

JCTR

Policy Brief

***Promotion of Social Justice
and Concern for the Poor***

First Quarter 2006

ZAMBIA AFTER THE HIPC 'SURGERY' AND THE COMPLETION POINT

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1 INTRODUCTION

"We reached the heavily indebted poor countries (HIPC) Completion Point in April 2005 and so what?" asked a workshop participant in one of the Jubilee-Zambia Provincial Workshops. Indeed many other Zambians are asking similar questions given the high expectations that had been created by senior Government officials on the possible benefits to Zambia of reaching the Completion Point. The questions are many and need candid answers from all of us but particularly from Government. For instance, what does the HIPC Completion Point really mean for a Zambian man, woman and child? What are the current debt levels after the Completion Point? What are the specific timelines for the delivery of debt relief to Zambia by the International Monetary Fund (IMF), the World Bank and the other creditors? Is debt relief part of direct budget support? Is there conditionality attached to the HIPC and the G8 debt relief packages? How can Zambia avoid another debt trap in future?

This *Policy Brief* builds on the earlier one issued by the JCTR in 2004 which explored in great detail Zambia's Experience with the HIPC Initiative. This current *Policy Brief* is an attempt to offer an explanation on Zambia's new status after the Completion Point.

2 EXIT HIPC INITIATIVE AND ENTER NEW MDRI!

The Monterrey Conference in Mexico in 2002 called for "continued efforts to reduce the debt burden of heavily indebted countries to sustainable levels". One measure used to reach debt sustainability in HIPCs has been the HIPC Initiative. The HIPC Initiative was launched in 1996 by the IMF and the World Bank to reduce the external debt burden of all eligible HIPCs to sustainable levels in a reasonably short period of time because debt is an obstacle to economic growth and poverty reduction. While the original goal of the Initiative was to reduce high external debt as a constraint to economic growth and poverty reduction, the enhanced Initiative of 1999 aimed at providing a viable exit from debt rescheduling in order to promote growth, and to free up financial resources for more social spending to reduce poverty. Zambia accessed the Initiative in 2000 after reaching the Decision Point¹. The country further reached the Completion Point² in April 2005 after an "on-off-on-off" experience with the IMF and the World Bank prescribed policies.

¹**Decision Point** – a point at which a HIPC country completes its 3-year track record of good performance under adjustment programs supported by the IMF and the World Bank, and when based on debt sustainability analysis, a country's eligibility for assistance under the HIPC Initiative is determined.

²**Completion Point** – a point at which after having implemented the full Poverty Reduction Strategy Programme for at least one year, the country concerned receives a stock of debt relief and the bulk of the assistance under the HIPC Initiative without any further policy conditions.

2.1 ANOTHER NEW ACRONYM – THE MDRI

The donor community is never short of acronyms! As soon as one initiative disappears, another one emerges. In June 2005, the G8 Finance Ministers put out a strong statement on the Multilateral Debt Relief Initiative (MDRI) for 18 post-HIPC states. The G7 Finance Ministers (G8 minus Russia) agreed in principle to write off US\$40 billion to US\$55 billion of nominal debts mainly owed to the International Development Association (IDA), the IMF and African Development Fund (AfDF). The MDRI is meant to free up additional resources for Millennium Development Goals (MDGs), to make particular efforts in Africa, which on current rates of progress will not meet any of the MDGs by 2015.

The G8 debt cancellation proposal through the MDRI attempts to do three major things:

- Pledges to unlock resources urgently needed in selected HIPC countries for poverty reduction and development in general
- Pledges to deliver US\$25 billion in foreign aid to mostly Sub-Saharan Africa (SSA) by 2010
- Pledges to relieve by 100 percent 18 post-HIPC countries of their heavy multilateral debts

2.1.1 SPECIAL FEATURES OF THE MDRI

First, cancellation is done upfront and so is irrevocable 100 percent write-off of IDA, AfDF, and the IMF debt stocks for HIPCs that have reached (or once they reach) the Completion Point. Second, for the IDA and the AfDF, additional resources would be provided by donors to ensure that their financial capacity is preserved, with resources being allocated across all Low-Income Countries (LICs), whether post-completion point HIPCs, pre-completion point HIPCs or non-HIPCs. This is in accordance with the existing modalities of implementing Performance-Based Allocations (PBAs). It is worth noting that the MDRI provides a framework that commits to achieve two objectives: deepening debt relief to HIPCs while safeguarding the long-term financial capacity of IDA and the AfDF; and encouraging the best use of additional resources for development by allocating them to Low-Income countries on the basis of policy performance. Debt relief to be provided under the MDRI will be in addition to existing debt relief commitments by IDA and other creditors under the Enhanced HIPC Initiative.

Potentially, up to 46³ countries could benefit from the debt cancellations under the MDRI. These have or are expected to fulfil certain conditions on macroeconomic management, poverty reducing strategies (PRS) implementation and public expenditure management (PEM). So far the MDRI has generated a lot of interest among HIPC countries as they see it as the final effort by creditors to entirely relieve them of their heavy debt burdens.

2.1.2 MAGNITUDE AND COMPOSITION OF DEBT CANCELLATION UNDER MDRI

Concerning the magnitudes of the debt cancellation, cumulative debt servicing obligations of the 38 HIPCs entailed by the G8 cancellation initiative has been estimated (assuming debt outstanding and disbursed as at end-2004 would be eligible for cancellation) to be US\$42.5 billion in respect of IDA. For the AfDF and the IMF, debts to be cancelled under the MDRI stand at US\$8.3 billion and US\$6 billion respectively. For the 18 post-completion point HIPCs, the amount stands at US\$30.3 billion for IDA and US\$4 billion for the IMF credits.

2.1.3 CATEGORIES OF DEBTS TO BE CANCELLED

Debts to be cancelled cover only those owed by HIPCs to IDA, AfDF and the IMF. The initiative does not cover debts owed to the International Bank for Reconstruction and Development (IBRD), African Development Bank (ADB) (i.e., its regular loan window), other Multilateral Development Banks (MDBs) like the Inter-American Development Bank. Unlike the HIPC Initiative, the MDRI also excludes bilateral and commercial debts. As a result of this limited coverage, the reduction in the external debt burden is minimal especially for HIPC countries in Latin America.

2.1.4 CUT-OFF DATES

Different creditors have devised different cut-off dates for debts to be included in the MDRI package. For the IMF and AfDF debts qualifying for cancellation are those outstanding as at end-December 2004. For the World Bank, only debts outstanding and disbursed as at end-2003 would be eligible. If the World Bank does not shift its cut-off date from 2003 to 2004, then the Bank would reduce its cost of the MDRI from US\$42.5 billion to US\$37.2 billion thereby denying selected HIPCs US\$5.3 billion in debt relief package. The implication of this is that the earlier the cut-off date, the lower the cost of the MDRI to the institution (IDA, AfDF or the IMF) giving relief. In turn, this leads to lower benefits accruing to the

³These would include 18 post-completion (14 Sub-saharan Africa & 4 Latin American) HIPCs, 10 post-decision point HIPCs (all in Sub-Saharan Africa), 10 traditional pre-decision point countries (mostly, conflict/post conflict countries), 4 new or sunset-extension "ring-fenced" (pre-decision point non-commonwealth countries) and 4 potential sunset-extension (pre-decision point countries in the 'grey-zone' due to incomplete data).

beneficiary HIPCs that would have to repay more debts.

3 ZAMBIA'S CURRENT DEBT AND DEBT SERVICE LEVELS

With the attainment of the HIPC Completion Point, Zambia received tremendous debt relief in form of actual debt stock reduction and debt service amounts payable to its creditors. As noted by Zambia's Minister of Information and Broadcasting Services, Honourable Vernon Mwaanga, at the World Summit on the Information Society in Tunisia, 2005, *"when we compute the HIPC write off of US\$3.8 billion, the Paris Club write-off and the G8 write-off of 18 poor countries, our debt burden which stood at US\$7.1 billion this year would come down to US\$502 million"*. Preliminary data from Government indicates that total external debt declined by 7 percent to US\$6.6 billion at end-June 2005 from US\$7.1 billion in 2004 (GRZ Mid-year Economic Review, 2005).

This decline was on account of debt cancellations by the Paris Club Creditors. Debt service payments in the first half of 2005 amounted to US\$209.8 million. Debt service to multilateral institutions accounted for 75 percent of the total payments made. In particular, debt service to the IMF was US\$127.3 million or 60.7 percent of the total amount paid. The other debt service payments were US\$41.7 million to the Paris Club and US\$10.7 million to non-Paris Club creditors.

4 ZAMBIA'S DEBT RELIEF AFTER THE COMPLETION POINT

Jubilee-Zambia has over the years called for an unconditional total cancellation of external debts as a basis for poverty reduction in the country. The current debt relief packages from the creditors, though necessary for most HIPC countries, are not sufficient. They are, however, a first step in resource mobilisation for development in poor countries. In order to avoid long-term aid dependence, Zambia and other HIPCs need to complement external resources unlocked under the current debt relief measures by aggressively mobilising domestic resources. This is necessary to boost increased public investment in the physical and social infrastructure. Indeed Zambia and many other poor countries need a quantum leap of resources for the attainment of the Millennium Development Goals (MDGs).

It is in this light that Jubilee-Zambia takes a critical analysis of the Completion Point debt relief package for Zambia. With almost one year past after Zambia attained the HIPC Completion Point, the multilateral and bilateral creditors bound by their commitments within the HIPC Initiative arrangements have been delivering irrevocable debt relief to Zambia. In the words of Honourable Ng'andu Magande, Zambia's Minister of Finance and National Planning: *"Mr Speaker, Zambia has benefited from debt relief under the HIPC Initiative, which coupled with timely debt service has led to a significant reduction in the debt stock. Preliminary data*

indicates that Zambia's external debt stock stood at US \$4.5 billion at the end of 2005" (Budget Speech, 2006).

Debt relief under the HIPC Initiative has further been bolstered by the G8 debt cancellation proposal. According to the Zambian Government and the multilateral creditor institutions, under the new multilateral debt relief initiative (MDRI), the African Development Fund (AfDF), the IMF and the World Bank are expected to cancel 100 percent of the debts owed to them. At the conclusion of the HIPC Initiative in April 2005 and the MDRI, which is slated for July 1, 2006, Zambia's external debt will be reduced to US\$502 million from US\$7.1 billion in 2004.

Again Honourable Magande notes: "Sir, the country will be saving annually about US \$180 million or K500 billion in debt service. The savings arising from the debt relief under both the HIPC Initiative and MDRI will assist the country in its development efforts so as to reduce the current levels of poverty by 50 percent by 2015. Immediately after reaching the Completion Point, most of the Paris Club creditors wrote off 100 percent of Zambia's public and publicly guaranteed debt. In addition, Zambia qualified for write-off of 100 percent of its debt to the African Development Bank (ADB), International Monetary Fund (IMF) and World Bank under the Multilateral Debt Relief Initiative (MDRI), which is a new initiative born out of the G-8 proposal at the Gleneagles Summit held in Scotland in July 2005. The Government is determined to focus and step up expenditure on poverty reducing programmes as per the requirement under these generous external debt service relief schemes" (Budget Speech, 2006).

So who is giving Zambia what and when?

Under the HIPC arrangement:

- The World Bank under the International Development Association (IDA) arrangement will provide debt service relief to Zambia amounting to US\$885.2 million to be delivered from 2001 through 2020
- The IMF will provide debt relief of US\$602 million in Net Present Value (NPV) terms on payments falling due to the IMF during 2001-08
- The remaining bilateral and multilateral creditors are also expected to provide their share of relief to Zambia

For example, the Paris Club has already written off US\$1.4 billion of Zambia's bilateral debts leaving a balance of US\$124 million only.

Under the MDRI arrangement:

- The IMF is expected to deliver US\$572 million to Zambia under the MDRI debt relief package. This will be “financed by resources in the HIPC Umbrella Account, the Special Disbursement Account (SDA), and bilateral contributor resources in the Subsidy Account of the PRGF Trust. Part of the cost is already being financed through the HIPC Initiative; the incremental cost is about (Special Drawing Rights) SDR⁴ 2.1 billion” (See IMF Website i.e. <http://www.imf.org/external/np/sec/pr/2005/pr05306.htm>)
- The World Bank through IDA will deliver debt relief to Zambia amounting to SDR 1,269 million
- AfDF will offer debt relief in the range of US\$254 million.
- IDA and AfDF relief is contingent upon donors (G8) making resources available so that the financial base and lending capacity of the two institutions is not impaired.

5 ISSUES OF CONDITIONALITIES

Is the picture on debt relief for Zambia really rosy? A critical analysis of the current debt relief measures reveals that debt cancellation is not automatic, even for the existing 18 post-Completion Point countries that would be required to go through some final and one-time checks. Jubilee-Zambia is thus very concerned that Zambia and indeed other poor countries must still continue to implement trade and economic liberalisation policies before they can receive debt relief from the multilateral creditors. For instance, the post Completion Point HIPCs will only receive their debt relief under the MDRI if performance in three “key completion point areas” has not deteriorated since reaching Completion Point. This means that Zambia and other HIPC ‘graduates’ will be assessed regarding:

- Satisfactory macroeconomic performance under an IMF Poverty Reduction and Growth Facility (PRGF) programme or its equivalent, as assessed by the IMF staff;
- Satisfactory implementation of their poverty reduction strategies (PRS), as assessed jointly by the World Bank and IMF staff; and

⁴**Special Drawing Rights (SDR)** – The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

- The existence of a public expenditure management (PEM) system that meets minimum standards for governance and transparency in the use of public resources, as assessed by the World Bank staff.

For countries deemed to have "lapsed" in any of these three areas, debt relief under the MDRI would be delivered only after the World Bank Board determines that appropriate remedial steps had been taken. When these actions are implemented, all three criteria would be re-assessed to determine eligibility for debt relief. The IMF, has, however, waived this requirement and has already delivered most of its relief under the MDRI arrangement. Jubilee-Zambia contends that stringent measures tied to debt relief are likely to dilute potential positive impacts of donor aid. For example, debt relief conditionality essentially means a strong control of these economies by the IMF and the World Bank.

The MDRI especially for pre-Completion Point HIPC's means further calls for free market reforms, budget cuts in order to control inflation, promotion of financial and trade liberalisation, strict adherence to macroeconomic stability, etc. The deal in its current form falls far short of what is needed on debt (deeper and broader cancellations), aid (more and better aid) and trade (fair trade and not free trade) and also ignores the flight of capital in African economies. "The new money promised by the G8 can be likened to pouring small cups of water into a bucket when what was needed were jugs full. What is more, the G8 failed to notice that the bucket is leaking" (Sony Kapoor – Plug the leaks or waste the aid, 2005).

6 DEBT RELIEF TIMELINES

The time frame for any public policy should be determined by the gravity and urgency of the situation it is meant to redress. Current debt relief packages do not seem to be moved by desperate poverty situations in many HIPC countries as can be seen by their lengthy delivery periods. Jubilee-Zambia is concerned that this relief is spread over a number of years e.g., 20 years, for the World Bank, 3-5 years for the IMF and 14 years for the African Development Bank (AfDB). Recently the World Bank's Board of Executive Directors approved financing and implementation details for the World Bank's contribution toward the Multilateral Debt Relief Initiative (MDRI), which will cancel the IDA debt of some of the world's poorest countries starting on July 1, 2006, at the start of the Bank's fiscal year. IDA is expected to provide more than US\$37 billion in debt relief over 40 years. It is also worthy noting that according to the MDRI formula there is no additionality of resources as debt relief under the MDRI reduces aid under IDA annual allocations. In fact for countries such as Zambia, over the next 40 years, IDA will reduce regular annual allocations by the amounts the country should have been paying yearly if it had not qualified for the MDRI debt relief. Surely 40 years delivery period is too long a time for countries that desperately and urgently need

resources for development. Why should countries beset with numerous social challenges such as rising HIV cases, unemployment, and poverty, etc, be made to wait for lengthy periods before receiving debt relief? MDRI debt relief delayed is MDRI debt relief denied!

7 USE, BENEFITS AND IMPACT OF DEBT RELIEF IN ZAMBIA

There are a lot of expectations in the nation on the likely benefits of debt savings accruing from the Completion Point. Many people—workers, farmers, marketers, etc., who were made to 'sacrifice' in order for the Government to attain the Completion Point are now expecting to be handsomely 'rewarded' for their toils. *"It is our strong belief that the sacrifices that the Zambian people continue to make will not be in vain but sooner than later, the benefits will reach the majority of them"* (Budget Speech, 2006). The questions bouncing from this are: what are those benefits and when will they be delivered? Will the current debt relief initiatives meet people's social and economic expectations? Simply put, people want to have quality jobs, they want to have medicines in hospitals/health centres, school requisites in learning institutions, passable roads in rural areas, markets for their produce, among many other things.

In an apparent reference to some of the positive impacts of debt relief to Zambia, Barbara Stocking, Director of British Charity Oxfam, recently observed *"the abolition of medical fees in Zambia was one of the first examples of how the G8 debt had made a difference. On the grounds it will mean that thousands of people get treatment for the first time in their lives"* (Zambia introduces free health care after debt relief, April 2006). The massive exodus of doctors and nurses from the Zambian public health sector in recent years has meant that the doctor-patient ratio stands at 1:14,000 compared to 1:600 in Britain. The picture is not any better in the education sector where teachers have left en masse for greener pastures abroad. Given this rather sad scenario, how will Government attain the healthcare for all or education for all (EFAs) goals by 2015? Shouldn't the Government take advantage of the debt relief resources to increase allocations to these critical sectors?

On another positive note, one can safely argue that Zambia's 2006 national budget demonstrates that with debt relief in place and clear planning, it is possible to increase allocations to the social sectors. This year's budgetary allocations to the social sectors stand at 30 percent of the total budget – the highest in recent years. These increased allocations will go to areas such as recruiting personnel in the education and health sectors, infrastructure development, purchase of drugs, and provision of food supplements especially for people living with HIV and AIDS. The Government has pledged to recruit 800 medical personnel and slightly over 4000 teachers.

It is equally gratifying to note that 71 percent of the national budget will be domestically financed leaving 29 percent as a donor financing gap – this is an indication that debt relief has given Government fiscal space to meet most of its financing needs locally.

Realising that demands are many against the available resource envelope, the Zambian Minister of Information and Broadcasting Services had this to say: “*There is need to prudently use savings from debt servicing by directing funds to critical areas of the economy,*” (Mr VJ Mwaanga at the World Summit on Information Society in Tunisia, 2005). The only problem with this lofty statement is that it does not offer clarity on what those critical areas are.

8 THE ‘DUTCH DISEASE’ AND THE SUPER KWACHA!

The attainment of the HIPC Completion Point in Zambia triggered a number of economic phenomena and key among them is the appreciation of the local currency—the *Kwacha* – toward the latter part of 2005 and early 2006. The appreciation of the *Kwacha* against major convertible currencies has undoubtedly unleashed a hot debate in Zambia with some people calling it a fluke; others have called it a ‘political manipulation’ of economic fundamentals to suit certain interests. Yet others, particularly government officials, have argued that this is not an ‘accident’ of events but a genuine response of the currency to a changing economic environment as a result of Zambia’s attainment of the HIPC Completion Point.

The Central Bank has also added its voice to explain factors underlying the appreciation of the *Kwacha*. According to the Central Bank, countries that have attained the Completion Point have generally experienced appreciations in their domestic currencies against foreign currencies. A trend analysis of selected post-HIPC countries such as Ghana, Tanzania, Uganda and Mozambique reveals that they all experienced an appreciation of their local currencies against major convertible currencies. Other factors behind the appreciation of the *Kwacha*, according to the Government, are the increased donor inflows, increased foreign direct investment portfolios, reduced demand for foreign exchange by Government (government no longer requires huge sums of forex in order to service foreign debt since a significant portion of it was cancelled at Completion Point), and speculative international capital moving into Zambia due to attractive interest rates on government securities—treasury bills and bonds.

This *Policy Brief* will not go in the ‘pros and cons’ of a strengthening local currency but merely make very general observations. For instance, Zambia through its development plans has clearly stated that it will pursue an export-led development strategy. This means that the economy is to be anchored on the promotion of exports to generate the required revenues for development. How is this to occur

when the exporters have become 'victims' of a strengthening local currency and thus are getting less and less for each 'Dollar' or 'Sterling' earned through exports? Isn't the Government contradicting itself by pursuing an export-led strategy while at the same time eroding its very foundations through an appreciation? How do we strike a delicate balance between a genuine need to have a strong currency and the desire to promote exports? What are the current and future trade-offs from this relatively new phenomenon? How did Tanzania, Uganda, Mozambique and Ghana handle their appreciations without destroying their export competitiveness?

Without being seen to be lopsided in the debate, there are certainly gains that come with a strong currency. For instance, it gives an opportunity for local investors to import capital goods at cheaper prices for expansion of their investment portfolios. All things being equal, this in turn has the effect of creating jobs locally especially for investors whose cost structures have a high "Dollar" component in form of imported raw materials. There are already visible signs of a 'working' *Kwacha* as can be seen from marginal reductions in bus fares on some local routes, modest reductions in prices of selected food items and prices of imported second-hand cars. Other benefits accruing to Zambians are in form of reduced costs or rates for foreign education or specialised treatment paid for in convertible currencies—people have to raise less foreign money to pay for these services relative to the pre-appreciation era. In addition to these benefits, ordinary Zambians want to see reductions in the prices of essential commodities particularly food items and house rentals, among other things.

9 DEBT RELIEF, POVERTY REDUCTION AND UNFAIR TRADE PRACTICES

While debt relief is generally meant to help in fighting poverty, however, it is sad to note that rich countries continue to protect their firms to help them maintain a strong grip on international markets but are not allowing poor countries (including Zambia) to do the same. Farmers and producers in rich countries get government subsidies to overproduce goods and then sell them cheaply (dump) in poor countries thus putting African farmers and manufacturers out of business. Jubilee-Zambia strongly advocates for fair trade and greater access to markets in rich countries for the exports of Low Income Countries (LICs)' goods and services. If this is done and done now, trade could generate substantial gains in real incomes and thus reduce poverty in Africa. Without addressing current trade imbalances in the international arena, all efforts aimed at promoting trade for development in poor countries will not yield much in terms of tangible results.

10 FIXING THE 'LEAKING TAP'

The risk of Zambia sliding back into the debt trap due to lack of adequate legal, administrative and institutional checks and balances in the decision-making processes is real. Fiscal space created by debt cancellations should not be used to acquire unnecessary new loans that might lead to debt unsustainability again. It is for this reason that Jubilee-Zambia in the last eight years has been consistent in calling upon Government to implement prudent loan contraction procedures with Parliamentary oversight. Surely it does not make economic sense to continue to *"mop the floor without mending the broken tap"* in form of a defective Authorisation Act under Cap 366 of the Laws of Zambia. The current Authorisation Act empowers the Minister of Finance without Parliamentary approval to contract foreign loans. This is a recipe for economic and financial mismanagement.

In what could be seen as a response to Jubilee-Zambia's proposal the Minister of Finance states: *"Mr. Speaker, the Government is implementing the Debt Reform and Capacity Building Programme, under the Public Expenditure Management and Financial Accountability (PEMFA) reforms. The aim, among other things, is to develop a Debt Reform Plan and to strengthen debt management capacity. It has been observed that after being granted debt relief, several countries easily fall back into debt distress due to poor public debt management practices. A key element to be addressed under the reform programme is to improve governance as it relates to debt acquisition (Budget Speech, 2006).* The Debt Reform Plan should be clearly linked to the human needs-based debt sustainability analysis (DSA) as proposed by Jubilee-Zambia and a host of other international civil society organisations involved in the debt cancellation campaigns. Basically, the human needs-based DSA calls for frameworks that go beyond economic indicators to the inclusion of social indicators in determining levels of debts that countries should be allowed to carry. Policymakers should bear in mind that reaching debt sustainability without addressing fundamental problems of trade access and financial capacity of HIPC countries will not resolve their developmental challenges.

In another passage the Minister notes: *"Sir, once the Debt Reform Plan has been developed, the Government will adopt a prudent new debt policy and strategy that will entail contracting highly concessional loans, where grant resources are inadequate. This will assist Zambia to avoid falling back into an unsustainable debt position that takes away resources from development"* (Budget Speech, 2006).

Jubilee-Zambia urges that the Debt Reform Plan proposed by Government will not take too long to develop. In the interim debts are still being contracted, using old pieces of legislation. It is significant to note that Jubilee-Zambia made

recommendations in 2003 to the Constitutional Review Commission (CRC) on the need to put constitutional restraints on foreign borrowings through Parliamentary oversight. Jubilee-Zambia is pleased that the Draft Constitution (December 2005) contains such restraints. It is hoped that the final New Constitution of Zambia will contain measures to control loan contraction by Government.

11 JUBILEE-ZAMBIA'S POSITION ON DEBT RELIEF

Granted that debt relief is trickling into Zambia, Jubilee-Zambia's position is that the current debt initiatives are not a substitute for total debt cancellation demands anchored on clear monitoring and evaluative mechanisms. As noted by Sekou Diarra, in January 2006, of the Coalition on Debt and Development in Mali: *"When you fight debt without resolving corruption and monitoring how funds are used, you cannot get far"*. In many African countries corruption is a function of poverty and a loose societal value system. There is therefore need for Government to target more resources at areas that directly eradicate poverty. The Government should equally strengthen its investigative arms such as the Anti-Corruption Commission (ACC) while at the same time ensuring that the Auditor General's office is capacitated to be able to carry out audits of government accounts in an efficient and effective manner. It is also important for both Government and non-state actors to work together to ensure that debt relief is properly utilised and accounted for in a transparent manner.

12 THE WAY FORWARD

From the foregoing, Jubilee-Zambia puts forward the following policy recommendations:

- There is urgent need to reform the International Financial Institutions (IFIs) and make them more democratic to include poor countries in their decision-making processes
- Debt relief should immediately be delivered to deserving countries without further delays
- The donors should quickly make their pledges available to the IMF, IDA and the AfDF to enable them begin effective implementation of the MDRI debt relief package
- Future aid to poor countries should be delivered on predictable terms and in a transparent manner

- There is need to broaden the list of debt relief recipient countries, not based on stringent conditionality but based on unique country situations
- Debt relief should be aligned to national development plans and priorities within the context of country budgets
- The Zambian Government should develop a set of monitorable indicators to be able to measure impacts of aid and debt relief on development
- The Government should move towards full information disclosure on public finance to make monitoring by stakeholders much easier
- The Government should use debt relief resources to increase investment outlays in the social and physical infrastructure
- The Government should quickly move towards implementation of the proposed loan contraction procedure that includes parliamentary oversight
- As much as possible, Government should go for grants instead of loans
- As much as is possible, Government should desist from contracting foreign loans without a clear exit strategy
- Debt relief alone will not significantly respond to the problems of low income countries unless this is tied to a reform of the international trade arena—to make trade fair.

The quarterly JCTR Policy Brief is designed to inform decision-makers and the general Zambian public about key issues that require urgent and effective response to meet the needs of integral, sustainable and socially just development. We welcome comments on our positions.

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2006

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Zulu, Jacks J

Jesuit Centre for Theological Reflection

Zulu, J. (2006). ZAMBIA AFTER THE HIPC 'SURGERY' AND THE COMPLETION POINT.

Lusaka, Zambia: Jesuit Centre for Theological Reflection (JCTR)

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