MAJOR CONCERNS RELATING TO THE ZAMBIAN ECONOMY

A Civil Society Perspective

for the Consultative Group Meeting
held on 7th July 2002
at Mulungushi Conference Centre

Executive Summary

Civil society recognizes that a strong economy and good governance are major prerequisites to achieve poverty reduction. Good economic governance entails a sound macroeconomic policy environment, institutional reforms, an enabling environment for business and investment, and transparency and accountability in the mobilization, allocation and use of resources. The prevailing lack of resources can be significantly mitigated through prioritization and prevention of corruption and misuse. But Zambia today is embedded in the global economy so that its development prospects are also dependent on the external environment.

With the major **structural changes since 1991** the private sector now dominates productive economic activity, making Zambia one of the most open economies in Africa. But with view to the high population growth rate of 3.1%, the positive economic growth rates over the last three years may not be sufficient to sustainably reduce poverty. The inflation rate is continuing to be high (18-20%), and exchange rate volatility remains a problem. Zambia's cooperating partners pledges in the 2000 CG meeting have not yet been fulfilled. With the resulting increase in government borrowing, interest rates have risen to unacceptably high levels of up to 55%, rendering private sector borrowing marginal. Zambia's external debt stock has increased to $7.3 billion dollars in 2001, and its external debt service payments increased by 13.5%. Low prices of copper and cobalt led to Zambia's terms of trade deteriorating by 3.8% in 2001, with a current account deficit reaching $743 million. The withdrawal of Anglo American Corporation (AAC) from Zambia's Konkola Copper Mines (KCM) will add to these problems in 2002. High inflation, volatile exchange rates, and very high commercial bank interest rates do not provide for a sanguine business environment. Civil society urges Government *to reduce deficits and inflation*. *Interest rates should be closer to the inflation rate*. *Government should work closely with the private sector to arrive at reasonable tariffs for electricity and fuel. Government's efforts to counter dollarization are supported.*

The **budget** is an important instrument for resource allocation. But apparently, Government has not been adhering to the approved budget. Parliament and civil society do not adequately participate in the budget preparation and scrutiny of disbursements. Also, the budget does not give priority to new investments or allocations for districts. Civil society demands that *Civil society be given an opportunity to scrutinize budget allocations before passing Parliament*, *the Auditor General's report be published in time, with the Auditor General be given constitutional powers for prosecution, and the Auditor General's Office be decentralized to establish a presence throughout the country*. *Finally, Government should ensure that the donors fulfil their pledges.*

With the latest crisis in the mining sector, the issue of **economic diversification** has again become a primary concern. Civil Society supports the recommendations made in a recent workshop, such as the establishment of a Copperbelt Diversification Authority; Focus on value adding production of goods and services; Concentration on sectors with high-growth potential in the short and medium term; Optimizing Zambia's participation in the global market; Conducting studies on feasibility and prioritization of development in the Copperbelt; A cluster approach to sector/sub-sector development; Decentralized implementation of economic diversification; Concurrent harmonized selective implementation of export processing zones (EPZs) and tax free zones, based on a model that does not comparatively disadvantage local suppliers of the EPZ.

The regional disparities in living conditions are alarming. Civil society *urges Government to move pragmatically forward with **decentralization**,* ensuring popular participation, awareness and endorsement.

Current measures on **debt relief** are not sufficient to address the high levels of indebtedness in Zambia. The question is, what difference would this CG Meeting do for Zambia that it did not do in the last meeting, apart from the change of venue? Are the Zambian Government and the donors prepared to put in place tangible solutions to poverty reduction? While Zambia has very little to repay its debt, aid flows to Zambia have been declining drastically. Assistance is still mainly coming in the form of loans. The current imbalance between debt service repayments and, for example, expenditure in the education and health sectors, is not only ethically unacceptable but also economically disruptive. Creditors should realize that a full repayment of old loans is infeasible and would create more misery. A cancellation tied to conditions to tackle poverty eradication by means of sound economic management could result in a significant enhancement of living standards.

Civil society sees that the enhanced **Highly Indebted Poor Country's Initiative (HIPC)** is failing and does not even address the debt problem adequately. The HIPC criteria are purely based on macroeconomic aggregates and disregard human development needs. Export projections have been overly optimistic, as became apparent with the dramatic fall in the commodity prices at the world markets. Thus HIPC in its current form cannot be relied upon to release sufficient funds in time that can be used as financial resources for development needs. Discussions on HIPC Initiative have focused on the insolvency and mismanagement of debtor governments, but not to the role played by creditors in lending the money and determining how it was used. *Debtors and creditors should share responsibility for the mistakes of the past regimes in the country, and for those of the richer countries alike.*

Even if Zambia receives 100% debt cancellation, it remains dependent on external financing. It is important to prevent debts from piling up again, by responsible borrowing of the Government and responsible lending of the creditors. Currently, creditors bear no responsibility and carry no risk on their investments or loans. Civil Society therefore proposes the following guidelines for the **loan contraction process**: *Government should not borrow without prior consultation and authority of the people's representatives, the Members of Parliament. Loans should be linked to a "productivity conditionality": Non-income generating purposes should be exclusively funded through grants, indirectly income-generating projects such as infrastructure development should be financed by concessional loans with long grace periods, and only directly income-generating projects such as putting up industries should be financed by commercial loans, but with low interest rates. If the programme fails, borrowers and lenders should share the risk. The government should never be forced to use money that is earmarked for other sectors, such as education and health, for the repayment of loans.*

In order to ensure proper use of debt relief and external financing in general, civil society urges *government to put in place a clear and effective* ***monitoring mechanism*** that would bring government ministries, civil society organizations, and Members of

Parliament together in the monitoring process. The appropriate monitoring and evaluation would ensure that the internal disbursement of debt relief is carried out in an open, accountable and transparent manner, and reaches the intended targets. Further, the utilization of the funds is evaluated in terms of their impact, and the monitoring systems itself is checked for its efficiency.

Poverty reduction in Zambia is, to a large extent, dependent on **international trade and globalization** in general. So far, Zambia benefits very little from globalization because of barriers to trade (both non-tariff and tariff barriers) and overproduction of similar commodities by competing poor countries. And developed countries respect the principles of free trade only when it benefits them, with high tariff barriers prevailing e.g. in the textile and clothing sectors, and continued export subsidies in agriculture. Regional integration may have certain advantages, but Zambia should not have been pressured prematurely into groupings such as the Common Market for Eastern and Southern Africa (COMESA). Zambia's PRSP is based on the doubtful assumption that the economy will grow from increased exports. Despite its economic growth during the last three years, Zambia has recorded a deterioration in human development indices. There is urgent need for the developed countries to open up their markets and to establish a true and fair coherence among their aid, trade and debt policies.

Civil Society agrees with the core principles of **New Partnership for Africa's Development (NEPAD)**, of responsibility and ownership, with an emphasis on democracy, transparency, good political and economic governance, the rule of law and human rights as fundamental factors of human development and its call for mutual responsibilities and obligations. *In order to enhance the likelihood of success, civil society calls for early implementation of this initiative*. Civil society urges cooperating partners to timely and adequately offer external action in the form of debt relief, an increase in development assistance, more foreign direct investment, and greater market access for our commodities, along with the reduction of agricultural subsidies.

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1.0 Introduction

Civil society recognizes that a strong economy with sustained rates of high economic growth is a major prerequisite to achieve significant reductions in the prevailing high levels of poverty in the country. There is also a strong correlation between good governance on the one hand and economic growth and poverty reduction on the other. Good governance, especially good economic governance, is premised on, among others, a sound macroeconomic policy environment, institutional reforms, an enabling environment for business and investment, and transparency and accountability in the mobilization, allocation and use of resources. While recognizing that available resources may be inadequate for poverty reduction and human development, civil society is emphatic in its view that, the resource scarcity problem can be significantly mitigated through right prioritization of resources and prevention of their leakage through corruption and misuse.

Civil society is also cognizant of the fact that Zambia exists today in a globalized world and hence its development prospects are as much predicated on the external environment as on internal policy, institutional and behavioural reform.

This paper seeks to highlight some of the major issues perceived by civil society in the context of Zambia's economy and some of the important changes that civil society would like to advocate in order to make the economy stronger and more resilient.

2.0 Internal Economic Concerns

2.1 The Current Economic Situation and its Impact on the Business Environment

The Zambian economy has undergone major structural changes since 1991. Particularly with the privatization of the copper mines in 2000, the private sector now dominates productive economic activity. With the decontrol of prices, liberalization of the exchange rates and interest rates, removal of controls on externalization of profits, the opening up of several sectors such as insurance and telecommunications to competition, drastic reductions in external tariffs and largely free trade, Zambia has one of the most open economies in Africa.

The GDP growth rate over the past twelve years has, on average, been low and fluctuating. However, for the first time in a long time, there has been positive growth registered over three consecutive years - 2.2%, 3.5% and 5.2% in 1999, 2000 and 2001 respectively. This has occurred despite persistently low world market prices for Zambia's primary products, such as copper, cobalt and agricultural exports. Civil society shares, however, the expert opinion of economists that the high population growth rate of 3.1% would require a sustained growth rate of 7% or more if the country is to make a serious dent in reducing poverty. Hence, while the recent trends are encouraging, much more needs to be done on the growth front.

Although there has been a significant improvement from the picture of ten years ago, macroeconomic instability persists with a telling effect on private investment growth. The rate of inflation of 18.7% in 2001 was still high. The Government's target to bring inflation down to 13% (which would still be high) in 2002 is now threatened by the drought-related shortage of maize meal that sparked an increase in prices at the beginning of the year. According to the Bank of Zambia report of June 7, 2002 fortnightly statistics, the inflation rate stood at 20.9 %, largely due to the shortage of maize and subsequent increase in maize prices.

Exchange rate volatility still remains a problem, with the exchange rate fluctuating widely between K4,000 and K4,500 to the dollar in the first half of 2002. Such volatility generates uncertainty which, combined with the induced tendency towards dollarization, in turn induces hedging in the market. This produces artificially high prices for goods and services, making life even more difficult for the average Zambian who is living on less than US $1 a day.

Both nominal and real interest rates rose in 2001, despite the reduction in inflation. The unacceptably high commercial bank interest rates of up to 55%, are largely induced by the high cost of government domestic borrowing through Treasury bills and Government Bonds, which were as high as 43% in 2001, as compared to an inflation rate of just under 19%. Commercial banks' preference of these government securities has rendered private sector borrowing expensive and marginal. In order to reduce the stock of domestic debt and interest costs, GRZ has announced its intention to systematically scale down its borrowing, particularly through Treasury Bills and Bonds, over the medium-term.

Civil society is aware that in the last 2000 CG meeting, the cooperating partners made pledges but that to date, most of these pledges have not been fulfilled. This forced the Government to tap alternative funding in the securities market, which contributed to the high interest rate regime. Therefore, with this background in mind, civil society urges that *pledges of assistance made then and those to be made in this 2002 CG meeting be redeemed on schedule in order to enable Government to meet its objectives.*

The positive performance of non-traditional export earnings, which reached $300 million in 2001, has been overshadowed by the alarming external debt situation. Zambia's external debt stock has increased substantially from about $6.4 billion in 1991 to $7.3 billion dollars in 2001. The increase of about US $1 billion in debts was mainly due to non-receipt of the expected donor debt relief totalling over US $770 million, despite Zambia reaching Decision Point under the Enhanced HIPC Initiative in December 2000, when all creditors, particularly bilateral and multilateral creditors, were expected to immediately extend interim debt relief. Creditors that delivered interim debt relief included the International Monetary Fund (IMF), the World Bank, the African Development Bank, Canada, France and the United Kingdom. The HIPC interim debt relief delivered enabled Zambia to meet its external debt obligations. In spite of HIPC, Zambia's external debt service payments increased by 13.5% to $116.5 million in 2001, because of rescheduled debt agreements coming due.

The external sector environment has been less favourable than expected in 2001, with Zambia's terms of trade deteriorating by 3.8%. The current account deficit worsened to $743 million in 2001, mainly due to the increase in the value of merchandise imports, particularly in the mining sector, which outpaced the increase in the value of exports. The slowdown in the global economy, which was exacerbated by the September 11 tragedy in the USA, had a dampening effect on the growth of export earnings through the drop in the prices of primary commodities. The average realized prices of copper and cobalt fell by 6.1% and 31.3%. The weak prices of copper in the world market and other considerations have prompted the largest of the private investors who bought Zambia's Konkola Copper Mines (KCM), the Anglo American Corporation (AAC), to announce in January 2002 its intention to cease financing above commitment levels agreed in the privatization negotiations. GRZ, the donors, are working together to ensure that KCM, which owns one of the richest ore bodies in the world, does not cease production.

Civil society remains gravely concerned by the impact of the above economic developments on the prevailing business environment. The continuing scenario of high inflation, volatile exchange rates, and very high commercial bank interest rates simply does not provide for a sanguine business environment. It is not conducive to business planning and investment, and raises costs of production, making Zambian goods less competitive. This adverse macroeconomic scenario is compounded by the high costs of electricity and fuel that exercise a further upward push on prices, making it still more difficult for businesses to increase production and create more jobs and finally disadvantages the poor even further.

Civil society implores the Government to *rationalize its expenditure in order to reduce deficits and inflation*. Apart from countries in various degrees of civil strife, Zambia remains the only country in the region with double-digit inflation. Whereas civil society understands that Government needs to use T/bills and G/bonds instruments to raise money to finance some of its requirements, securing money from commercial banks at 43% interest, when the rate of inflation is 18.7%, does not make sense. *The Bank of Zambia should develop a different modality of arriving at interest rates on Government securities to bring the rates closer to the inflation rate. Government should work closely with the private sector to arrive at energy tariffs for electricity and fuel that do not unduly constrain business. Civil society supports the Government's efforts to counter the trend towards dollarization through re-affirming the Kwacha. Government should, however, restrain from appeals to enforce regulations against indexing local prices in US-Dollars.*

2.2 Budgetary Issues

The budget is an important instrument of policy, which, among other things, is used as a mechanism of resource allocation. Civil society is aware that in releasing funds to units, Government has not been adhering to the approved budget. The result is that some sectors receive bigger amounts while others receive less than their approved budgeted. This divergence between approved expenditures and actual disbursements alters the original priorities in the budget that were approved by Parliament.

Parliament and civil society do not adequately participate in the budget preparation and scrutiny of the proposed budget. The document is made public and published after the Minister of Finance and National Planning has presented it in Parliament, leaving room only for subsequent academic analysis. Checks and balances are just on paper since the serious time lag in the publication of the Auditor General's report makes it outdated and its relevance to the current situation questionable.

Civil society has also observed that the budget does not give priority to new investments. Capital expenditure has over the years been largely foreign financed. The budget also fails to address the issue of allocation for particular areas such as districts and constituencies because funds have always been channeled through ministries.

The major weakness is, however, the failure by the government to accommodate the views of civil society and the failure to make public the views of other stakeholders. With this, it is not possible to make comparisons as to whether these views were incorporated in the Budget or not. Therefore, civil society demands that:

- *Civil society be given an opportunity to not only participate in the budget preparation, but also to scrutinize it before it is presented in Parliament.*
- *The Auditor General's report be published six months after each financial year as stated in the Constitution of the Republic of Zambia.*
- *The Auditor General be given constitutional powers to prosecute erring officers named in the audits.*
- *The Auditor General's Office be decentralized to establish a presence throughout the country.*

Government has to make sure that the donors, who committed funding 39.6% of the total budget, fulfil their pledges.

2.3 Economic Diversification in Zambia

Economic diversification has been a recurrent theme since Zambia's independence. Despite this, diversification is as much an issue today as it was at independence. There are seven major themes of economic diversification that have been sought to be pursued over the decades with comparatively little achievement. These are:

- Sector diversification: This entails reducing the dominance of the copper mining sector;
- Export diversification: This implies promotion of a variety of non-traditional exports;
- Resource use diversification: This requires local raw materials in the production of goods;
- Technological diversification: This implies movement from capital-intensive production technologies to appropriate labour-intensive technologies;
- Scale diversification: This means reducing the dominance of large-scale production by enhancing the role of medium- and small-scale production activity;
- Structural diversification: This entails strengthening the production structure by promoting activities with high degrees of internal backward and forward linkages; and
- Regional diversification: This requires tapping the comparative advantages of the different regions in the country with the aim of uplifting the living standards of all the inhabitants and bringing about balanced regional growth and development. (Seshamani, 1991: *Zambia After Copper: Prospects for Economic Diversification*).

Today, with the looming crisis in the mining sector and especially in the Copperbelt, the issue of diversification has once again been brought to the fore. With the support of GRZ and cooperating partners, EAZ and the World Bank organized a workshop in June 2002 in Kitwe on "Deepening Economic Diversification in Zambia". The workshop came at a time when the risks of excessive dependence on copper and cobalt mining were laid bare by the closure of Roan Consolidated Copper Mines

(RAMCOZ) in Luanshya and the impending withdrawal of Anglo-American Corporation (AAC) from the Zambia's largest copper mine, Konkola Copper Mines (KCM) as noted earlier. The economic and social ramifications of the collapse of the copper mining sector are too ghastly to contemplate, hence the recent urgency being shown in economic diversification to reduce dependency on copper/cobalt mining, which account for over 90% of Zambia foreign exchange earnings and for 6-8% of its GDP.

Amongst other things, the workshop recommended the following:

- Establishment of a Copperbelt Diversification Authority;
- Focus on value adding production of goods and services;
- Concentration on sectors with high-growth potential in the short and medium term;
- Optimizing Zambia's participation in and benefits from the global market and regional/international trade agreements;
- Appointing a task force to spearhead detailed studies on feasibility and prioritization of development sectors/sub-sectors in the Copperbelt;
- A cluster approach to sector/sub-sector development;
- Decentralized implementation of economic diversification;
- Concurrent harmonized selective implementation of export processing zones (EPZs) and tax free zones, based on a model that does not comparatively disadvantage local suppliers of the EPZ.

2.4 Decentralization

Civil society is alarmed by the disparity in living conditions between the line of rail and the rest of the country. The continuing rural-urban drift reflects this reality. The current uncertainty surrounding the copper mining sector reminds us of Zambia's failure to meaningfully utilize the vast resources to be found in each province of the country. Economic diversification by leveraging opportunities throughout the country is central to successfully empowering and motivating people in the provinces to restore their economic dignity. Enabling communities to plan, manage and invest in their resources in a democratic manner makes decentralization both a political and economic imperative.

Civil society therefore *urges Government to move pragmatically forward with decentralization.* However, Civil society considers that there has not been sufficient stakeholder consultation on the most appropriate options for implementing decentralization in the Zambian context. The decentralization policy believed to be currently before Cabinet should be the starting point for national dialogue to ensure popular participation, awareness and endorsement.

3.0 External Economic Concerns

3.1 Debt Relief and Development

The Debt Issue

With view to past experiences, the current measures on debt relief will not go far enough to address the high levels of indebtedness in Zambia. Most of us are aware that Zambia is not new to numerous economic "curative" measures in the form of policy documents and pieces of advice mainly developed with the assistance of the donor community to enable Zambia overcome its economic malaise. But the results from such policies attest to unacceptable effects in all spheres of our lives. One would be quick to ask: what difference would this CG Meeting do for Zambia that it did not do in the last meeting? Does the change of venue for the CG signify a departure from past experiences where promises were made but not delivered? Were the donor pledges made in the last meeting translated into positive goals for our nation? Or is this just another social gathering to exchange ideas in the plush places of our country with no implementation of resolutions? It may be easy for the Zambian Government and the donors to "talk the talk", but are they prepared to "walk the walk" that would offer the 80% poor Zambians living in abject poverty a chance to exit their deplorable living conditions?

Time is now ripe to evaluate debt relief measures in Zambia. An observation that comes to mind is that these measures have not provided the resources that Zambia needs to solve the extremely serious social and economic problems.

The immediate task of our government should be to check on its poor past economic management in order to stimulate growth that would impact positively and meaningfully on the poor in Zambia.

One thing is certain: Zambia has very little to repay its debt with. Despite our dire financial needs, aid flows to Zambia have been declining drastically. For instance, in 2001 aid flows declined by 20.1% over the 2000 figure (see *GRZ Economic Report*, 2001) and this is a matter of serious concern to civil society. While assistance in all forms is generally welcome, we note with sadness that most of it is still coming in the form of loans. While loans are not bad *per se*, we feel that creditors should realize that full repayments of old loans in the Zambian context is infeasible and that enforcing full repayment would create more misery and is, therefore, highly undesirable from the point of view of civil society.

For instance, of the US$317 million recently approved by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF) to Zambia, over half of the amount (52.6%), or US$167 million, is in form of programme loans to be repaid in the near future. Worse still, some of these loans will go toward repaying old loans, thus moving in a vicious loan cycle with no hope of ever breaking the chain of indebtedness.

Despite our high debts and low export earnings, Zambia has until recently been making huge financial resource transfers to the creditor community in order to remain "credit worthy" in their books. New loans at concessional rates have continued to exceed debt service payments. Our debts are largely obligations to governments and multilateral lending institutions. Civil society does not claim that Zambia's unsustainable debt is the only major stumbling block to its development. However, it believes that if the debt issue is resolved by way of total cancellation conditioned upon a commitment to use saved resources for poverty eradication and to sound economic management and general financial prudence on the part of our Government, then such a move could result in a significant enhancement of the living standards of our people.

Civil society sees increased debt relief as the most effective way in which the donor community can empower the Zambian Government that is currently facing resource deficits. With significant debt reductions, as opposed to hopes for investments and broadened tax bases (which are long-term goals), our Government can plan into the future with more certainty.

Incidentally, the Transitional National Development Plan (TNDP) that is currently being prepared by the Government could act as a roadmap for a clear future direction. However, to get the full benefits from such a national plan, the government must consult all major stakeholders (civil society organizations, development agencies, members of the opposition, etc.) in its formulation. This will give it the necessary legitimacy and wide acceptability. Such a move would further strengthen the spirit of consultation and participation that the Government ably exhibited during the PRSP process in Zambia.

A report released by Jubilee-Zambia in April of this year showed that during the 1990's Zambia spent nearly 20% of its GDP on debt service repayments, while on the other hand education and health sectors received between 3% and 2% respectively. Such an imbalance is not only ethically unacceptable but also economically disruptive. It cannot be denied that a healthier and more educated people are likely to be more economically productive and hence provide the government a broader tax base for its revenue. Economists the world over are quick to admit that high levels of debt, as the case is in Zambia, limit a government's ability to mobilize domestic financial resources needed for investments and development. A government burdened with debt is forced to invest less in economic infrastructure and to a great extent cut its social spending. This certainly detracts from sound investment strategies. Thus unsustainable debt is a major block to long-term, sustainable and integral development.

In the current circumstances, increased debt relief to Zambia is the most immediate and efficient way to mobilize resources for development. Total debt cancellation is not a question of relief but of economic and social justice: to put an end to the ably documented net transfers of wealth from Zambia and other heavily indebted countries to the creditors at the cost of intolerable suffering and human sacrifices. The wealth transfers are facilitated by debt service payments and unfair trade practices. For instance, net financial transfers from the Third World to the developed countries, from 1983 to 1993, totalled approximately US$300 billion[1]. This debt is increasing steadily, not only in absolute numbers, but also in percentage of the Gross National Product (GNP). The overall Third World debt against GNP ratio reached 27% in 1980 and 38% in 1994.

The debt crisis in Zambia is partly a consequence of fatal economics that uses the maxim of market forces to entrench policies that have more often than not failed to deliver to the people. The debt problem should be seen as a cause and outcome of failed policies that have continued to violate the social and economic rights of the Zambia's poor by denying them an opportunity to realize their full potential in sustainable human development.

The HIPC Initiative in Zambia

While recent efforts aimed at resolving the debt crisis in Zambia by both government and its cooperating partners are certainly welcome, civil society continues to argue that the enhanced Highly Indebted Poor Country's Initiative (HIPC) is failing and does not even address the debt problem adequately. The HIPC Initiative uses criteria for assessing debt sustainability that are purely based on simple macroeconomic aggregates, such as exports, while disregarding the human development needs of the poor country. The export projections used by the World Bank and the IMF to calculate the amount of debt relief that will be needed for poor countries have been overly optimistic. In order to limit their own contribution to the Initiative, creditors have easily subscribed to such optimism. The World Bank acknowledges that most of the export projections have not been met because of the dramatic fall in the commodity prices at the world markets.

According to the Jubilee Research (a European based research organization), in 31 out of the 42 HIPC countries the Initiative has failed in several significant ways. This disturbing finding is also echoed by two new reports issued by the World Bank in

[1] World Bank, *World Bank Debt Tables*, 1982-83,1989-90,1992-1993

time for the recent IMF and World Bank spring meetings. The reports from the World Bank show that:

- At least 2 of the 5 countries already at the Completion Point do not have sustainable levels of debt according to the HIPC criteria

- At least 8-10 of the 21 countries which are currently between Decision Point and the Completion Point under the Initiative will not have sustainable levels of debt at the Completion Point, according to the same criteria.

Thus HIPC in its current form cannot be relied upon to release sufficient funds that can be used as financial resources for development needs. It does not deliver debt relief fast enough, since donors frequently tend to get engaged in technical disagreements with recipient countries on shortcomings in the macroeconomic reforms.

The talk around the need for the enhanced HIPC Initiative has mainly focused on the insolvency and economic mismanagement of debtor governments. It hardly pays any attention whatsoever to the important role played by creditors in lending the money and determining how it was used. *Civil society feels that debtors and creditors alike should share joint responsibility for the fact that the poor in Zambia, as elsewhere, are paying for the mistakes of the past regimes, and those of the richer countries alike.*

HIPC debt relief is only fully released once the debtor government produces a comprehensive Poverty Reduction Strategy Paper (PRSP), which links debt relief resources directly to poverty reduction measures. But debt is an issue that has clear linkages with other major problems in Zambia. These include problems such as poor investment policies, unfair trade practices and low aid flows. To have an impact on these other areas, we do not need to turn away from debt relief but rather recognize significant synergies and approach debt relief in a more *holistic* way.

If the IMF and the World Bank have been doing their business correctly, why is there still so much poverty around us today? Is it not a paradox that despite the Fund/Bank presence in Zambia for many years, poverty levels have continued rising unabated? (Remember these institutions have been our development and financial advisors for over two decades). This is not, of course, to absolve the various Zambian government regimes from any responsibilities. Civil society feels that we definitely must raise the challenge to recognize co-responsibilities for failures in development plans. For example, recently the Food and Agriculture Organization (FAO) Country Representative in Zambia admitted that the Agricultural Sector Investment Programme (ASIP) was a "total failure" as it failed to address the plight of a common farmer (THE POST, 17/06/02). Yet this programme was highly encouraged and supported by donors. Does this not call for self-introspection by *both* government and donors alike and a refocus of ideas on current development strategies that have failed to yield the desired results?

Loan Contraction Process

Zambia, like many other poor countries, remains dependent on external financing. And even if poverty reduction is put first and Zambia receives 100% debt cancellation, the country may still need external financing to achieve its national development goals. Clearly, it is important to think of ways to prevent the debts from piling up again to unsustainable and damaging levels. Civil society sees hope in responsible borrowing on the part of our Government and responsible lending on the creditors' part. In the current situation the bilateral and multilateral creditors decide or influence what the borrower is to use the loan for. At the same time if anything goes wrong, the creditors do not suffer the loss on their investments, as they are still able to get their money back through debt service payments. It appears that they bear no responsibility and carry no risk on their investments or loans. We find this arrangement to be at variance with the free market tenets that state that whoever takes economic decisions must as a matter of fact, also carry financial risks.

In order to promote the responsible borrowing and lending procedures necessary to assure Zambia's sustainable development in the future, we feel several clear guidelines should be followed. These would ensure that the loan contraction process is open, accountable, and effectively directed. Some suggested guidelines include[2]:

- *Government should not borrow without prior consultation and authority of the people's representatives, the Members of Parliament*. The national Constitution

[2] Civil society is indebted to Jubilee Netherlands and to Jacques B Gelinas author of ' Freedom From Debt' for some of these brilliant ideas and suggestions

should be amended by inserting a clause that reads something like this: “Government shall not borrow, guarantee or raise a loan on behalf of itself or any other public institution, authority or person except as authorized by or under an Act of Parliament”. Public scrutiny could prevent irresponsible borrowing.

- *Loans should be linked to a “productivity conditionality” ensuring that loans are used for activities that generate sufficient resources for repayments.* Responsible borrowing and lending requires that the type of finance be adjusted to its spending purpose. A distinction could be made among three different purposes of external financing namely:

  External grant finance for non-income generating purposes: Finance for non-income generating purposes, such as humanitarian and disaster assistance, and the provision of basic and universal education and health, should be provided in the form of grants. At the very least and only in special circumstances should highly concessional loans be used.

  External concessional finance for indirectly income-generating projects: The construction of roads and bridges and other infrastructure development projects should be financed by concessional loans with long grace periods. Repayments should not fall due before the loan starts to generate income.

  Commercial loans for directly income-generating projects: Loans for putting up industries, for example, should be financed by commercial loans, but with low interest rates. In the event a particular country’s economic climate becomes adverse, the loans should be converted into grants to enable an economic recovery. There should be a risk assessment by borrowers and lenders and if the programme fails, borrowers and lenders should share the risk. The government of the debtor country should not bear full responsibility as the case is now, and be obliged to repay a disproportionate share of the loan. Moreover, the government should never be forced to use money that is earmarked for other sectors, such as education and health, for the repayment of loans.

Monitoring and Evaluation of the Debt Relief

In order to ensure proper use of debt relief and external financing in general, civil society feels that *it is necessary that government puts in place a clear and effective* *monitoring mechanism to prevent the abuse of public funds. This is a matter of utmost urgency. In line with that, Jubilee-Zambia has been for some time proposing the establishment of a "Debt Mechanism."* This is a legally structured arrangement that would bring relevant government ministries, key and credible civil society organizations, as well as Members of Parliament together in the monitoring process. The idea is to create an open enough system that provides transparency, accountability and participation in the management of the public resources freed up through debt relief.

It is true that the government of Zambia, in responding to the need for the monitoring and evaluation of the HIPC resources, constituted the HIPC Expenditure Monitoring Team in September of last year. Civil society and other organizations drawn from different backgrounds have been invited to sit on this team. But until to date nothing concrete has happened in terms of the actual monitoring. Numerous delays and bureaucratic difficulties have prevented effective and necessary steps to be put in place. Moreover, such a system must be seen in the wider context and framework of the Poverty Reduction Strategy Paper, since debt relief and the PRSP are currently inseparable.

The appropriate monitoring and evaluation would have several important consequences, among which would be:

- The internal disbursement of debt relief is carried out in an open, accountable and transparent manner, and ensures that such funding reaches the intended targets.
- The utilization of the funds is evaluated in terms of their impact on the development goals set by the government in its various plans, both short-term and long-term.
- The monitoring systems itself is checked to see if it is delivering on its promises.

3.2 Trade and Globalization

Globalization is a dynamic and complex process, as well as a highly contradictory and ambiguous process. Clearly, as experienced in recent years, it opens up great opportunities for some, but not for others. It also bears high risks depending on where one is situated. Therefore any discussion of economic governance must also address the topic of globalization. Furthermore, it is impossible to separate issues of poverty reduction from globalization.

The issues of globalization are of course much wider than simply trade, and include those of technology, communication, labour markets, culture, etc. But for our purposes here, we will focus briefly only on the issue of trade.

It is important to acknowledge that poverty reduction in Zambia is, to a large extent, dependent on international trade. As a poor nation we have to produce and sell our commodities in the world markets. But several significant barriers restrict access to these markets. Zambia and many other developing nations stand to benefit very little from globalization because of barriers to trade (both non-tariff and tariff barriers) and overproduction of similar commodities by poor countries which are competing for the same markets. The standards set by developed countries in the export market are frequently unattainable by poor countries. Non-tariff barriers such as quality demands and controls are mostly used to prohibit and restrict third world exports. For the most part, these are highly unacceptable and unjustified.

Poor countries' trade disadvantages are even more evident when one considers the history of relationships. It appears that the developed countries respect the principles of free trade only when it benefits them. In the textile and clothing sectors, for example, where underdeveloped countries have a comparative advantage, the industrialized countries have maintained high tariff barriers. A major UNCTAD study in 1992 revealed that in these two fields "the industrialized countries, in violating principles of free trade, are costing the developing countries an estimated US$50 billion a year -- nearly equal to the total flow of foreign assistance"[3].

Overall, it is estimated that unequal trade currently costs the underdeveloped countries about US$500 billion per year. Africa in general and Zambia in particular gets very little value for its products as they are usually in raw form and thus fetch less money on the world markets. Therefore, there is the need to invest in appropriate technologies to process our products and hence add value to them which ultimately will enhance their pricing structures.

[3] UNDP, *Human Development Report 1994,* p.66

While regional integration, with the consequent development of trade relationships, is theoretically advantageous in Africa, the arrangements must be subjected to very serious evaluation. Judging from recent experiences, civil society is sceptical about Zambia's chances of benefiting strongly from regional economic groupings such as the Free Trade Area (FTA) under the Common Market for Eastern and Southern Africa (COMESA). The playing field in terms of tariffs among member states is still a contentious and unresolved issue. Zambia should not have been pressured to rush into these groupings. It should have been possible to have waited and moved cautiously before ratifying trade agreements that have proved so far to offer very little to the nation.

In Zambia's current Poverty Reduction Strategy Paper (PRSP), the assumption is made that our economy will grow from increased exports. Yet orthodox growth models from past experience have shown that they do very little to reverse poverty trends. It is incorrect to assume and argue that economic growth will necessarily and automatically lead to development. During the last three years Zambia has been recording economic growth, but paradoxically this has been accompanied by a deterioration in the human development indices.

Experience has also shown that it is very difficult for poor countries like Zambia to influence the terms of trade in its favour. Hence there is urgent need for the developed countries to open up their markets. We are aware that the newly-inaugurated trade initiative of the United States of America (USA), the Africa Growth Opportunity Act (AGOA), if implemented in the spirit of true openness, might address the trade imbalance between poor countries like Zambia and the rich and powerful countries in the North. But it needs very serious examination who exactly in the poor countries benefits from such changes.

The country which played a central in its formulation, the USA, is undermining AGOA as an initiative. This is because the new initiative fails to address the lack of coherence among the aid, trade and debt policies of the United States. For instance, subsidized agricultural production and export dumping by the United States continues to undermine opportunities for African producers. African small-holders see their markets ruined and household incomes decline as a result of cheap imports. In the light of this gloomy scenario, will it be the small-scale entrepreneurs and farmers or only the already rich elite who will benefit from the AGOA initiative? For Zambia, civil society believes that is too early to answer that question without much deeper examination of the structural implications of AGOA.

We reiterate our call that agriculture subsidies by developed countries should be curbed and reduced. With the majority of the poor in Zambia relying on agriculture, this is one precondition that will ensure poverty reduction . Export subsidies used by the EU to reduce prices of their food exports, for instance, do undercut prices for our farmers. In other words, agriculture subsidies have killed an opportunity for poor people to break the poverty trap.

Other initiatives like the European Union's "Everything but Arms" do not seem to make life easy for poor countries like Zambia. In fact, the "Everything but Arms" initiative can be classified as the "everything but agriculture" because of the way the EU has protected its agricultural markets.

In conclusion, civil society wants to make the following points:

- *The developed countries should open up their markets more rapidly and fully in order to effectively benefit poor countries like Zambia, making the terms of trade more favourable and less biased toward rich country advantages.*
- *The developed countries should drop their heavy subsidization of agricultural products and the practice of dumping their surplus production in poor countries.*
- *Zambia should re-evaluate its participation in regional trade arrangements, to assure that such arrangements really do serve the Zambian people both in the short-term and in the long-term.*

3.3 New Partnership for Africa's Development (NEPAD)

A road map for sustained economic growth and poverty eradication lays out a unified vision and development strategy for the continent, to place African countries, including Zambia, on the path of accelerated growth and poverty eradication. Civil Society agrees with the core principles in NEPAD of responsibility and ownership, with an emphasis on democracy, transparency, good political and economic governance, the rule of law and human rights as fundamental factors of human development. Among its most challenging and gratifying features is its call for mutual responsibilities and obligations.

Civil society notes that concrete commitments are expected at various levels, such as between African countries and their development partners. *In order to enhance the likelihood of success and wider operationalisation of NEPAD, civil society calls for unequivocal support by the cooperating partners for early implementation of this initiative*. While Zambia and other African countries shoulder the responsibility and leadership for the implementation of NEPAD, the need for international solidarity cannot be overstated in this forum. For our part as civil society, we urge cooperating partners to timely and adequately offer external action in the form of deeper debt relief and an increase in development assistance. More foreign direct investment and greater market access for our commodities is needed, along with the reduction of agricultural subsidies which continue to disadvantage developing African producers.

Civil society in Zambia, therefore feels that the G8 summit held in Canada recently, the UN conferences on Financing Development, the World Summit on Sustainable Development later this year in Johannesburg, as well as this CG meeting with our cooperating partners today, are occasions for concrete and tangible commitments by Africa `s development partners.

4.0 Conclusion

In concluding this important paper presentation, civil society would like to reiterate and emphasise the following points:

Firstly, Government needs to design sound and appropriate economic policies that are geared to promote local and foreign investments and thus stimulate economic growth. The budgetary process should prioritise and sequence its programmes and targets in order to derive optimal benefits from both domestic and external financing. It should also be streamlined to incorporate all stakeholders in its formulation, preparation and ultimate implementation.

Secondly, the donors and other cooperating partners must move towards full debt cancellation that is contingent upon a clear-cut national development plan focussed on poverty reducing strategies. Current debt relief measures are inadequate and hence need to be reviewed in order to make them responsive to the dire economic and social needs in the nation. Past pledges by donors must be fulfilled while pledges to be made at this CG meeting must be delivered in good time to allow the government implement its development programmes without seeking recourse to financing measures that lead to economic overheating reflected in high interest rates, volatile exchange rates and galloping inflation rates.

Thirdly and more importantly, if Zambia and other African countries are to benefit from NEPAD and other economic initiatives, then there is need for the developed countries to open up their markets through removal of tariff and non-tariff barriers. Agricultural subsidies in the European and American markets must, as a matter of urgency, be curbed and removed in order to stimulate African exports.