

THE MEANING OF THE HIPC COMPLETION POINT TO ZAMBIA IS IT WORTHWHILE??

Jubilee-Zambia would like to take this opportunity to share with you, Honourable Members of Parliament, our views on the real meaning of the HIPC Completion Point to Zambia. We begin by expressing our emphasis that the relevance of the HIPC Initiative to Zambia must be seen within the context that there is a big difference between “sustainable debt” and “sustainable development.” Zambia needs sustainable development, which takes into account the issue of debt sustainability. The key question remains: Was the HIPC Initiative worthwhile?

1. BRIEF BACKGROUND

The Heavily Indebted Poor Countries Initiative (HIPC) was initially introduced by the international creditor community in 1996 and was “enhanced” in 1999. The IMF and World Bank assumed the role of “gate keepers” in this initiative- to ensure that this initiative was to be accompanied by “sound” macro-economic policy. According to these institutions, the HIPC initiative was primarily designed to:

- Provide poor countries with a “robust exit” from the debt overhang. The aim was to bring the huge debt stocks of these countries to sustainable levels (to a situation where a country would not default payments – have no problems to pay back when debts fell due).
- Provide funds in form of debt relief (reduction in debt service payment) to finance poverty reduction programmes in these poor countries.

As expected, the solution to poor countries’ debt and poverty crises lay in promoting economic growth, which would be created through promotion of export – oriented economies.

Since the year 2000, Zambia’s main avenue of reducing its debt has been through the enhanced HIPC initiative. Zambia “qualified” to this initiative in December 2000. This was three years after successfully implementing IMF and World Bank led structural and monetary reforms. Zambia was “awarded” a total debt package of US\$3.8b. This relief was going to be fully met by the creditors after reaching the HIPC Completion Point. Zambia has struggled for the past 5 years to reach the HIPC Completion Point, which we attained recently.

2. THE RESPONSE OF JUBILEE (OUR POSITION)

As part of the Jubilee movement 2000, Jubilee-Zambia has always argued that the HIPC initiative 1 and 2 were not the right solutions to Zambia’s debt and poverty problems. Instead we have continued to call for total debt cancellation for poverty reduction in Zambia.

WHY?

Based on the main premise that the HIPC Initiative was a creditor’s initiative primarily designed to ensure that poor countries such as Zambia met their debt service obligations without default when due, the Jubilee movement observed the following:

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- The HIPC initiative was based on a narrow premise of economic growth as a means of reducing poverty. Yes, economic growth is important but it is not sufficient – We must ask the questions: Who participates in the growth and who benefits?
- The HIPC debt sustainability criteria was primarily based on exports – what about human development needs and government revenues, current investment policy of Zambia and unfair international trade systems, poor prices etc?
- The HIPC initiative was a creditors' initiative to assure debt repayment – not resolving the debt trap that poor countries found themselves – colonialism, neo-colonialism, corruption and poor economic policy etc.
- The HIPC initiative was closely linked to the continuation of the Structural Adjustment Programme – “conditionality” that has social consequences.

It was upon these observations that the Jubilee Movement worldwide has continued to promote a vigorous campaign for total debt cancellation!

3. THE HIPC BENCHMARKS

The following are the Conditionality/Benchmarks to Zambia's attainment of the HIPC Completion Point:

Poverty Reduction	<ul style="list-style-type: none">-Adoption of the PRSP-Presentation of the 1ST PRSP Annual Progress Report-Improvement of Poverty database-Improvement of Poverty Monitoring Capacity
Education Sector	<ul style="list-style-type: none">-Education Sector Reform-Increase share of education in the discretionary budget (23%)-Increase the annual growth rate of enrolment in primary schools-Establishing education boards at the district level to foster decentralisation-Restructuring the pay and benefits of teachers to encourage -- location in rural areas-Output indicators for a programme of rehabilitation of substandard school structures-Increase the book to pupil ratio in primary schools-Reform the basic curriculum to improve literacy, numeracy and Communication skills
Health Sector	<ul style="list-style-type: none">-Adoption of a strategic framework for HIV/AIDS-Implementation of the strategic framework for HIV/AIDS-Implementation and scaling-up of the Action Plan for Malaria-Progress in Health Sector Reforms-Adoption of comprehensive guidelines and procedures for procurement of drugs-Increase the share of health expenditures in the Budget-Progress in rehabilitation of substandard rural and urban health centres
Water Sub Sector	<ul style="list-style-type: none">-Rehabilitation of deteriorated urban water supply systems
Macroeconomic	<ul style="list-style-type: none">-stay current on debt service to foreign creditors-Finalise the privatisation of ZESCO and ZANACO

- Continue with the Targets of the PRGF

A Comment on the Conditions: Even though these seem to be comprehensive on paper, much of the international focus was more on the macroeconomic and PRGF issues than meeting the social and poverty related conditions – one asks: are some conditions more important than others? The implementation of some macroeconomic economic conditionality have had a negative impact on the fight against poverty : Who set the priorities and why?

4. FROM DECISION TO COMPLETION POINT – Adherence!

This period was significantly marked with the continuation of the Structural Adjustment Reforms. We are all familiar with the benefits and the huge problems associated with this programme. The key benefit was debt relief - the “carrot” attached to adherence to the conditionality mentioned. Zambia missed the HIPC Completion Point in December 2003 because we had overspent in terms of the Government expenditures. Ordinary Zambians and civil servants were asked to “sacrifice” in order for the country to reach the HIPC Completion Point! There was very little emphasis on the need to meet the “conditionality” on social sector conditions. It is now time to ask this question – was it worthwhile?

5. THE HIPC COMPLETION POINT – *Expectations met?*

THE BENEFITS

a. **Irrevocable Debt Relief:** The total package of “debt relief” to Zambia is US\$3.8b. Zambia started receiving this relief in January 2001. The relief that came to Zambia between the Decision Point and the Completion Point was known as “interim” relief. These funds were primarily for poverty reduction purposes. Therefore, we saw an increase in the national budget allocations to poverty reduction areas. Some programmes embarked upon were schools and health infrastructure rehabilitation, bridges and roads rehabilitation. After the HIPC Completion Point, it is expected that Zambia will receive an average of US\$135m as debt relief per year.

b. **Reduced External Debt Servicing Levels:** Zambia would have been servicing debts in amounts of US\$450m to 650m per year if it did not qualify for HIPC. There has been a reduction in the levels of debt servicing – US\$100m – US\$150m on average. Clearly this is a breathing space! Would we have afforded to pay extremely high servicing?

c. **Reduction in Total Debt Stock:** It is expected that there will be a minimal reduction in the total debt stock, though not immediately. But if this reduction is taken with the overall reduction in debt service, it does give Zambia some breathing space.

d. **Greater Focus on Poverty:** As outlined in the conditionality, we have seen greater focus of the international community in the issue of poverty. The PRSP and stronger focus on social sectors has facilitated national and international debates on the issue of poverty in Zambia

THE CHALLENGES

a) **Reduction in Total Debt Stock:** It might not come automatically for the following reasons. We are aware that Zambia has continued to borrow outside the HIPC initiative arrangement. This might mean a short-lived reduction in the debt stock and compared to the development challenges before Zambia, Government might be forced to borrow more. We must look at the issue of the rise in the cost of imports vs. our exports' earning real income. This is what has forced Uganda to go into unsustainable levels of debt 4 times after reaching the HIPC Completion Point.

We must also be aware that most of the debt relief to Zambia after the HIPC Completion Point will be in form of reduced debt servicing and not a reduction on the total debt stock. Poor terms of trade at international level will also continue to force our Government to borrow more in order to finance the budget deficit. Therefore, we must not expect any significant changes on the actual debt stock of Zambia. This means that the debt burden is still with us. It is now more urgent than ever for us to vehemently campaign for total debt cancellation.

b) **Reduction in External Debt Servicing Levels:** The continuation of debt service payments after HIPC shows that the country will still need to put a certain amount of resources aside to meet this obligation. Zambia will have to put aside an average of US\$100m – US\$150m every year as debt service! At the current rate of economic growth, incomes from exports and the development challenges of HIV/AIDS and poverty in general, this will rob Zambia of resources that would otherwise be used for critical national needs.

c) **Debt Relief Resources:** The use of debt relief resources in Zambia leaves a lot to be desired. As you know, cases of misuse and mismanagement of previous HIPC relief resources were common. So what measures have we put in place to ensure that we do not repeat this problem. Misuse of relief resources is not just an issue of theft, but is a dent on economic governance and a draw back for the debt cancellation campaigners. The US\$3.89b HIPC debt relief will not come all at once. This relief has been spread over a period of 22 years from the year of the Decision Point – 2000.

d) **Debt Sustainability:** It important to note that debt sustainability for Zambia was primarily based on exports than on our government revenues, poverty or HIV/AIDS challenge faced by Zambia. The export criterion is rather misplaced because Zambia's economy largely depends on foreign investors who have the right to repatriate 100% of their profits! This money is not re-invested in the economy. The big question is: What does Zambia need most – debt sustainability or development sustainability.

e) **Conditionality:** The package of conditionality must be revisited and reviewed. For a long time now, the international community has continued to impose policies – especially on the economic and social sectors that actually erode the whole fight for debt sustainability in Zambia. We are not against structural and economic reform but Zambians need to decide and participate in how the reforms are implemented to reflect the real interest of the nation. We know that the policies of liberalisation and privatisation have benefited the external world at the expense of majority Zambians.

6. THE SUSTAINABILITY OF DEBT SITUATION AFTER HIPC

a) It will be impossible to maintain sustainability of Zambia's debts especially if the following issues are ignored

- **The social challenges faced by the country:** We need to find lasting solutions to the pandemics of HIV/AIDS and poverty. Failure to combat these problems will result in major losses of human resource – a pre-requisite and key ingredient for sustainable development. Zambia needs huge amounts of funds to overcome these problems. Poor productivity might lead to more external borrowing by government.
- **Poor external trade:** Zambia's external trade portfolio needs to improve on the regional and international market levels. Low prices and unfavourable terms of trade have often resulted in more external borrowing.
- **Lack of quality national leadership:** The aim to resolve Zambia's current financial problems can only be achieved if the technical and political leadership are committed to implementing policies that promote accountability, participation and transparency in the use of public resources. Therefore, it is important to put effective budgetary and external loan contraction regulatory frameworks in place.
- **Lack of motivated and well skilled technocrats:** A well-trained and motivated technocratic system is important in the fight against external debts. We must ensure that those who are in charge of representing this country before external agents are well informed and committed to the development of this country. They must have the skills to critically analyse the implications of the agreements offered to Zambia.

b) It will be possible to maintain sustainability of Zambia's debts especially under the following conditions:

- We put an effective budget and loan and debt management system supported by Constitutional provisions
- We implement a more development-oriented policy framework – trade and investment
- We improve our levels of fiscal discipline and truly fight corruption in all forms
- We share and disseminate important information on economic and financial issues affecting the development of Zambians
- We challenge political commitment to the fight against external indebtedness across all political parties.

8. WAY FORWARD – WHAT CAN WE DO?

a) **Lessons to be remembered:**

1. **To the International Community: Four Major lessons:**

- Design, develop and implement development initiatives that are based on the realistic economic, political and cultural situations found in poor countries.
- More importantly, practice real partnership and partnership ethics in development – which calls for the involvement of the voices of poor countries in the design, implementation and evaluation of development initiatives. This is the hallmark of good governance and democracy.

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Specifically in relation to the issue of debt, two key issues –

- Partial cancellations will never lead to sustainable debt levels for countries with high poverty levels, poor terms of trade and poor investment policies.
- Solutions to the debt crises in poor countries must go beyond economic growth calculations to include the social challenges that poor countries face.

2. To the Government of Zambia: Four major ones, lessons:

- Importance of putting in place an effective loan and debt management system that will avoid “a 4th” HIPC for Zambia.
- Need to critically analyse and negotiate the conditions attached to the loans acquired.
- Involve the public, especially organised civil society and institutions such as Parliament and academia in lobbying and negotiating for fair conditions of borrowing.
- Provide correct and timely information to the public, civil society and other stakeholders to facilitate effective national debates and discussions around issues of debt and conditions. This will help create the realistic picture of challenges faced by Government, as a representative of the country to the outside world.

3. To the People of Zambia

- We must develop an alert and politically active attitude towards issues of financial and economic development in Zambia.
- We must demand access to information pertaining to our Government’s agreements with the international community. We must analyse this information – from the angle of asking the relevance and implications of these agreements on our development.
- We need to join in the campaign and processes that aim to promote fair and effective development programmes for this country.

b) Recommendations

1. Demand for the establishment of an effective Loan and Debt Management System - The system must be anchored on the following

- Policies that will promote accountability, transparency and public participation. The system must make a constitutional provision for Parliamentary consensus to review any new loans.
- Timely provision and accessibility to information on loans and conditionality attached to these loans. Local communities and civil society must be provided with adequate information on the loans contracted in order for them to monitor and evaluate the utilisation of these resources.
- Institutionalisation of independent monitoring and evaluation systems on the utilisation of borrowed resources. For example, the independent HIPC Expenditure Monitoring Team should be re-instituted.

2. Call for the development of long term strategies on fiscal discipline – That must result into a framework with solutions to the following questions

- How can we ensure that we do not fall into deeper debts?
- How can we ensure that public resources are properly utilised?
- How can we ensure that debt relief translates into better living conditions for the poor people?

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3. Develop and practice stronger political and government will - That will be evidenced by the following:

- Set priorities correctly
- Strengthen negotiating skills with the International Community
- Implement both short and long term strategies against economic and political corruption

4. Encourage and support greater public alertness - The people of Zambia must develop greater interest in policy and development issues especially those focusing on the economic development and the role of international financial institutions such as the World Bank, IMF, and European Union etc. The following are key in developing this interest:

- Role of Civil Society - Must enhance their economic literacy programmes especially amongst the local communities. This knowledge must be disseminated in simple but properly analysed forms that will enable these groups to take the right action.
- Action Oriented Public - We must begin to look for sustainable ways of cultivating stronger and politically sensitised communities that will effectively participate in national discussions and debates on the economic and financial issues affecting Zambia.

For further information, contact

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