

JESUIT CENTRE FOR THEOLOGICAL REFLECTION
“Promoting Faith and Justice”

**REPORT ON THE WAY FORWARD WITH MEMBER OF
PARLIAMENT ON THE DEBT MANAGEMENT BILL**

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List of Abbreviations

AG	Attorney General
BoZ	Bank of Zambia
DAC	Debt Advisory Committee
DMB	Debt Management Bill
MoFNP	Ministry of Finance and National Planning
IMF	International Monetary Fund
SAP	Structural Adjustment Programmes.
HIPC	Highly Indebted Poor Countries
MDRI	Multilateral Debt Relief Initiatives
IDM U	Investment Debt Management Unit

BACKGROUND

Zambia's external debt crisis can be dated as far back as the early 1990's, and by end of 2004, the country had accumulated up to US\$ 7.1 billion.

One of the factors that led to the accumulation of this debt can be attributed to the domestic policy deficiencies and the administrative controls of its weak institutional policy and legal framework for prudent debt management.

However, through the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDR) initiatives, a huge part of Zambia's external debt was written off by its creditors. The debt that stood at US\$7.1 billion by end of 2005 was reduced to US\$635 million by end of 2006.

Realising the adverse impact of huge debt serving, and so as to ensure Zambia does not fall back into a debt trap, in 2007 the Jesuit Centre for Theological reflection (JCTR) undertook a research into the causes of the previous public debt stock. From that research, the JCTR came up with recommendations to Government in the form of the Debt Management Bill, a proposed legal framework to guide the processes of loan contraction in the future.

Subsequently, the Government of the Republic of Zambia indicated in the 2008 budget that "the Government would intensify efforts to consolidate the legal framework governing the contraction and management of debt". Government has also been discussing the formulation of the Debt Strategy which will strengthen loan contraction and debt management. In light of this development, the remaining task is to put in place a legal framework which should (i) establish and strengthen the consultative process for loan contraction, (ii) establish a semi-autonomous debt management office, (iii) make the debt management strategy regular and (iv) enhance parliamentary oversight.

Despite all these efforts and verbal commitments by Government, Zambia has not yet come up with a policy for prudent management of its resources to prevent it from falling back into a debt trap it was in before. It is with this great concern that JCTR is insistently advocating for the adoption of the Debt Management Bill that will enhance transparency in the management of resources and make the responsible authorities accountable for the effective and efficient management of public resources.

OBJECTIVE

The workshop was designed to provide a platform for interaction amongst the members of Parliament and the JCTR in order to map out ways that Parliamentarians would best influence the discussions both in Parliament and in the National Constitutional Conference (NCC) committees.

The forum was also designed to equip the members of parliament with adequate information so as to make them have a clear understanding of the debt trends as they lobby for the adoption of the Bill before Parliament.

Further, the workshop provided a forum for charting the way forward in establishing an effective strategy for the prudent management and accountability of Zambia's debt.

PRESENTATION ON ZAMBIA'S DEBT SITUATION- TINA NANYANGWE MOYO; COORDINATOR OF THE DEBT, TRADE AND AID PROGRAMME

Mrs Moyo began by stating that Zambia's external debt of US\$7.1 billion in 2004 was not only as a result of bad conditionalities, but also the weak legal and institutional policies in the country. Mrs Moyo observed that even when a huge part of Zambia's debt was cancelled through the HIPC and the MDRI, the country has not reformed the weak institutional policies that led to the huge debt accumulation before 2005.

She further added that despite the reduction in Zambia's external debt burden from US\$7.1 billion to US\$635 million, the country has not developed any legal institutional policies to manage its public debt to prevent it from falling back into a debt trap. Mrs Moyo noted that there were a lot of irregularities with the current legal framework of Zambia's public debt management.

She cited CAP 366 of the laws of Zambia which provides the Minister of Finance and National Planning with limits of raising amounts of loans and guaranteeing of loans both within and outside the country without Parliament necessarily approving them. Zambia's institutional arrangement of debt management is such that the administration of debt is under the Ministry of Finance and National Planning (MoFNP) and the Bank of Zambia (BoZ). The Ministry of Finance and National Planning (MoFNP) manages the external debt and is also charged with the responsibility of contracting debt and debt servicing as well as maintaining data on the local government entities and state enterprises, whereas the Bank of Zambia is charged with monitoring private loans and government securities.

Mrs Moyo challenged that there is need for the amendment of CAP 366 in order to maintain a high level of sustainability. She added that there is no way we should still be following the ancient law developed 20years ago in the developing economy.

She observed that Zambia currently has no proper institutional, legal, and policy framework to guide its debt procurement. Mrs Moyo charged that the framework lacks a monitory body to oversee debt management at the highest level as well as a central depository unit of the original loan agreements. She further added that the there is inadequate information flow and lack of a debt policy to guide the debt management which has left the process of public borrowing unguided.

Mrs Moyo called for the development of a comprehensive debt management strategy that will bring about legal, institutional and policy reforms for the maintenance of sustainable public debt and development of the economy.

She further said that there is also a lack of Parliamentary oversight. She said the recommendations made by the Public Finance Committee of the National Constitution Conference (NCC) are commendable but lack a comprehensive public debt policy (See Report of the Public Finance Committee).

Mrs Moyo proposed a Debt Management Law which contains the management of Debt issuance, and issues pertaining to debt guarantees and securities. The Debt Management Bill proposes a Debt Advisory Committee (DAC) appointed by the Cabinet. The DAC shall be composed of;

- Seven representatives from the ministry, among them, the minister of Finance as the chairperson.
- Three representatives from the Bank of Zambia including the Governor.
- Representatives from the Civil Society Organisations.

The Debt Advisory Committee will be charged with the status outlook of State Debt and revenue for future requirements.

Mrs Moyo called for a regular State Debt Management Strategy to be determined by the Ministry of Finance and National Planning. The strategy should also include citizen participation and should be approved by the council of ministers.

She also called for parliamentary oversight which will include among others;

- Parliament setting annual borrowing ceilings.
- Set broad terms and conditions for loan procurements
- Planning what loans to contract and the purpose of the loan.

The debt strategy will have information on the outstanding state debt and guarantees as well as the prepared 3 to 5 year plan of both external and domestic borrowing including the projections. The strategy also provides for the limitations of the amount of public domestic debt and the total aggregate domestic state debt that can be incurred as well as issuance.

The Debt Management Bill further outlines the terms and conditions of borrowing including capital investments, projections and expenditure. Mrs Moyo concluded by giving a comprehensive structure of a debt management strategy. She said that Parliament should be charged with the responsibility of approving the expenditure, revenue and the borrowing terms after the budget presentation by the finance minister.

The Debt Management Bill provides the Attorney General with the authority of setting borrowing conditions which must be approved by Cabinet. Thereafter the Attorney General will then issue a letter of confirmation after consultation with lenders stating that the agreement has been approved according to the Zambian Laws for the contraction of loans. Lenders should have the knowledge that the loan has been signed according to the terms and conditions outlined in the Constitution.

PLENARY SESSION

The plenary discussion was opened by honourable Jonas Shakafuswa giving a brief presentation on how the Ministry of Finance and National Planning is involved in the debt contraction process. He argued that the ministry has an Investment Debt Management unit (IDM) that keeps and analyses all the debt investment and keeps all the debt information. Mr Shakafuswa said that before a debt is accrued for any ministry, cabinet sends a memorandum that circulates in all the government ministries and includes the terms and purpose of contraction. Cabinet examines the contraction terms and states whether the contraction conditions are favourable and then sends the loan agreement to the Attorney General for approval. The Ministry of Finance and National Planning then sits with representatives from the Bank of Zambia to determine whether or not the borrowing purposes are in line with priorities.

On the contrary, honourable Eileen Mbuywana Imbwae argued saying there are several information gaps between the Government activities and the outcome. She added that Government lacks transparency and accountability in the management of the budget process. Mrs Imbwae said that there was need for government to work on a balanced budgetary process and move from a socialist budget to an activity based budget which, at the moment, was not reflected in the budgetary process.

She added that budget deductions and removals should not be made without making justifiable reasons or logic for the removal of items. But Mr Shakafuswa noted that an activity-based budget has to be approved and that Government should spend according to how much revenue is available. He said Zambia requires K45 trillion revenue which is about U\$9 billion for its productivity. But of the required revenue only 15% is spent on capital investment and the rest is spent on current expenditure. This Picture shows that Government has no major investment projects that can enhance infrastructure development and as such will continue to borrow for its sustainability. He added that the 20% to 25% increment in inflation poses a challenge of over stretching the economy. Mr Shakafuswa called for prudent management of resources adding that Parliamentary ceilings can contribute to an effective economy.

He said that budget planning must be within the confines of its revenue and that if Government must borrow, it should borrow for the right reasons. He challenged that activity-based budget is the only way forward for the prudent management of Zambia's debt.

Honourable Given Lubinda reiterated the need for responsible borrowing and lending. He said Government should establish policies that will ensure responsible borrowing so as to prevent the country from falling back into a debt trap. He said that people should not only be concerned about spending but also about the revenue of the resources. He added that Members of Parliament have little understanding and very little knowledge on the budget and as such are ignorant about the revenue and only concerned with spending.

Mr. Lubinda said Government should come up with a policy that will require Parliament to approve single loan on an annual basis outlining the terms and conditions and should be in line with infrastructure development for the benefit of the majority of Zambians.

And Mr Shakafuswa argued that Zambia should refrain from rushing to contract loans as it has the capability of sourcing its money domestically. He said that other countries are rushing to give out loans because they want to realise huge interests from the process. He cited the exploitations involved when contracting loans from countries such as China. He explained that Chinese loans have interest ranging between 2% and 3% and involve a 3% signing fee. He added that by the time the whole process is over, interest would have risen higher than expected.

Participants to the meeting agreed that Parliamentary oversight is necessary in considering the terms and conditions of the loan if the loans are to benefit all Zambians. They argued that to say "that Zambia has no revenue is a fallacy" because the country realises a lot of revenues from within and as such should refrain from resorting to borrowing. The members pointed out that borrowing should only be done for long term projects such as infrastructure development programmes, constructions of hospitals, roads, et cetera.

The Members of Parliament also brought out the issue of uncontrolled physical management of funds and lack of a monetary policy to guide borrowing terms. The members bemoaned the laissez faire attitude and ignorance of the Bank of Zambia and the Ministry of Finance and National Planning in addressing issues relating to debt at the national level. The members said that there is need for the supplementary budget to be approved by Parliament.

RECOMMENDATIONS FROM THE MEMBERS OF PARLIAMENT

The following recommendations were made amongst the MPs:

1. The MPs resolved that there is need for a bottom-up approach in the budget process for effective human development. Participation in the budgetary process should start from the council level, district and provincial levels at the government ministry.

They also called for transparency in the spending process adding that resources must be matched with government expenditure.

2. The MPs called for constructive engagement between Parliamentary committees and the responsible committees as well as other stakeholders, sector by sector.

3 Government should not borrow loans that exceed 2% interest and that borrowing should be done for the continuity of Government established projects and policies.

4. If Government must borrow, its borrowing priorities must be in line with the vision 2030 plan and the fifth National Development Plan.

5. The MPs challenged Government to engage in responsible borrowing and prudent management of resources for multiplier investment which would add to national development.

6. The MPs appealed for the amendment of CAP 366 of the laws of Zambia in order to include concrete measures of debt management strategies for an effective debt free economy.

7. The MPs charged that there is need for a parliamentary oversight of all the loans which Government intends to contract and that borrowing must be for infrastructure development.

8. It was also agreed that Government should increase funds for capital projects and investment instead of the 15% it spends on such important projects.

9. The MPs also urged Government to be transparent with its processes and keep track of all its activities.

10. It was also suggested that activity-based budget is the only way forward for the prudent management of Zambia's debt.

The Members of Parliament welcomed the establishment of a Debt Advisory Committee and the debt management strategy outlined by Mrs. Moyo. Members also suggested that there is need to make corporate power accountable for its actions. They added that sustainable debt

management can be enhanced through a transparent and accountable budgetary process that will involve full participation of all members.

CONCLUSION

The Members of Parliament pledged to support and lobby for the adoption of the Debt Management Bill before parliament, particularly through the deliberations in the NCC.