

SOCIAL AND ECONOMIC IMPLICATIONS OF HIPC IN ZAMBIA

CONTEXTUALISATION

As Zambia moves towards its general elections and as the Group of Eight (G-8) move towards their Annual Summit in Genoa, Italy, Jubilee Zambia hosted by the Jesuit Centre for Theological Reflection (JCTR) and OXFAM-Zambia commissioned a research aimed at bringing more people to the true knowledge about Zambia's debt relief prospects and flaws. The purpose is to help Zambians get involved in decision-making processes here at home while urging the international community to continue to work for total debt cancellation.

Generally speaking, Zambia holds great potential for prosperity. The country has vast resources -- minerals, arable land, rivers, lakes and so on. Yet, the majority of its people live in deplorable conditions. Over 80 percent of its 10 million people live in abject poverty and thus Zambia is classified as a Highly Indebted Poor Country (HIPC), an indication of the deep social and economic crisis.

Key to the worsening poverty levels is the nation's huge external debt. The external debt stock currently stands at US \$6.3 billion (December 2000), while debt service has been averaging about US\$150 to 170 million per year for the past five years. External debt has been a major contributor to worsening poverty levels. Every year huge sums of money are spent on paying interest on debt (debt servicing), while key sectors of the social expenditures such as health and education are denied adequate resources.

Despite servicing debt every year, the total debt amount has kept growing, with discouraging signs as to whether or not it will ever substantially decline and eventually diminish. Exports, the major source of foreign exchange, have been declining over years due to poor performance of copper, the economy's mainstay. As a result, the nation has largely depended on external funding in order to pay its debts. Thus, the debt keeps ballooning.

Is Zambia ever going to end this debt crisis? For many Zambians and for their friends outside, the apparent answer is no!

Jubilee-Zambia (formerly Jubilee 2000-Zambia) realised that Zambia's debt had become huge and a major hindrance to economic and social development. The focus of our movement has been to campaign for *total debt cancellation* as opposed to *partial relief*. With the delay of this morally demanded and economically sensible approach of debt cancellation, the movement has at least been active in trying to secure a fairly "favourable" debt relief package under HIPC.

In December 2000, just before it would enter a period of extremely high debt repayment, Zambia qualified for debt relief. It was a qualification to the Highly Indebted Poor Countries (HIPC) initiative, a programme begun by the World Bank and the International Monetary Fund (IMF). News about this qualification has been greeted by mixed reactions. Government, IMF and World Bank were very happy, while civil society has expressed serious reservations.

On one hand, government was cheered by the development because enhanced HIPC seemed to offer significant debt service reduction in the face of an expected ballooning of debt servicing from 2001 onwards. Being the owners of the Initiative, the IMF and World Bank argued strongly that Zambia's qualification was going to lead to a more debt

sustainable environment. But, asked why all of Zambia's debt could not be *cancelled totally* under the initiative, the International Financial Institutions argued that if that were to happen then Zambia could not access future loans.

But on the other hand, civil society argued that under HIPC some debt relief might be going to accrue to the nation but it was woefully inadequate. We were quick to point out that the relief was not going to end Zambia's debt crisis nor was it going to contribute positively, in a significant way, to *poverty eradication*.

Benefits from the debt relief proposed by HIPC still remain a *mystery*, indeed a *myth*. In the last six months, different sources – IMF and World Bank, government, and our partners here and outside Zambia -- have given us different figures as expected debt stock reductions and expected debt servicing in the future. Moreover, we do not know how much actual savings in cash will be realised in the process, when it would come, how it would be allocated, how its disbursement would be monitored, etc.

Zambia being a democratic nation, we feel that *economic governance* will be enhanced, a condition desired by both Zambian citizens and our international partners, if information on such an important topic as HIPC is not considered as "a best kept secret." Besides, if Zambia's qualification is to benefit ordinary citizens, there is need for the people to know and participate fully in the process. But how do the people participate if information is not made available and government is not ready to involve them?

Therefore, our reason of conducting this research is aimed at coming up with verifiable information that should be made widely available to ordinary citizens in order to enhance advocacy for people's involvement in HIPC. In more detail, the study is expected to answer questions such as:

- Will HIPC debt relief really benefit Zambians?
- Who will benefit and how?
- When will the benefits come?
- How will the benefits be spread?
- How will the whole process be monitored?

To facilitate answers to these critical questions, Jubilee-Zambia, hosted by the Jesuit Centre for Theological Reflection, and OXFAM-Zambia undertook this study on the "Social and Economic Implications of HIPC in Zambia." Following the extensive "Technical Report," we draw specific conclusions and make concrete recommendations.

Our hope is that this Report will not be simply another study, gathering dust on shelves, but an effective and challenging tool for advocacy for justice, for *cancellation of debt for eradication of poverty*.

SOCIAL AND ECONOMIC IMPLICATIONS OF HIPC IN ZAMBIA

TECHNICAL REPORT¹

1. INTRODUCTION

In September 1996, the International Monetary Fund (IMF) and the World Bank launched the highly Indebted Poor Countries (HIPC) Initiative as the first comprehensive effort to eliminate unsustainable debt in the world's poorest, most heavily indebted countries. HIPC is called an *initiative* because in traditional forms, debt relief was only delivered by bilateral co-operating partners through the Paris Club. Under these traditional forms, relief was received to levels of 67 per cent. No relief came from multilateral co-operating partners. More complete debt relief therefore necessitated the conceiving of the HIPC initiative, where maximum debt relief of up to 90% was to be delivered by both multilateral lenders as well as bilateral and commercial creditors.

In October 1999, the international community responded to critiques of the original plan and agreed to make the initiative *broader, deeper and faster*. This was done by increasing the number of eligible countries, raising the amount of debt relief each eligible country would receive, and speeding up delivery. The enhanced initiative aims at reducing *the net present value* (NPV)² of debt at decision point to a maximum of 150% of exports and 250% of government revenue. Other bilateral creditors will provide this on top of traditional debt mechanisms (Paris Club) debt rescheduling on Naples terms, involving 67% debt reduction on NPV terms and at least comparable action.

Eligible countries will qualify for HIPC debt relief in two stages. In the first stage, the debtor country will need to demonstrate the capacity to use prudently the assistance granted by establishing a satisfactory track record, normally of three years, under IMF and International Development Association (IDA) supported programmes. In the second stage, after reaching the decision point under the initiative, the country will implement a full-fledged poverty reduction strategy, preparing a Poverty Reduction Strategy Paper (PRSP) with wide

¹ The Technical Report was prepared primarily by Francis Mangani, an Economist based at the University of Zambia. Information has been taken primarily from GRZ and UN resources.

² The face value of the external debt stock is not a good measure of a country's debt burden if a significant part of the debt is obtained on interest rate lower than the market interest rate. The Net Present Value (NPV) of debt is the sum of all future debt service obligations (interest plus principal) discounted at the market interest rate.

participation of civil society. Moreover, it will also implement an agreed set of measures aimed at enhancing economic growth.

During this stage, the IMF and IDA grant interim relief, provided the country stays on track with its IMF and IDA supported programme. In addition, Paris Club creditors, and possibly others, are expected to grant debt relief on highly concessional terms. At the end of the second stage, when the floating completion point has been reached, the IMF and IDA will provide the remainder of the committed debt relief, while Paris Club creditors will enter into a highly concessional stock-of-debt operation with the country involved. Other multilateral and bilateral creditors will need to contribute to the debt relief on comparable terms.

It is important to note at this point that the HIPC initiative aims at the objective of “debt sustainability” in narrow *economic* terms. This means only to reach a level of debt servicing that can be economically sustained in terms of percentages of exports and government revenue. No consideration is given to *social* sustainability, or the government’s ability to meet basic social services for its people and address serious poverty concerns. Nor does the HIPC approach aim at any eventual *cancellation* of the total debt stock.

2. ZAMBIA'S DEBT SITUATION

Zambia is today classified as one of the severely indebted countries along with 40 other countries. The country's current debt crisis originates from the 1970's with the large debt overhang emerging in the 1980's when economic performance started to deteriorate rapidly and the balance of payments continued to worsen.

In 1984 Zambia entered into an initial Structural Adjustment Programme under arrangements with the World Bank and the IMF. But the situation of debt was considerably worsened when Zambia stopped the stabilisation programme in 1987 and cut off relations with IMF. External financing by donors was suspended as a result.

The stock of debt has grown overtime since the early 1970's. In 1980 Zambia's total external debt was US \$3,261 million. By 1987, it had more than doubled to US \$ 6,649 million. Zambia resumed relations with the IMF in June, 1989, with debt stock then at US \$6,729. By the time the new government took over in 1991, Zambia's external debt was US \$7,336

million. This increase in the debt stock overtime has mainly been as a result of increased borrowing from the multilateral creditors.

According to the GRZ *Economic Report 2000*, it is indicated that the total stock of external debt decreased by 3.1 percent from US\$ 6,507.3 million as at end December 1999 to US\$ 6,310.5 million as at end December 2000. The drop in the stock of outstanding external debt was largely attributed to debt service payments to Paris Club and multilateral creditors and debt cancellations from the Paris Club and some Non-Paris Club creditors.

An analysis of the end December 2000 stock of debt disbursed and outstanding (DOD), as shown in the table below, reveals that the bulk of Zambia's external debt was owed to the multilateral institutions. This amounted to approximately US\$ 3,446.82 million, representing about 55 percent of the total debt stock. Bilateral creditors were owed a total of US\$ 2,390.20 million, or 38 percent of the total stock, of which about 90 percent was to the Paris Club creditors. Private and parastatal debt³ amounted to US\$ 473.5 million, or 8 percent of total stock.

TABLE 1
ZAMBIA'S EXTERNAL DEBT STOCK (US\$ MILLIONS)

	1997	1998	1999	2000 *	% Variance between 1999 & 2000	% Share of Total Debt
Bilateral	3,296.90	3,477.80	2,676.40	2,390.20	11.97	37.88
<i>of which</i>						
Paris Club	2,816.50	2,998.50	2,405.00	2,131.40	12.84	33.78
Non-Paris Club	480.40	479.30	271.40	258.80	4.87	4.10
Multilateral	3,152.40	3,172.70	3,375.10	3,446.82	(2.08)	54.62
<i>of which</i>						
ADB/ADF	327.00	257.00	320.70	316.66	1.28	5.02
World Bank	1,450.20	1,547.60	1,668.30	1,736.43	(3.92)	27.52
IMF	1,205.50	1,205.20	1,219.20	1,245.40	(2.10)	19.74
Others	169.70	162.90	166.90	148.33	12.52	2.35
Total	6,449.30	6,650.50	6,051.50	5,837.02	3.67	92.50
Government Debt						
Private & Parastatals	303.30	278.20	455.90	473.49	(3.71)	7.50
Total Stock of External Debt	6,752.60	6,928.70	6,507.40	6,310.51	3.12	100.00

Source: Ministry of Finance and Economic Development and Bank of Zambia

*Note: The figures for 2000 are preliminary and likely to change due to on-going reconciliation with creditors.

³ External debt owed by private firms and parastatals but guaranteed by government.

Total external Government debt amounted to US \$5,837.02 million, representing a drop of 4 percent from US\$ 6,051.5 million as at end December 1999, explained, as mentioned earlier, by some debt cancellations and other factors. However, there was an increase in private and parastatal debt largely due to higher new loan disbursements.

The debt burden has continued to hinder growth prospects and hurt improved standards of living for the people of Zambia. When Zambia broke its relationship with the IMF in May 1987, external aid was cut. When it resumed relationships in June 1989, it faced serious penalties by the IMF that would have to be addressed in the next few years. As a result, debt stock to Gross Domestic Product ratio rose to over 200 percent while the debt service to exports ratio rose to over 50 percent in the early 1990's.

By 1999 the debt stock had risen to as high as US \$ 7.1 billion. This enormous burden of debt, which has remained very high, has been absorbing a significant share of resources meant for critical development programmes. In 1994, for instance, debt service as a ratio of the Zambia's export earnings amounted to 35 percent. Recent trends do not show much difference. Considering the 2000 national budget, 93% of the K850 billion allocated to constitutional and statutory line items was earmarked for debt reduction and servicing. If we subtract personal emoluments and statutory expenditure allocation, we see that 55% of the budget is what went to the social and economic sectors. A consequence of this type of debt pressure is the very limited economic and social progress observed.

Consequences

This debt burden has both social and economic implications for the people of Zambia. Investment is constrained by high levels of debt while social spending on education and health in particular is limited.

The size of Zambia's debt and the effort to repay it are influenced by changes in interest rates, exchange rates, terms of trade and other similar factors. Furthermore, a heavily indebted country like Zambia has limited access to private international capital markets and, hence, has problems in obtaining credit for investment because of credit unworthiness. This affects growth in the economy and falling social and economic indicators as the result.

Changes in interest rates and exchange rates have affected the size of the debt stock. Rising interest rates for example, mean the total amount owed (principal plus interest rate) going up as a result. The effects of high interest rates and the large stock of Treasury Bills are also felt in the domestic debt service, which is sizeable. Therefore, the country's capacity to repay the debt has been falling overtime.

However, even if Zambia had the *capacity* to repay the debt, which it does not, all the country's resources would have to be diverted to this immense task of repaying the debt. No resources would be left for capital investment that brings growth in the economy and consequently a reduction in poverty. Nor would any resources be left for improving the delivery of social services.

The major question that arises at this point is: *Will the HIPC initiative prove beneficial to Zambia as far as reducing significantly the debt burden to create prospects for growth and social investment is concerned?*

TABLE 2
ANNUAL DEBT SERVICE PAYMENTS FOR 2000-2015

Year	Annual total before HIPC (US\$ million)	Annual total after HIPC US\$ million)
2000	193	169
2001	436	158
2002	429	148
2003	434	151
2004	434	211
2005	434	302
2006	214	96
2007	241	121
2008	246	130
2009	257	137
2010	256	135
2011	267	139
2012	256	121
2013	245	101
2014	251	101
2015	267	109
2015	267	109

Source: IMF Country Reports, 2001 Budget Speech.

It is becoming clear that despite the relief Zambia might get under the HIPC initiative, estimated by the IMF at between US \$2.5 billion to US \$3.2 billion, its debt, even after HIPC has been applied, will still remain very high. Table 2 above shows the debt service payments before and after the HIPC initiative has been applied. As is obvious, debt servicing for Zambia will still remain more than US\$ 100 million.

Given this scenario, we can see that the problem of debt in Zambia is a profoundly serious one. This debt burden has had a negative impact on the Zambian economy. The debt problem partly explains the decline in both social and economic indicators since the 1980s. The current debt burden is clearly *unsustainable*. *Therefore, for Zambia to recover economically we need a deeper relief or total cancellation of debt.*

Equally essential are more funds, *preferably in form of grants*. The resources obtained through debt relief -- even 100% debt cancellation -- will not of themselves be sufficient for economic progress and poverty eradication.

3. ZAMBIA'S BACKGROUND TO ENTRY INTO THE HIPC INITIATIVE

In the mid-1980s, Zambia started experiencing economic and debt service problems as a result of the oil crisis of the 1970s. Around the same time, the price of copper, Zambia's main export, suffered massive reductions on the world market. This *dual shock* adversely affected the performance of the economy and led to the country acquiring a huge external debt.

The government in the mid 1980s started its structural reforms under the IMF and World Bank mandates in order to address imbalances in the economy, especially the Balance of Payment constraints and the debt service problems that the country faced at the time. However, the pace and direction of reforms was broken in May 1987 when the government of the day decided to withdraw from its arrangements with the IMF and World Bank. At that time, the debt of the two institutions accounted for 10% of the total debt stock.

This break led to the suspension of the IMF/WB assistance and that of some countries like the UK and USA. Moreover, the break caused the IMF debt to increase from US \$843

million in 1987 to US \$1.2 billion in 1990, because of penalties accrued. Zambia's debt situation became increasingly unsustainable, as general economic conditions worsened.

With the coming to power of a new government in 1991, a new economic programme was drawn up that saw the resumption of the IMF/WB reform programme. These re-opened economic ties with the IMF/WB. These institutions argued that this reform programme, SAP, should be considered as the best option to get the country out of its precarious position, as it needed external financing and debt relief to try to turn the economy around. But there were counter-arguments that such an approach was not taking into consideration (1) Zambia's unique structural conditions and (2) the very hard impact on the majority poor of the country.

These reforms that the government had to embark on have been both structural and quantitative. Economic reforms have involved, among other points, the widespread privatisation of parastatals, liberalisation of trade and the establishing of a free market economy. Social sector reforms included the introduction of cost-sharing schemes in health and education services. Quantitative targets were set for inflation, interest rates, money supply, etc.

During the period 1992 to 1995, the government implemented and completed the first reform programme under the Rights Accumulation Programme (RAP) signed with the IMF. The completion of RAP resulted in the country qualifying to the 1st Enhanced Structural Adjustment Facility (1st ESAF-1996-1998). However, this programme was implemented for only one year and then suspended during the subsequent 2 years due to governance issues, such as the alleged torture of the 1997 attempted coup suspects.

But what is significant for the current discussion of HIPC arrangements is that the government of Zambia borrowed heavily from the IMF in order to enter into the RAP. The expectation was that the economy would turn around and these loans could easily be serviced when they would come due in ten years. It was recognised even early that these IMF loans would create a "hump" or "ballooning" at the beginning of 2001. But the economy did not in fact turn around, and the heavy servicing demands to the IMF became a very serious problem when the negotiations for Zambia's entry into HIPC began.

Zambia entered into a fresh ESAF (2nd ESAF- 1999-2001) in 1999 which culminated in April 2000 with the Paris Club second Naples Term Agreement Minute under which Zambia negotiated debt relief totaling US \$1.1 billion along with Development Agreements with the ADB, EIB and the World Bank.

Against this background, it is was the view of the International Financial Institutions that Zambia has made some progress in implementing an ambitious set of economic reforms, including efforts in the areas of privatisation, deregulation and exchange and trade liberalisation. Inflation has been reduced from 189% in 1993 to 20.6% in 1999. Economic management has been improved to a limited extent.

Nevertheless, these steps have yet to be reflected in any sustained economic growth. Moreover, Zambia still remains one of the poorest countries in the world. The UNDP *Human Development Report 2000* ranked Zambia 153rd out of 174 nations, down from 136th in 1996. Social indicators remain stubbornly low and a high incidence of HIV-AIDS, estimated at about 20 %, presents further challenges to Zambia's poverty reduction efforts.

Qualification for HIPC

But due to the judgement of the IMF and World Bank that Zambia had in fact recorded good performance in structural reforms, the country qualified in December 2000 to the Highly Indebted Poor Countries initiative. This should mean a reduction in debt stock at the end of its implementation (completion point)⁴ as well as a reduction in debt service payments. The debt relief assistance comes in the form of reduced debt service delivered as write off and extra assistance in the form of grants.

According to the World Bank, the expected amount of debt relief out of the total debt stock of about US \$6.5 billion is approximately US \$3.8 billion. This would result in debt service reducing from an average of approximately US \$420 million per year to about US \$169 million per year from 2001 to 2005. Thereafter, debt service payments will still remain above US \$100 million per year. The World Bank has announced relief of US\$885 million write down from the approximately US \$1.7 billion that Zambia currently owes the World Bank..

⁴ Completion point: a point at which a HIPC a country receives a stock of debt relief and the bulk of the assistance under the HIPC Initiative without any further policy conditions. This occurs when the country concerned has implemented the full Poverty Reduction Strategy Programme for at least one year.

Due to the peculiar nature of Zambia's debt service payments, especially the IMF loans due January 2001, both the IMF and World Bank were persuaded to modify the schedule of the delivery of the debt relief. This is what is called "front-loading." Thus for Zambia, more than 50 percent of this debt reduction should be delivered within the first three years of its qualification for the Enhanced HIPC Decision Point⁵ (December 2000). This should substantially reduce the debt stock and the debt service.

The external debt service for the year 2001, without Paris Club relief and without Enhanced HIPC relief, would have amounted to approximately US\$ 606 million. This was clearly an unsustainable figure to a poor country like Zambia to meet! Given the relief from the Paris Club countries at Naples Terms 67 percent Net Present Value reduction and rescheduling, the country's debt service would have been reduced to US\$ 434 million. But In the absence of the Enhanced HIPC Initiative debt relief, this figure would still have been clearly unsustainable.

Zambia's case under the HIPC initiative, however, is *exceptional*, as debt relief will not be delivered in its ordinary form. Rather, it will be given in advance and above the normal programme ratios. Under the normal HIPC profile, full assistance is provided at completion point, which is dependant on how satisfactorily the country implements its Poverty Reduction Strategy Paper, which in any case should not be less than three years.

But the debt relief Zambia has accessed promises to deliver assistance at decision point as opposed to completion point. This means there should be interim relief starting in 2001. For example, the World Bank has committed over US \$ 60 million relief of debt service due to the Bank between 2001 and 2003, and the balance annually thereafter. In the same vein, Zambia's debt to the IMF would be reduced by two-thirds over the next three years.

The purpose of this arrangement is to aim to enable Zambia to achieve a smooth debt service profile during the years 2001 to 2005. The World Bank should also continue to provide support in the efforts of government to deepen social sector spending and improve efficiency of the public expenditures.

⁵ Decision Point:- a point at which a HIPC 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.

In light of the above, it is very important to mention that the *flexibility* of the IMF on Zambia's HIPC case does by no means form a *precedent* for the delivery of HIPC relief by IMF. Rather, it arose mainly from worldwide pressure from civil society, in particular, the Jubilee 2000 campaign.

It is expected that the resultant savings should be used in the social sectors and poverty reduction programmes. Under this arrangement, the government, with significant input from civil society, is preparing the Poverty Reduction Strategy Paper which will be used to guide the country's future economic development and poverty reduction programmes. What is important to note here is that *there is no actual cash to be provided under this programme*.

4. THE HIPC INITIATIVE: CRITERIA AND CONDITIONALITIES

In general, in order for a country such as Zambia to qualify for HIPC initiative assistance it must satisfy a set of *criteria*. Specifically, it must:

- Be eligible for concessional assistance from the IMF and the World Bank. The country must be an International Development Association (IDA)-only country and eligible for support under the IMF's Poverty Reduction and Growth Facility (PRGF);
- Face an unsustainable debt burden, beyond available debt relief mechanisms such as Naples terms (where low-income countries can receive a reduction of eligible external debt of 67% in net present value terms);
- Must establish a track record of reform and sound policies through IMF and World Bank supported programmes;
- Have a debt-exports ratio exceeding 150% and a present value of debt to budget revenue ratio exceeding 250%.

But the effect of some of these strict criteria, in the face of the professed objective of trying to assist the poor countries, is that not all countries that need help are considered. For example, there are countries such as Nigeria, Haiti and Cambodia that are indeed highly indebted but are now excluded from the HIPC initiative assistance on the basis of not being IDA countries.

Because Zambia has made it on the above criteria, it has become eligible for relief assistance under the HIPC initiative.

Once a country has attained HIPC status, the assistance rendered comes with a set of conditionalities. In the case of Zambia, the following are the conditionalities to be met for full assistance to be granted under the HIPC initiative, as set down in the December 2000 agreement between the government and the World Bank and IMF

1. The country must adopt a Poverty Reduction Strategy Paper (PRSP) prepared through a participatory process. There should be satisfactory progress with implementing and monitoring the PRSP for at least one year based on an annual report.
2. The share of education in the discretionary budget should be increased from 18.5% in 1999 to at least 20.5% by 2003.
3. The government should raise the starting compensation of teachers in rural areas to levels above the poverty line for a household as defined by the Central Statistical Office. In addition, an action plan for increasing student retention in Northern, Luapula, Eastern, North-Western and Western provinces is to be drawn up.
4. Progress in fighting the HIV/AIDS pandemic should be made. Specifically:
 - The secretariat to National HIV/AIDS/STD/TB council to be fully staffed;
 - Ministries to integrate HIV/AIDS awareness and prevention programs in all of their pre-service and in-service training programmes.
5. There should be progress in health sector reforms indicated by:
 - Procedures and mechanisms for the procurement of drugs that are fully transparent and efficient;
 - Timely release of complete, detailed annual health expenditure data;
 - The ratio of actual cash release of Ministry of Health (MOH)/ Central Board of Health (CBoH) resources to districts should reach at least 80 % of the amount budgeted.

6. Maintenance of a stable microeconomic environment as evidenced by continuous satisfactory performance under a program supported by a Poverty Reduction Growth Facility (PRGF) arrangement.
7. An Integrated Financial Management Information System (IFMIS) must be implemented on a pilot basis for at least three ministries. This must be accompanied by a mid-term review of the pilot program.
8. Apart from restructuring them, the government must issue international bidding documents for the sale of majority controlling interests in the two parastatals, the Zambia Electricity Supply Corporation (ZESCO) and the Zambia National Commercial Bank (ZANACO).
9. Implementation of Medium Term Expenditure Framework (MTEF) prepared by Ministry of Finance and Economic Development (MoFED) and approved by cabinet.
10. The government must maintain a sound macroeconomic environment as evidenced by continuous satisfactory performance under a program supported by the IMF.
11. The Boards of the Bank and the Fund must be satisfied that the PRSP provides a sound basis for Bank and fund concessional assistance.

Granted that the issue of conditionalities is not a new phenomenon as far as IMF and World Bank loans are concerned, a pertinent point surrounding the HIPC initiative is that it does appear to represent the case of old wine in a new bottle. Therefore the issue of *how different HIPC is from the Structural Adjustment Programmes (SAPs)* of the last two decades definitely requires closer scrutiny.

4.1 SAP AND THE HIPC INITIATIVE

The World Bank was established to reconstruct Europe after the World War II. It offers long-term project support to countries. The IMF, on the other hand, deals with short-term project funds and balance of payment support to be paid back with interest. These two Bretton-

Woods institutions, as they are known, prescribe a set of *conditionalities* for all countries accessing their loans. The main conditionalities for Zambia under SAP were:

- Macroeconomic reforms, particularly decontrol of prices, free exchange rate regimes and market -determined interest rates;
- Devaluation of the local currency;
- Restructuring (down-sizing) of the civil service;
- Privatisation of government owned enterprises ;
- Tight monetary policy to curb inflation;
- Adherence to a Cash Budget;
- Liberalisation of the economy;
- Removal of subsidies and the introduction of cost sharing for social services – in effect a call to cut government expenditure on the social sectors.

A comparison of the conditionalities under the two programmes of SAP and HIPC shows insignificant difference. For instance, Zambia was required to privatise parastatals under SAP, while the HIPC Initiative merely goes a step further by specifying that ZESCO and ZANACO, among others, should be sold. Maintaining a stable macro-economic environment is the same in detail as the macroeconomic reforms called for under SAP.

However one noteworthy difference between HIPC and SAP is that under the former, the government has been requested to *increase* the share of social spending in the budget while under SAP, the directive was to *cut down* on social spending. If we consider this contradiction to be a significant reversal of policy, then it can be inferred that at least to a certain extent the two lending institutions have realised the failure of some of their prescriptions to solve the problems poor countries like Zambia face.

One of the key requirements, classified as *poverty reduction* condition, the preparation of the PRSP. For a country like Zambia, with 80 percent of the population living in abject poverty, any document meant to act as a blueprint for poverty reduction merits special attention. Though it is clearly stated that the document should be drawn up based on broad consultation, it is not guaranteed that the views of the poor will in fact be reflected in the final document. Indeed, the limited participation of civil society in the most crucial aspects of the PRSP's preparation would cast doubt on the importance with which government views the role of civil society.

Some voices from Zambian civil society have been raised to say that the Zambian government has not exhibited a genuine commitment to the participation of civil society in drawing up the PRSP. The fact that the government has spent considerable time working alone on the document raises concern that the participatory process may be only an act of window dressing.

It goes without saying that much of the problem that HIPC assistance now is trying to solve in Zambia emerged as a result of the application of SAP and its associated requirements during the decade of the 1990s. As a case in point, the massive retrenchments as a result of privatisation have contributed to the high levels of poverty being witnessed today. Such a point has recently been made by Dr. Katele Kalumba, current Minister of Finance and Economic Development.

5. IMPLICATIONS OF THE HIPC INITIATIVE CONDITIONALITIES

It was evident from the investigation carried out for this report that there was a high degree of *confusion* regarding what the HIPC initiative actually entails, what it is meant to achieve, and what the real figures of debt relief are. Precise information about these matters is almost impossible to come by. Government, the International Financial Institutions, creditor countries, NGOs all seem to have different figures as well as very different perspectives.

In the first place, a number of lobby groups championing the cause of the vulnerable groups in Zambia have criticised the initiative as a *half-hearted* response of the rich countries to the crippling debt problems of the poor countries. They contend that on strong moral grounds the right decision would be an unconditional *cancellation* of all debts owed by HIPCs. In any case, both the IMF and the World Bank can afford to write off these debts without significantly crippling their own institutional credit-worthiness.

The lending institutions, on the other hand, acknowledge that indeed the HIPC initiative is not a panacea and that debt is only one of the many problems faced by poor countries. But unconditional debt relief, they argue, is not the right tool for promoting the ultimate goals of sustainable development and poverty reduction. Conditionality is defended on the grounds that it promotes effective use of debt relief and promotes a continued provision of aid flows.

5.1 SOCIAL IMPLICATIONS OF HIPC

In broad terms, resources freed from debt relief should enable Zambia to embark on programmes that are aimed at reducing poverty in the country by increasing funding in the areas that have been prioritised according to the PRSP. This means that the reduced debt service can increase social sector spending and fund programmes such as combating HIV/AIDS, Education Sector Reforms and Health Sector Reforms. With regard to poverty, the Zambian government's stated aim is to reduce poverty by 50% by 2015.

But two very key factors qualify this commitment to utilise HIPC relief as a major contributor to poverty reduction. The first is the lack of any clear system of tracking the allocation of funds freed up because of debt relief. As far as is publicly known, there is no additional accountability about the use of these funds. The government has simply said that ordinary national budgetary procedures would be followed. But given the current level of inquiries into use of funds and the disclosures of mismanagement coming from the recent Auditor General's reports, something more should be put in place if HIPC is to mean anything significant for poverty reduction.

The second concern is the question raised about *political will* to move forward with HIPC agreements, the PRSP process, and the full attention to poverty reduction. The fact that this is an election year cannot be ignored. Strong commitments, followed by equally strong action, must be taken now if the public at large in Zambia, as well as the international community, is to believe that there does in fact exist the necessary political will to move forward.

5.1.1 HIPC AND POVERTY

It is expected that a significant part of the HIPC savings will be used in poverty eradication programmes over the 5-year period (2001-2005) in the main social sectors. This is the period when the country will implement its PRSP, implementation that will decide the country's completion point under HIPC. The poverty reduction programme will also partly be financed using grants from co-operating partners apart from some of the HIPC savings.

The three key reforms mandated by the IMF and World Bank that government intends to undertake once it adopts the PRSP in the social sector are the following:

- Make progress in combating HIV/AIDS. This entails strengthening the National HIV/AIDS/STD/TB Council and integrating HIV/AIDS awareness and prevention programmes in the pre-service and in-service programmes of at least the key Ministries.
- Increasing the share of education in the discretionary budget from 18.5% in 1999 to 20.5 by 2003. There would also be need in the education sector to compensate teachers in rural areas above the poverty line for a household and formulate an action plan for increasing students' retention in the provinces.
- Progress in health sector reform as would be indicated by implementation and scaling up of an action plan for malaria. Procedures and mechanisms for the procurement of drugs will be re-organised to be fully transparent and efficient. There would be timely release of complete, detailed, annual health expenditure data and government intends to increase actual cash releases to District Health Management Boards.

But an analysis of these reforms raises serious questions. The increase in the share for education is really quite small in comparison to the very great needs in this sector – only a two percent increase over four years. The attention to drugs availability is commendable, but as has been evident during the doctors' and nurses' strikes in the past several months, a very serious focus must be on the *wages* paid to health workers. Finally, it is not at all clear how these social conditionalities imposed by the IMF and World Bank fit into the on-going preparation of the PRSP that has involved participation by civil society. The question that therefore can be raised is: *who in fact determines the priorities of poverty reduction, the Zambian government and civil society through the PRSP process, or the International Financial Institutions through the HIPC conditionalities?*

While the approach of the of the PRSP may appear to be better than SAP, much of its success as a means of fighting poverty in Zambia depends on, *inter alia*, the process of its composition, involvement of all stakeholders, availability of the expected resources and government's commitment in ensuring that the resources are indeed used to meet the needs of the poor. Looking at the 2001 Budget, the government has stated that K32 billion has been allocated to ensure household food security for 200,000 resource-poor peasant-farming families across the country. Priority, it is stated, will be given to female-headed household. But questions can be raised:

- Firstly, it is not clear how the sum allocated and the number of families to be assisted were arrived at, given that even the World Bank acknowledges that poverty affects 80 % of the estimated 10.5 million people in Zambia.
- Secondly, the method of targeting the 200,000 households is not spelt out. That is indeed a very small number of households, and there is the great sector or *urban* poverty that also must be dealt with.
- Thirdly, granted the past experiences of actual disbursements being much lower than the amounts allocated in the budget, it remains to be seen to what extent this measure will reduce poverty. To this effect, the poverty reduction strategies that may emerge from the PRSP will need to be viewed in the light of past and current attempts at tackling poverty.

5.1.2 HIPC IMPACT ON EDUCATION AND HEALTH

The majority of the Zambian people suffer from weak purchasing power (income poverty), homelessness (shelter poverty), and insufficient access to basic social services and necessities such as education, health, food and clean water. As a result, people are highly deprived in terms of knowledge, economic provisioning, basic living facilities and services, and many more essentials for a decent standard of living.

The policy of cost sharing, mandated by the SAP arrangements and pursued by the current government, has made health and education services unaffordable to many Zambians. The result, evidenced in Zambian government reports as well as reports from the United Nations agencies, including the World Bank, show a disastrous decline in social indicators. Life expectancy has dropped from 54 years at the end of the 1980s to 37 years today. One-third of primary school aged children and two-thirds of secondary school aged children are not in fact in school. Future literacy rates are now being undermined.

But the HIPC initiative is said to emphasise the need to safeguard social spending in recipient countries. However, a careful study of the amounts involved in Zambia shows that the education and health sector goals set under the initiative are not attainable. A look at the Zambia's 2001 budget shows that *debt service* payments under HIPC will amount this year to US \$158 million. This is contrasted with the facts that the *health and the education sectors* have been allocated US \$24 million and US \$33 million respectively. Clearly, even after this debt relief, total spending on health and education combined will only be 36 percent of what will flow out the country as debt service payments. This pattern of expenditure is similar to

what can be observed in the last decade. Between 1990 and 1993, for instance, the country spent US \$37 million on primary education, but during the same period it spent US \$ 1.3 billion on debt servicing to the IMF.

Another way of looking at the issue as to whether HIPC relief will make a difference in the poverty reduction effort is to look at Budget 2000 figures. A comparison between the budget estimates submitted by the Ministry of Health and those approved by the Ministry of Finance and Economic Development last year shows that:

- a) The minimum financial requirement for essential drugs was about US \$4 per capita in 2000, but less than US\$1.2 per capita was approved in the budget.
- b) The absolute minimum requirement to provide basic health services at district level was US \$11.5 per capita. However less than US \$2 per capita was approved in the budget..
- c) The absolute minimum financial support need to run the health sector was K851 billion, but the approved budget was only K282.2 billion. In per capita terms this reflects an allocation of US \$10.50 against the minimum requirement of US \$20.00.

Given the poverty-health nexus, *it is evident that the HIPC assistance in its current form will not do much to improve the welfare of the poor* for whom public social services are the only option.

5.2 EVALUTING ECONOMIC IMPLICATIONS

It is expected that with HIPC savings the country would be able to stabilise the macro-economic conditions in the economy that will support economic growth. The country under the PRSP should also increase spending in infrastructure development and in the development of the industrial and manufacturing sectors. The preparation of the PRSP is also currently looking at ways the government will increase spending in terms of finance to the industrial sector and introduce some Export Processing Zones (EPZ)⁶ to boost exports for economic growth. It is anticipated that the measures to be put in place will lead to growth in GDP at a sustained rate and will reduce inflation.

⁶ Regions within the country where producers of goods for export are exempted from paying tax. This measure is meant to encourage exports by lowering production costs.

But all of these expectations and assumptions must be critically evaluated. Such an evaluation requires two things: full disclosure of information from the relevant sources, and honest non-partisan assessment.

For example, in regard to the privatisation of ZESCO and ZAMTEL, the inconsistency in policy statements from the government are quite evident. President Chiluba has at various fora in the past stated that in Zambia's privatisation process there would be no sacred cows. However recent government pronouncements are effectively stating that privatising these two entities would be akin to selling of the family silverware. It is not clear as to whether or not this represents an official U-turn on the policy.

Moreover, despite the fanfare and optimism surrounding the privatisation of the Zambia Consolidated Copper Mines (ZCCM), the significant benefits envisaged are yet to be seen, particularly with regard to improvement in the lot of the poor. We need to ask ourselves then what a privately owned ZANACO or ZESCO would in fact yield for the most vulnerable in society.

The record with ZCCM shows the problems. To start with, far-reaching incentives such as non-payment of excise tax on electricity and cuts of corporate tax from 35% to 25% given to the ZCCM successor companies resulted in about K14 billion in revenue lost last year. There are indications that the investors would have still bought the mines and carried out the same level of investment even without such an elaborate incentive system. In general such incentives offer little net economic benefits to the economy. Moreover, the absence of proper mechanisms for monitoring foreign investment may result in the expected benefits from privatising parastatals remaining only a pipe dream.

Concerns about Transparency and Consequences

Any evaluation of HIPC must of course take account of the elements of accountability and transparency as experienced in the implementation of the initiative. As has been noted earlier in this report, it has been difficult to secure complete and accurate records of what HIPC has to date meant, even over the past six months. Some of the questions that can be raised include:

- Have any HIPC funds in fact been made available to the country since the decision point was reached in December 2000?

- What account would such funds be recorded under, e.g., in the Budget Office of the Ministry of Finance and Economic Development or in the Bank of Zambia?
- During the first quarter of 2001, when Zambia was supposed to be experiencing benefits from reduced debt servicing, were there significant debt service payments rendered and from what sources?
- What effect on the overall reserves of the country would such debt service payments be having?

Moreover, while the expected results of the HIPC initiative, as put forth by the International Financial Institutions, might appear impressive on paper, it is important to assess how the conditionalities and the assumptions of the initiative have in fact affected the attainment of the intended goals.

For instance, the IMF and the World Bank project growth rates in all HIPC economies from about 5-6 % for 2000 -2005. But during the period 1990-1997, HIPC countries in fact grew by 0.4 % on average. This is considerably below IMF and World Bank projections. Populations in these countries have continued to grow at an average annual rate of about 3.1%. This, of course, has notably reduced per capita income growth in these countries.

Zambia's economy, for example, grew by only 3.5 % in the year 2000. This growth rate is lower than the World Bank and IMF projections of 5-6% for 2000-2005. It is clear that the IMF and World Bank estimates are too "rosy," especially since they do not take into account the clear vulnerabilities that Zambia faces. This is a point that will be taken up later in this report. Therefore, after debt relief under HIPC it is unlikely that Zambia will meet the targets in economic growth projected by the World Bank. Moreover, it is very important to note that whatever growth that has occurred in Zambia has been what the UNDP has called *jobless growth*. This means that unemployment on the average has continued to go up despite any increase in the GDP growth..

6. HIV/AIDS AND ECONOMIC GROWTH

Another major factor to be considered when we do an overall evaluation of the future implications of HIPC for Zambia is the HIV/AIDS pandemic. HIV/AIDS is both a social and an economic problem. It is an economic problem because it has affected the vigour of the

active labour force and thus has impacted on economic growth rates. Consequently, HIV/AIDS is a major source of worry in all the HIPC countries, especially in Africa, which hosts 25 million of the 36 million people living with HIV/AIDS worldwide. The World Bank has estimated that per capita growth in sub-Saharan Africa during 1990-97 was reduced by 0.7% due to HIV/AIDS. What is occurring is the creation of a vicious circle: reduction in economic growth in turn increases poverty, and this increase in poverty accelerates situations such as prostitution that in turn is one of the factors contributing to the spread of HIV/AIDS.

What about Zambia? UNAIDS estimates that the annual growth rate may be reduced by up to 2% in a country such as Zambia, where the prevalence of HIV/AIDS is 20%. This means that growth projections, for Zambia, if we factor in the impact of HIV/AIDS, may have to be reduced by about 1-2%. But in its economic analysis, projections and recommendations in preparation for the implementation of HIPC in Zambia, the IMF and the World Bank did not make a serious consideration of the impact of HIV/AIDS on future growth rates. Obviously, this is a major flaw in the overall implementation of HIPC and its expressed aim of reducing poverty.

7. ROLE OF PARLIAMENT AND ACCOUNTABILITY TOWARD HIPC

Since 1991, the electorate and elected public officials of Zambia have worked to make a multi-party democracy a functional reality in the country. Key to the multi-partyism is a responsible and effective Parliament. Therefore in our study on the implications of HIPC for Zambia we must look at the role of Parliament.

Zambia's system of government is based on the principle of separation of powers between the Executive, Judiciary and the Legislature. Ideally, Parliament, as the legislative arm of the government, should represent the voice of the people of Zambia. Therefore the question that emerges at this point is: *what is the role of Parliament in Zambia vis-à-vis the HIPC Initiative?*

One Independent Member of Parliament recently has stated:

“At present, there is no role for Parliament in Zambia regarding the HIPC initiative. This matter has never been debated in the House or at committee level. As a Member of Parliament, I am not aware of the specific amounts or the conditionalities involved in the

initiative. I am sure not even the government itself can state with certainty how this country will benefit from its HIPC status....”⁷

Under the current Constitution, there is no clause that compels the Executive to seek ratification by the Parliament with respect to any international treaty or agreement. The HIPC initiative is no exception. It would appear that the government has taken advantage of this weakness in the Constitution to push forward various international agreements, some of which can be seen to have spelt disaster for Zambians, especially the poor. Given this scenario, Parliament is reduced to merely questioning agreements already entered into or loans already signed for.

This constitutional weakness is likely to limit civil society's participation in substantive areas of the HIPC initiative such as deciding how monies saved from the debt service payments are to be channeled to the intended beneficiaries. This is a crucial component of the whole exercise considering that in the past, the government has in fact redirected resources meant for specific programmes to other areas such as meeting its administrative costs.

For instance, a recent Auditor General's report indicates that in 1997, the Ministry of Finance and Economic Development (MOFED) did not release amounts totalling K2, 831,169,738 in 1996, K321, 480,702 in 1997, and K690, 000,000 in 1998 from the funds meant for the Rural Electrification Fund (REF). In the same manner, the Ministry of Energy and Water Development "borrowed" K231, 923, 894 in 1997 of which only 15 percent had been paid back into the Fund by 1999.

Evidently the apprehensions by debt relief campaigners such as the Jubilee-2000 movement have some weight and must be paid attention to. Existing systems such as supposed Parliamentary oversight may not in fact not guarantee that HIPC savings go toward poverty reduction programmes. Despite the condition that civil society should be involved in the design and implementation of poverty reduction programmes based on resources from debt relief, the desired poverty reduction will not be achieved without additional mechanisms being put in place.

⁷Hon R. Sichinga, MP and former chairman of the Public Accounts Committee in the National Assembly of Zambia, interview of 30 May 2001.

8. VULNERABILITY AND THE FUTURE OF HIPC

Serious consideration must be given to the fact that the HIPC countries are highly vulnerable to external shocks. Economic growth and revenue in these countries are vulnerable because these countries rely heavily on aid, export a narrow range of commodities, have limited reserve cover and are also vulnerable to fluctuations in the values of imports.

A study by Debt Relief International (January 2001) noted that:

- 23 HIPC countries suffered from climatic shocks in the last 10 years, with 17 suffering from drought, and 8 from floods or hurricanes;
- 34 of 38 HIPC countries that were reviewed suffer from and volatility, with 28 vulnerable to aid shocks;
- 16 countries depend on one commodity for more than 50% of export revenue, and 28 have suffered from export-volatility.

Zambia's major foreign exchange earner is copper and prices of copper have been falling in the world market since the 1970's, greatly affecting export revenue. Moreover, Zambia is an aid dependent country a fact clearly revealed in the 2001 National Budget that shows that 52% of the budget will be funded by external aid. Dependency on aid has affected Zambia's economic growth in the past. For example, in 1997 most of external aid was cut because of governance issues. This meant that many sectors of the economy that relied on aid, for example education and health, suffered greatly.

Zambia, like other HIPC countries, is highly vulnerable to external shocks. If growth projections are reduced by 1 percent across the board in HIPC countries to factor in the effect of shocks, then on average growth could be reduced to 3 - 4% in these countries. In many HIPC countries, despite the prevalence of HIV/AIDS, populations continue to grow on a faster rate of approximately 2.5 - 3.0 percent. This may, therefore, imply very little or no economic growth -- in per capita terms -- for them.

9. A GENERAL PERSPECTIVE OF THE HIPC INITIATIVE

The international community has set some international development goals for 2015. Among these targets/goals are the following:

- reducing poverty by 50%;
- providing every child with free, good basic education;
- reducing child mortality by two-thirds.

According to OXFAM, for the HIPC countries to be able to meet these goals, expenditure on debt servicing should not exceed 10% of total revenue. But after the debt relief envisioned by the HIPC initiative, the resources released would unfortunately not be enough to allow the countries to meet these goals. Table 2 below presents the estimated costs of attaining these health and education goals specified under HIPC and compares that with future debt servicing by the 22 HIPC countries.

TABLE 3
SOCIAL EXPENDITURES VS. DEBT SERVICING

Goal	Estimated cost
Achieving universal primary Education: Meeting 4% GDP spending target for primary education	US \$1.5bn per year
Improving health:	US \$1.2 bn per year
Total	US \$2.7 bn per year
Future debt service: This is an average to 2005 for the 22 HIPC Countries	US \$2 bn per year

Source: Oxfam April 2001.

The table shows that future debt service to the year 2005 is estimated at US \$2 billion per year for the countries currently under the HIPC initiative. With an estimated US \$2.7 billion needed to meet the international development goals, it is evident that the HIPC assistance in its present form will not have much positive impact on health and education in poor countries.

We would like to have constructed a similar table for Zambia's situation. But in fact the necessary data is not available. As mentioned several times in this technical report, this absence of adequate information is a real hindrance to effective investigation, evaluation and recommendation.

As is universally acknowledged, health and education are among the key factors in sustainable and integral human development. Human development in this regard should include these two variables: a country can be said to be developing when literacy levels are

going up and people start to enjoy long and healthy lives. But this goal can only be achieved if significant investments are made in health and education.

It is clear that the HIPC initiative alone, even in its most generous form, is not going to have the necessary impact of providing the necessary resources for meeting the needs of development in the poor countries. Additional resources in the form of grants must be provided. And the continual draining of national resources into debt servicing – in Zambia's case, over US \$100 million per year in the foreseeable future – clearly must be halted.

HIPC is not the answer – total or partial -- to the challenge of poverty eradication.

SOCIAL AND ECONOMIC IMPLICATIONS OF HIPC IN ZAMBIA

CONCLUSIONS AND RECOMMENDATIONS

This set of conclusions and recommendations relies primarily on the information contained in the preceding technical section of this Report. The views expressed are mainly influenced by the ethical and analytical positions taken by the Jubilee movement regarding debt, HIPC, poverty and development.

A. CONCLUSIONS

1. HIPC and DEBT

Can Zambia solve the debt crisis through HIPC?

Zambia is unlikely to solve its debt crisis through the HIPC debt initiative because of this initiative's narrow focus.

Even though the HIPC initiative has been introduced as a solution to the debt crisis Zambia is currently facing, it fails to meet this aim because of it focuses on only domestic concerns. That is, it takes the debt crisis solely as an *internally* caused problem and ignores the role of *external* factors such as terms of trade.

The solutions to the debt crisis have been confined to issues of good governance and economic reforms. Yet it is well known that Zambia's debt has greatly resulted from poor terms of trade and international political situations such as its role in the anti-apartheid struggle. Unless a holistic perspective is taken into account, the external pressures will continue plunging Zambia into further external debts.

Therefore we conclude that HIPC will not likely solve Zambia's debt crisis.

2. HIPC and POVERTY

Can Zambia reduce poverty through HIPC?

Debt relief resources coming from HIPC are too little to make a significant and positive change on the current poverty situation in the country. The total amount of US\$3.8 billion is too small to tackle a poverty situation that has trapped 80% of this country's population, to overcome the education, health, unemployment, income and HIV/AIDS problems. Even with total debt cancellation, Zambia would still require more assistance to make significant change for its people.

Therefore we conclude that HIPC will not likely reduce poverty in Zambia.

3. HIPC and the PRSP

Can Zambia promote the PRSP through HIPC?

The intentions of the PRSP are seemingly good, but our study indicates that the PRSP is hindered in its process and implementation by being linked to the HIPC process. The PRSP should be primarily looked at as a *development* document. It should not be seen as a tool to access debt relief or to solicit aid because this might seriously affect the setting of priorities. Moreover, if the PRSP is linked to HIPC, the process of preparing the document may be rushed in order to quickly access relief. This will definitely compromise the quality of the document.

Therefore we conclude that HIPC will not likely promote the preparation of a good PRSP for Zambia.

4. HIPC and the ECONOMY

Can Zambia improve its economy through HIPC?

The conditionality attached to HIPC might erode even the small economic benefits that come with it. The imposition of elements of the Structural Adjustment Programme (SAP) in form of "reform" under HIPC will continue to worsen the poverty situation, as seen from Zambia's past experience. Recently, the Minister of Finance and Economic Development, Dr. Katele Kalumba, stated that IMF conditionality and reforms have brought poverty and misery to Zambia. He emphasized that there has not been significant improvement in the situations of balance of payments and external debt.

Therefore we conclude that HIPC will not likely improve the economy of Zambia.

5. HIPC and POTENTIAL BENEFITS

Are there any benefits of HIPC to Zambia?

At present, Zambia faces very serious financial and social crises. For past years, government has been failing to invest in most sectors of the economy, especially the social sector. Allocations to this sector have been falling, ultimately affecting the quality of services offered to the people. The debt relief resources accruing from HIPC, small as they might be, are greatly needed especially in assisting the majority poor. We recognize this, without, of course, accepting it as in any way adequate.

Therefore we conclude that HIPC has at least a small potential to benefit the poor, if proper implementation and monitoring is done.

B. RECOMMENDATIONS

1. REJECTION OF HIPC IN ITS CURRENT FORM

Our position as campaigners for debt cancellation for poverty reduction is that we reject HIPC in its current form. We believe that the HIPC offer to Zambia does not differ significantly from the usual IMF and World Bank approaches to debt, poverty reduction and development. The limitations of the HIPC initiative discredit it as a solution to Zambia's debt crisis. In view of this, we recommend the following:

a) Total Debt Cancellation

Zambia needs total debt cancellation to overcome its chronic debt problem. HIPC has very little to offer Zambia in a truly substantive and long-lasting fashion. We judge HIPC to be more a creditors' approach to secure continued repayments than a debtors' approach to attain social and economic development. Debt cancellation still remains the best way out – permanent exit to the debt crisis and a good start of development for Zambia. There is need for serious commitment and determination from all stakeholders – government, civil society and the public – to work for this cancellation.

Therefore we recommend that Zambia should intensify its efforts in campaigning for debt cancellation.

b) Tackle the Causes and not the Symptoms

Zambia's efforts should also be focused on dealing with issues that contribute to worsening the debt crisis. HIPC only addresses the debt stock and is preoccupied with *internal* measures to reduce that stock. It ignores the various *external* factors that affect the debt situation of a country. Apart from campaigning for total debt cancellation, there is a need to build pressure aimed at equalisation of international trade relations and globalisation opportunities, democratisation of international institutions, improvement of national financial management, popular participation, accountability and transparency, prudent borrowing and spending strategies and information sharing at all levels. Major improvement in all these areas would assist in solving the crisis in the most effective and long-lasting manner. This calls for strong political and national will.

Therefore we recommend that the Jubilee-Zambia campaign focus on deeper structural causes of the debt problem.

c) More Grants and Not More Loans

Zambia is currently facing serious debt and poverty crises. It is important that external resources come more in form of grants than loans. Zambia will not develop primarily through borrowing, as is evident from an analysis of the past decades. Zambia has been failing to repay any forms of loans whether with high or low interest rates, so there is no rationale of more large-scale borrowing. Grants would enable Zambia to resuscitate its financial base and to embark on sustainable development programmes. Grants would lead Zambia to the desired destiny where it will be able to finance its own development and willingly repay when it does borrow.

Therefore we recommend that Zambia seek only grants from international partners.

2. PROPOSALS ON HIPC IN ITS CURRENT FORM

The Zambian Government has in fact accepted the HIPC offer from the IMF and World Bank. If total cancellation is not immediately possible, then as a movement we feel that the current HIPC initiative for Zambia requires some crucial changes and adjustments. The recommendations given below are an attempt to ensure that HIPC, if it does remain the order of the day, suits the Zambian situation and responds to the expectations of the people, especially to the poor.

a) Review of the HIPC offer to Zambia

Past experiences have shown that it is dangerous to accept and apply initiatives without properly analyzing them. It is important to continue critically examine the HIPC offer that Zambia has accepted in order to establish its relevance to our needs, the consequences of its conditionalities, the exact sums of resources it will make available, and the impact on poverty reduction. Moreover it is imperative to identify areas of adjustment and/or change, especially in relation to the debt and poverty issues.

Therefore we recommend that on-going monitoring and evaluation of HIPC occur, with active participation by civil society.

b) Debt Relief Resource Management Strategy

Zambia's current budgeting and resource allocation systems are not efficient to ensure prudent utilization of debt relief resources nor are they open, transparent and accountable. All too often they have been characterised by misallocation and mismanagement. To avoid these constraints, it is imperative to institute a system that would ensure that debt relief resources are strictly used to reduce poverty, especially amongst the most poor. This system would ensure a strong and positive link between relief resources and poverty reduction programmes, in a transparent and participative fashion. For this purpose Jubilee-Zambia has proposed a "Debt Mechanism."

Therefore we recommend that government accept the proposed "Debt Mechanism" as soon as possible.

c) Poverty-reduction focused Conditionality

The conditionality attached to HIPC offer to Zambia is not totally new, especially on economic matters. It is possible to predict the results of some of the conditionalities because they are clearly a continuation from SAP -- such as privatisation. In most cases, it is the poor who feel the burden of these conditionalities. Under HIPC, Zambia should lobby for pro-poor conditionality – caring programmes that will put the poor at the center, and take the poor as *actors* and not just as *recipients*. HIPC conditionality should be formulated and based on the needs of the poor in Zambia.

Therefore we recommend that all HIPC conditionalities be evaluated in terms of their impact, direct and indirect, upon the majority poor of Zambia.

d) Availability of Information on HIPC in Zambia

All stakeholders must take the lack of availability and accessibility to information on HIPC as a very serious concern. HIPC's successful application in Zambia greatly depends on the availability of information to implementers, monitors and evaluators. It is a democratic right of the people to be fully informed about national agreements that government engages itself into, especially on their behalf. It is important for the people of Zambia to know the exact amount of debt relief and the agreements entered into, to be involved in deciding how it should be utilised, who should be responsible, and how it is to be implemented. The people in Zambia should be empowered to effectively deal with the HIPC issue. In this democracy, all key stakeholders such as government, civil society, World Bank and IMF have the duty to produce and disseminate full information on HIPC to the Zambian people.

Therefore we recommend that information on HIPC be more widely distributed.

