financial resources greatly needed for national development. The money saved from non-debt service payment could then be utilized to improve Zambia's education and health sectors.

4. **More grants and not loans**: Experience has shown that Zambia can no longer manage its debts. Zambia has been servicing debts at the expense of social and economic development. For these two main reasons, the creditors must no longer encourage the Zambian government to borrow. Instead, Zambia should be given more grants. This would enable the country to achieve more pro-poor outcomes, especially in health and education.

National

1. **Orientation to Human Needs:** The most immediate and important requirement for sustainable development in Zambia is a strong focus on human development. Government must prioritize the two fundamental concerns in the social sector, namely education and health. For some time now, Government has been paying little attention to the social needs of the people evidenced by the deplorable state of the health and education sectors in the country. Government must show genuine commitment to social development by allocating more public expenditures to health and education. These are some of the key services greatly desired by the poor in Zambia.

2. **Political Will for Debt Cancellation**: Political will is cardinal in building a national force to pressurise the creditors to cancel Zambia's debt. The Government leadership must be in the forefront of influencing the general populace to participate actively in the national struggle against international debt. Lack of significant Government concern on debt and its impact on the people has been a major shortcoming for the debt cancellation campaign in Zambia.

3. **Avoid further indebtedness**: Zambia is in a dangerous debt, financial and poverty situation. Zambia needs to break the spiral growth of indebtedness by becoming more responsible in the manner in which loans are contracted. Government must ensure that the loan contraction process is open for Members of Parliament to approve when, why and how much Zambia needs to borrow. The public must also be availed with adequate and timely information of the loans contracted by Government.

3. **Yes to Grants and No to Loans**: There will be no meaningful development and significant poverty reduction in Zambia if major economic and social activities will be financed through loans. Debt is already depriving Zambia of huge resources through debt servicing. For this reason, Government and the people of Zambia must work together in making this main message clear to the creditors -"***Yes to grants and no to loans***." Zambia needs to develop effective and well-organised lobby activities aimed at getting the creditors' support for this cause. With more grants than loans, Zambia will be given a chance to plan and function properly for national development.

4. **Debt Mechanism**: Today, one of the major tasks that Government has is to ensure that there is transparency and accountability in the use of public resources. For debt relief resources, it is important that Government accepts to establish a system that would assure proper use of debt relief resources for the benefit of the poor – the "***Debt Mechanism***." Civil society and Parliament must be involved in the management of these resources.

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