Muyatwa Sitali - JCTR Debt and Trade Project/ Jubilee-Zambia

Muyatwa talks to Monét Cooper of Jubilee USA about Zambia's challenges and triumphs, the links between Zambia's ties to the apartheid struggle, its independence and debt while also discussing the challenges faced by civil society and Parliament as they contend with China as the new lender.

What compelled you to become an activist?

In a society, where social and economic justice is a preserve of only a few, it is necessary that the call for this kind of justice is enhanced and sustained. I felt compelled to join the JCTR under the Jubilee-Zambia campaign so that I can add my voice to the need for an equitable progression of human development.

How has the debt issue affected you personally?

I once wrote that "the consequences of debt in Zambia can be likened to the HIV/AIDs pandemic because if you are not directly effected by the social malaise of high unsustainable debt, you definitely are affected by its consequences." This was because, Zambia's debt had been estimated to be over US$700 per person in 2004. From this understanding, I knew that as an individual even without a Job, I owed the rich governments as well as the rich institutions they fund like the IMF and World Bank more than US$700 and this would even rise if debt was not cancelled and the borrowing not controlled. I realized that the difficulties my relatives and many others were facing in scouting for my University fees while struggling to provide for their families were partly because of the high taxes they faced in the governments quest for resources to service the debt. As a citizen I felt betrayed that a country so rich in natural and human resources and making tremendous efforts to secure good health and education for its people, had to lose most of its gains through huge debt service. This power differential was to me an injustice to the progression of human development and a threat to the future of many including myself.

What is your take on the "vulture fund" issue, particularly in the wake of the recent court decision that required Zambia to send more than $15 million USD to Donegal International?

The notion that courts "interpret laws not morality" indeed prevailed at the cost of Zambia's tax payers. The G8 failed to curtail the activities of vulture funds and there is still a lot of room that with weak regulations to control vultures, their immoral activities of litigating against poor countries will be perpetuated. For Zambia, the loss of over US$15mn in unplanned circumstance is a huge blow to the ailing social sectors. We are aware that about 75 per cent of this money has already been paid back obviously from the revenue that comes from the tax payers. With the proportion of the employed labor force declining from 87 per cent to 84 percent from 1986 to 2005, the pressure to generate revenue through taxes is high on only 400 000 Zambians currently having jobs. Vulture funds are therefore an injury to human development and they will remain a scar for as long as Laws in the rich countries tolerate their "immoral activities".

What is the origin of Zambia's debt and what are the links between Zambia's debt and apartheid?

At independence in 1964, Zambia inherited a few assets and liabilities from the colonial regime. It inherited a vibrant mining sector, the largest industrial base in sub Sahara, but with only a handful (about 100) of University graduates, very limited infrastructure and a £97mn external debt. Zambia therefore began borrowing to cover the social economic requirements as well as protect itself from hostile colonial domination in Southern Africa especially the apartheid regime of South Africa. Therefore external debt began to grow from £97mn in 1964 to US$155mn the following year, to 1353 in 1975, US$7.1bn by 1991 a figure it only reached again in 2004 (see chart below) and currently (December 2006) estimated at K1.5bn after HIPC and MDRI relief. It is important to note that by 1999, of Zambia's US$6.5bn external debt, over 90 per cent was due to apartheid related causes.

Source: Created from Data in Banda, 2000

Zambia's rise in external debt is mainly on account of the following reasons:

1. Balance of payment problems of the 1970s due to falling Copper prices and rising oil prices. "Over US$ 840 million was amassed in the period between 1970 to 80 to offset this.

2. Zambia's solidarity with countries in liberation struggles such as Zimbabwe, South Africa, Angola, Namibia and Mozambique. This engagement in liberation struggles accounts for over 90 per cent of Zambia's debt in 1999 and it is referred to as apartheid debt.

3. The need to find alternative trade routes to answer to the dilemmas of a landlocked country surrounded by nine countries five of which were embattled in liberation struggles.

4. Zambia's self declared moratorium against austere conditionalities and policies of the IMF and instead opting for home grown policies under the theme "Growth from Own Resources" in1987 to 1989. During this time arrears and penalties amounted to over US$3bn while debt stock to GDP ratio rose to over 200 percent and the debt service to exports ratio rose to over 50 percent.

Zambia has borrowed from Multilateral, bilateral and commercial creditors. Multilateral Financial institutions like the World Bank, IMF and AfDB have been Zambia's major creditors accounting for over 50 per cent with 2006 figures being estimated at over half a billion US dollars.

What was Zambia's experience under HIPC?

Zambia entered the HIPC decision point in 2000 after having followed the prescriptions of the IMF and World Bank under the Enhanced Structural Adjustment Facility of the IMF. Zambia joined the HIPC programme with promises of abiding to the policy conditionalities stipulated in the HIPC Decision point document which highlighted the need for a Poverty reduction Strategy paper (PRSP) prepared in a participatory way and strict adherence to the Poverty Reduction and Growth Facility (PRGF) of the IMF. Where as the PRSP focused at implementing poverty reduction programmes, the PRGF included measures to privatise, some of governments strategic institutions like Zambia National Commercial Bank, Zambia Electricity Supply Corporation, Zambia telecommunications company and many others. Failure to meet either one of them would result in Zambia losing the anticipated benefits of the HIPC initiative. Therefore, the route to attaining completion of HIPC which would come with debt relief from bilateral creditors under the Paris club as well as the multilateral institutions was characterized by economic and social pitfalls. Zambia missed the HIPC completion point twice in 2003 and 2004. In 2003, Zambia slipped off the austere conditionality requirements because the government had accepted to negotiate a wage rise for a poorly motivated civil service whose earnings (US$60/month for teachers, nurses and police) were falling far below the JCTR Basket Needs Basket (US$208 in 2003) as well as the official poverty datum line. This wage rise led to government spending more on the public service than was actually planned and as a result of this slippage, Zambia was thrown off the PRGF of the IMF. Because, the IMF utilizes its strength to signal to other creditors and donors about countries which it deems good and those it deems unsatisfactory. Therefore, Zambia's budget deficit resulting from this development meant that Zambia had slid off the PRGF. This culminated into an aid freeze from the IMF and other donors such as the EU who withheld US$100mn and US38mn respectively. As soon as Zambia got back on track with the PRGF new pledges were made from the IMF--US$320.41 million, EU—Euro 100 million and the World Bank—US$100 million. During the actual time of implementing HIPC, Zambia continued to make huge debt service payments which show a sustained rise from US$138mn to US$178mn and US$227mn in 2002, 2003 and 2004 respectively. This was at the expense of social service delivery which was still receiving less budgetary allocations.

What have the impacts of conditionality of the IMF/World Bank been on Zambia?

Zambia is currently struggling with the insurmountable consequences of austere conditionalities during the economic crises of the 1980s-2000s. For Zambia, employment levels fell from 75 400 in 1991 to 43 320 in 1998 where as paid employment in the manufacturing sector fell from 140 000 to 83 000 in 2000 due to Structural Adjustment Programme (SAP) related conditionalities such as trade liberalization and privatisation. Under debt and economic liberalisation conditions, gains made after independence have slowed down or reversed. There has been a decline in the quality of life: Infant, Child, and Maternal mortality worsened - an indicator of an uncertain future for many people. Life expectancy declined from 54 years in 1990, to 40.5 years in the year 2000 – with 41 years for females and 39.9 years for males. The combination of impact on Zambia's people has led to a decline in Zambia's UNDP Human Development Index with Zambia ranking at Number 166 of 177 countries, in the year 2005.

The consequences of further restriction on government expenditures particularly to the social and economic sectors as opposed to debt servicing reveals a depressing picture. Zambia's Debt Service ratio has been high, with figures going to 25% of export earnings paid as annual debt repayment in the 1990s. This high debt service constrained social and economic spending especially in education and health. Servicing the 1985 total debts amounted to 86 per cent of all export earnings and left only 14 percent to be shared among the mining, manufacturing, and farming sectors. Little was made available for the social sectors of health, education, and child welfare. In 1995, total debt service was US1584 while total expenditures on social service delivery (that is Education, Health and Social Security combined) were US$163mn.

This historic grip of IFIs and poor economic performance described above has had a telling effect on social welfare for the average Zambian. According to the Living Conditions Monitoring Survey of 2004, 68 percent of the population are below the national poverty line, earning less than K111,747 (about US$30) per month, translating to around a dollar per day. This is in spite of the implementation of the PRSP and the positive growth trends during the last few years.

How has debt cancellation benefited Zambia?

Some immediate benefits were definitely related to **irrevocable debt Relief** which totaled US$3.8bn under HIPC and over US$2090mn under the MDRI. Consequently, **annual debt service was to fall** below US$150mn per year at least up to 2020. The country will be saving annually about US $180 million or K500 billion in debt service. This year (2007), foreign debt service will be US $33.9million against the pre-HIPC and pre-MDRI figure of US $373.2 million in 2004. The amount of US$33.9mn (K129.3billion) is 1.1 percent of the budget and when compared to K378 billion or 3.7 percent of the budget in 2006 is set aside for payment of external debt". These savings arising from the debt relief under both the HIPC Initiative and MDRI are expected to assist the country in its development efforts so as to reduce the current levels of poverty by 50 percent by 2015.

Additionally, there has been substantial **reduction in the overall stock of external debt**. "Preliminary information indicates that the country's external debt stock stood at US$1.5bn million as at end of December 2006, a reduction of 65 percent from the end of 2005 stock of US$4.5 billion." It is worthwhile to note that this on the other hand represents a rise of over 200 percent when considered along side the debt stock of US$502mn as at July, 2006.

What are the remaining challenges the country faces?

Zambia is currently facing four main challenges

First, there is a new generation of debt crisis which directly threatens the benefits of debt cancellation and stands in the way of attainment of the MDGs. This is clear in something Zambia is experiencing at just this moment – the impact of the Vulture Funds! Commercial debt creditors like Mr. Michael Sheehan and his Donegal international are preying off the benefits of debt relief from poor countries like Zambia that now find they must be paying huge amounts of money on old debts, even though most debts have been cancelled! Campaign efforts to shame Sheehan into withdrawing his vulture tactics probably won't bring about much change. But campaigns to get the G8, World Bank, the IMF and other major actors to prevent such harmful tactics must be stepped up. Otherwise the relief experienced by poor debtor countries will be short-lived!

Second, Zambia is going back into debt again, and at a very disturbing rate! Headlines in the local newspapers regularly tell us that "Zambia Lands Big Money," or "China Gives Zambia Many Millions." Well, this "big money" or "gifts" are often not coming by way of grants but by way of loans. Perhaps highly concessional loans – to be paid back over many years, with little interest. But they are still loans, going into the debt side of our national accounting ledgers. Between July 2006 to December 2006 external debt rose from US$502mn to US$1.5bn. Through the struggle and sacrifice of the HIPC era, Zambia dropped from a total debt of over 7 billion US dollars to around 500 million US dollars. But in the space of six months (July to December 2006), Zambia's debt stock grew by over 200 per cent, pushing us back beyond the one billion US dollar mark.

So campaign efforts are needed for two things: (1) demand for more grants and fewer loans, and (2) more openness about the quality and conditions of any new loans.

Third, clearly there is need for greater transparency in the use of resources freed up by debt cancellation. Going through the turmoils and trials of the HIPC arrangements – e.g., wage freezes, budget austerities, etc. – the Zambian citizens were promised better services in health and education because money would no longer be diverted to servicing debts. But we hear too much these days about wastage of resources through corruption by Controlling Officers – as revealed in the Auditor General's reports. Zambian citizens have every right to know what money has been pledged by reason of debt cancellation and whether or not it has actually been delivered.

Fourth, there is still no mechanism through which we can broaden citizens' involvement in the borrowing process. By that we mean that Parliament's participation is marginalised and most parliamentary debates have been limited to questioning transparency and accountability during utilisation of funds rather than examining usefulness and openness in the borrowing process. For several years, Jubilee-Zambia has campaigned for a constitutional requirement of parliamentary oversight of new loans by way of approval of contracts. Today the Minister of Finance and National Planning can sign for millions of UDS dollars of debt without consultation of Parliament. But the Mung'omba Draft Constitution contains explicit language requiring parliamentary consultation and approval of new loans. That is an important guarantee of fiscal responsibility that must be campaigned for. When some people ask whether a new Constitution will provide more food for people, we can point to clauses like this that will guarantee better allocation of resources to real needs of the people!

How is Jubilee Zambia working with parliamentarians to ensure greater responsibility in borrowing in the future?

The work of broadening the borrowing process as well as requiring transparency in the utilization of debt resources requires the engagement of the wider public which represented by their Members of Parliamentarians. As Jubilee-Zambia, we have engaged with Parliamentarians in public discussions under the popular programmes in provinces known as "Meet your MP". At the national level we have provided our parliamentarians with key information and recommendations regarding the need for a transparent and accountable debt contraction and utilization process. The campaign has also linked the Parliamentarians to key processes that aim for broader parliamentary oversight in World Bank and Government activities.

What are some strategies that would not only reduce poverty but also build wealth in Zambia?

Wealth creation in Zambia is key, however, better wealth creation includes the option for the poor who are actually the majority in Zambia. Therefore, poverty reducing strategies which will enable the poor to access resources not only for their basic needs but also for their long term capital needs is essential. This has to ensure the security for posterity. In this regard, Zambia has to create the necessary means for people to progress out of poverty through empowering tax regimes and job creation.

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