OPENING ADDRESS

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DELIVERED AT
THE FIRST ORIENTATION SEMINAR ON
DEBT FOR DEVELOPMENT INITIATIVE - ZAMBIA

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I thank MWENGO and the Zambia Council for Social Development (ZCSD) for the opportunity to officiate at this seminar. I am particularly pleased to be on a ZCSD program, after two or three decades. I hope that this marks ZCSD's return to community development centre stage. ZCSD has historically been the genuine Non Governmental Organisations' locally driven umbrella and promoter. This is significant because it cannot be over-emphasised that genuine development is self-determined and self-reliant. Genuine development can be much enhanced by solidarity within and between national and pan-African communities and peoples, which is exemplified by this teaming up of MWENGO and the ZCSC.

I welcome the honour to officiate at this occasion, which has been billed as the first orientation seminar on debt for development or debt swap. In my letter of invitation, "debt for development" is presumed to hold potential to pitch in towards economic growth. I am mindful that the seminar is intended to be a forum for interrogating advantages, process, actors and feasibility of securing debt swap arrangements. This is a positive and progressive approach, which can release and apply additional resources towards national development.

Zambia shares this debt quandary with at least two-thirds of other African countries. This is a dilemma arising from development resources inadequacies. These inadequacies are largely a direct result of the nature of the operations and systems of national economic management. It also arises from the economic impoverishment ad political powerlessness that is both a basis and by-product of the very nature of the operations and systems of national economic management. Furthermore, the very unsustainable nature of the multi-resultant debt burden has the multiplier effect of making resource even more inadequate, and, thus, further producing higher degrees of poverty from a base that has already been impoverished. In this way, there is a case for assuming that debt repayments are extracted at the expense of productive investment and social service delivery. It is on the basis of this well grounded assumption that it can be expected that "debt for development" arrangements could allow for increased availability of monetary resources for development, including poverty eradication and human services.

The challenge of identifying, mobilising, increasing and applying development resources against this debt spiral is truly national, in that it is in both government and civil society hands. It is commendable that planners of this Seminar have acknowledged that government's positive involvement is necessary for the anticipated type of "debt for development" poverty eradication strategy. It is appropriate and useful that government administrators have been invited to this Seminar, together with civil society activists. National development goals, and the very nature of processes of genuine development, call for the application of a broad range of approaches and efforts from all level of government and all sectors of society. On the part of government agencies, private enterprises and community efforts, broad national involvement and genuine people representative-ness is required in identifying and interrogating opportunities that debt swap may offer for development and poverty elimination.

I note that information provided together with my invitation letter, equates "debt for development" arrangement with debt swap, and provides a definition of debt swap, as well a identification of some strategies for achieving poverty reduction in debt swap. The debt swap option is presented as a second best option, although it is seized upon as the feasible option. This is as opposed to the acknowledgement that debt cancellation would be the best option, although it is seen a being unacceptable to creditors. In any case, debt cancellation, per se, may not ultimately resolve the underdevelopment and poverty problem arising from lack of development resources. "Debt for development" is said to allow for creditors to avail the whole or a part of would-be-repaid funds for development and anti-poverty programmes. This is assumed to include public expenditure on health and education, as well as funding small-scale industries, business training and, even farming and general market development and spread.

Propositions for "debt for development," which mean availing debts repayment funds for internal investment rather than externalissation, raise questions and debates that can best be appreciated within a context of an empirical framework and, generally, a more rigorous scrutiny of terminology, substance and equivalents. There has been a practice where by foreign currency debts converted to local currency investments at a discount have been channeled into future foreign exchange outflows. This can, for

example, happen where unscrupulous investors buy off privatised enterprises at a song, and then taking advantage of a open foreign exchange externalisation market that had not existed when the pipeline of outstanding loans was mounting into a debt problem. In other words, what is planed to be, or said to be, "debt for development", has in the past, at least sometimes turned out to be deepening" debt for underdevelopment business as usual. It is, therefore, necessary to ensure that debt swap arrangements neither undermine African sovereignty, through rolling back the state into de-institutioalisation nor further under develop Africans, through finding different way of continuing economic exploitation.

This issue of "debt for development" is further complicated because the historical context of analysis is itself subject to varied interpretations, which can better be appreciated through a deeper historical framework of analysis. On the one hand, for example, in the case of Zambia, the origin of the debt problem, in the 1986 words of Kenneth Kaunda:

"The years after 1974 have witnessed a progressive contraction in the economy, as a reversal of favourable trends, which marked the performance of the mining sector up to 1974… towards the end of 1973 the price of oil was increased four fold … pushing up the costs of production… part of the increased costs of production in developed countries were passed on to … countries … like Zambia … in the form of the higher prices we had to pay for imports … this was the beginning of our debt problems, as we had to resort to … borrowing to sustain a reasonable level of imports and medium and long-term borrowing to finance our development programme.

… the revenue base … was seriously weakened … deficit begun to grow. … the effect … was a fall in the standard of living … accompanied by growing unemployment. At end of 1984, external debt stood at around US $ 3.5 billion … in the course of three years, since 1984, this debt has risen further and is now estimated at US $ 5.1."[1]

This is the standard explanation of how the debt problem emerged, from the early 1970s, on account of our copper export earnings falling, while import spending on fuel and machinery increased. A side explanation has to do with resource redirected or forfeited, as part of the struggle to liberate Africa from European settle domination and apartheid. And so we borrowed. When copper prices did not recover sufficiently or often and long enough, the incapacity to service the growing debt and the continuing inadequacies of development and poverty eradication resources is the net result. On the other hand, the World Bank, IMF and the governments of creditors tend to attribute the debt problem to poor economic policies[2] rather than the terms of trade or these other explanations, which is a debate for another day.

What is of immediate historical relevance is to indicate that, in fact, even in the case of Zambia, the idea of debt swap is not new. This is well illustrated by January 1992 budget address by the then minister of finance, Emmanuel Kasonde. On the subject of debt service, Kasonde carefully stated that:

"We will continue to work towards reducing our international indebtedness. We also undertake to make every effort to meet our maturing obligations on schedule. However, our creditors know that this government did not contract this debt. They also know that the money was not efficiently used in the interest of Zambians and that some of it might have been misappropriated.

However, we are a responsible government and have undertaken to pay all obligations legally entered into by the previous administration. All we ask of our creditors is to allow us a chance to keep democracy afloat and to give a chance to the poor of this country to taste the fruits of liberty.

It is, therefore, of essence that our debt payments be confined to an amount that will permit the financing of a level of imports and social programmes that is commensurate with our economic and social targets for the year. We have worked out the exact targets and benchmarks, and continued and enhanced assistance in the form of both debt relief and new financial flows will be vital in meeting them.

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[1] Cabinet Office, Republic of Zambia, "New Economic Recovery Programme – Speech by His Excellency the President, Dr. K. D. Kaunda, Government Printer, Lusaka, Zambia, May, 1987

[2] World Bank, 1994, *"Adjustment in Africa, Results, and the Road Ahead,* Oxford, Oxford University

We will also work towards reducing our obligations to private creditors by offering debt-for-equity swaps. We will meanwhile continue with the policy of dismantling the pipeline to create funds for development."[3]

The debt swap arrangement addressed the Minister of Finance in 1992 was with particular reference to foreign debt-for-equity in local investment, which seem to have turned out to have been investment in a banking concern. This investment utilized funds that would have otherwise been a foreign exchange outflow, in terms of debt repayment and debt servicing. This debt dismantling approach was a tentative, but bold, attempt to reduce a long standing and ever increasing foreign debt pipeline of outstanding externalisation. Without ignoring the contribution of mismanagement, the long standing process of net foreign resource outflow has been a continuous contributor to this mounting debt build up. This regime of continuous resource outflows is part of the nature of the continuing dependent nature of the Zambian economy and the inherent unequal exchange nature of the unequal world economy. Debt swaps, even if productively invested, cannot lead to sustainable development and poverty eradication as long as this inherent outflow causing dependency is not busted.

This is partly what the Cuban leader, Fidel Castrol, referred to, when he noted that:

"The primary cause of the external debt of the underdeveloped countries can be found in the very foundation of their deformed economic structure, which is incapable of internally generating the financial resources essential for overcoming backwardness and guaranteeing sustainable economic growth. Nevertheless, a few factors have notably contributed to even further promoting and exacerbating this phenomenon. They include:

* *The excessive liquidity accumulated in the 1970s as a consequence of the recycling of petrodollars and the extraordinary growth of the euromarket.*
* *The dynamics of interest rates, which have notably influenced the growth of indebtedness.*
* *Erratic shifts in exchange rates.*
* *The deterioration in terms of trade.*
* *The easy access to credit during the 1970s for governments, which used borrowed funds for works that had little to do with social and economic development; these governments were offered generous financial facilities, with no importance attached to how they used them.*
* *The debt is therefore a problem for which much of the responsibility lies with the wealth countries and their policies towards the third world."*[4]

It is certainly the case that Zambia was accessed to the downpour from the 1970's excessive liquidity arising from the recycling of petrodollars, under conditions of adversely fluctuating interest rates, which greatly influenced the growth of indebtedness. In the area of foreign exchange rates, in 1993, one observer wrote that, the purchasing power of the Zambian local currency

"… declined horribly over the past seven years, …the Kwacha now buys one hundredth of what it did seven years ago. The issue is complicated, as the purchasing power of the Kwacha, the exchange rate, the interest rate, the inflation rate, the treasury bills and the Structural Adjustment Programme are all bound together, and the interplay between them will determine whether we begin to see an improvement in our standard of living."[5]

In short, even debt swap options cannot work outside a working integrated total package of national economic policies and practices, within the overall national and global environment, including the division

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[3] The Hon. Emmanuel G. Kasonde, M.P., Minister of Finance, *"Budget Address, January, 1992, (Government of Zambia, Government printers, Lusaka, Zambia)*
[4] Address by Fidel Castro Ruz, President of the Council of State and the Council of Ministers of the Republic of Cuba, on April 12, 2000 at the opening session of the Group of 77 South Summit Conference in Havana, Cuba in Fidel Castro, Neoliberal Globalisation and the Third World, Resistance Books 2000, Chippendale, Australia, Page 26
[5] Profit – Zambia's Business Magazine, *"Kwacha Power: Steady Decline Over the Years and now Some Uncertain Moves,"* September, 1993, Lusaka, Zambia, page 7

of labour and terms of trade. In other words, for debt for development to eradicate poverty and generate sustainable development, the composite of economic policies has to be anti-poverty in direct effect, and the national economy has to be operating within a just, fair and mutually beneficial international economic order. Debt swap can be no solution, if the country continues to produce what it does not consume and to consume what it does not produce, while the global pricing regime and market control remain adverse.

As long as this remains the case, it shall continue to be the order of the day, whenever it suits the economies and corporations that are advantaged by the prevailing unfair, unjust and exploitative world economic order. If there is no transformation from this status quo, history shall continue to repeat itself. Then, debt rescheduling, debt reduction, and even debt swap arrangements, would have the same effect as easy term and easy access loans of the 1970's that started the slide into the debt pit we find ourselves in.

We must keep in mind what Fidel Castro said:

"During the 1990s, a new process of indebtedness has taken place that is even more dangerous than that of the 1970s. A large portion of the debt is individually held, and so it can change hands more easily on secondary markets, is more dispersed, and is more difficult to renegotiate…

The conditions for renegotiations within the framework of the Paris club have been evolving since the 1988 adoption of the so called Toronto terms, applicable to low-income countries, which entailed the cancellation of one third of the non-concessional debt and the long-term rescheduling of 'restructurable' concessional loans.

… These renegotiations have been marked by the political positions of creditor countries and used as a means of applying pressure to benefit their own interests.

Subsequently, new terms have been adopted which have increased levels of concessionality, but have ignored the situation of middle-income countries. The attention of the international financial community has been completely diverted and focused solely on the search for stopgap measures to alleviate the situation of a group of highly indebted countries, which do not account for even 9% of the total debt.

… The only measures adopted have been the so-called Houston terms of 1990, which offer the possibility of debt conversion and swap operations. For 10 years now, the wealthy countries have proposed nothing that signifies an advance in the solution of this pressing problem for the immense majority of debtor countries. In September 1996, the IMF and World Bank proposed the reduction of the debt of the highly indebted poor countries (HIPCS) with the supposed objective of achieving sustainable levels of external indebtedness for this group of countries, which represent only 8.3% of the total debt of the undeveloped countries. In the studies carried out, only 20 countries emerged as potentially eligible, out of the 41, which made up the original list. In November 1996, the Lyon terms were approved, establishing the participation of the Paris club in this initiative. These terms contemplated the reduction of 80% of the debt.

The implementation of this proposal has progressed at a low pace. In June 1999, at the cologne summit of the group of 7, new agreements were reached which were then made concrete at the joint IMF/World bank meeting held in Washington in September 1999, leading to the so-called enhanced HIPC initiative.

This new variation proposed the cancellation of $100 billion in debt, linked the lowering of the debt with a reduction of poverty, and contemplated faster, more widespread relief of the debt burden, raising the number of potentially eligible countries to 33.

Independently of all of these steps, what is certain and irrefutable is that almost four years after the HIPC initiative was put into practice, only 14 countries have managed to make any progress. Of these, only four have reached the completion point. Another five countries have reached the "decision".

The enhanced HIPC initiative continues to be an insubstantial proposal for numerous reasons:
It is not a matter of debt cancellation, but rather a debt swap mechanism, given that, in exchange, the debtor country must provide the equivalent value of the cancelled amount in national currency, to be

invested in projects aimed at reducing poverty. Nevertheless, the social crisis in these countries is so urgent and their resources are so limited that it is unrealistic to assume that governments will finance domestic projects with nonexistent funds that should supposedly be used for the payment of the debt. Instead, what is urgently needed is the total cancellation of their debts and a major flow of fresh money under concessionary terms, in order to genuinely implement a program for reducing poverty.

The amounts donated for this purpose are insignificant in comparison with the magnitude of the problem. The procedure for applying the enhanced HIPC initiative follows the classic IMF philosophy of adjustments first and financing later, when the reality is that the degree of poverty and accumulation of social problems simply does not have room for more adjustments.

If this cancellation is not accompanied by mechanisms that guarantee a sustained flow of resources under concessionary terms and true insertion into the world economy on just foundations, then the problem will likely re-emerge.

Researchers and scholars of economic history remind us that the default on payments is nothing new in the history of humanity. Europe left the payment of its debt to the United States pending during the first world war, and nothing more was ever said of it; Britain still owes the united states for loans granted during the second world war, and nobody even reminds them of it, or at least they do not demand their repayment. The United States itself, when it occupied Cuba 100 years ago, put forward the doctrine of "odious debts".[6]

In this address, Fidel Castro correctly concluded that global debt situation is one of the biggest obstacles to development. Accordingly, he, together with an ever increasing number of personalities and institutions have called for action beyond prevalent stopgap type of solution-non-solutions that barely even really mitigate the difficulties faced by debt ridden economies and societies, such as Zambia. Therefore, we have to question whether, and how, any debt swap option, which falls short of total debt cancellation, could be structured into real solutions to the serious debt problem.

Over the last thirty years, the Zambian government has negotiated different ways of dealing with its huge amount of debt. On May Day, 1987, then President, announced the bold move of simply and unilaterally reducing debt repayments and servicing, but only to back down by the end of 1988, and ever since.

Renegotiations, buy back schemes, partial canceling, rescheduling arrangements, etc – but we are still deep in debt! At the end of 2001, Zambia owed us$7.3 billion in external debt. This debt burden stands at the just about the same level as it was ten years ago, and countless debt rescheduling, debt reductions and, even some debt for development measures later. Two years ago, it was broken down into US $3.35 billion, or 46%, to the multilateral lenders (e.g. IMF, World Bank), US $3.09 billion, or 42.5%, to the bilateral lenders, for example Britain, USA, Japan and Russia, US $0.832 billion, or 11.5%, to commercial lenders.

So then along comes the highly publicised "HIPC initiative". In 1997 the World Bank and the IMF declared Zambia a "highly indebted poor country". This meant that we would be eligible for some debt "relief: according to a formula of "sustainability" based on our export earnings and government revenue ratios. Of relevance to this Seminar is that HIPC initiatives, which are necessary but not sufficient to fully and finally address the nature of the subject longstanding debt burden, are one type of debt swap. For a couple of year Zambia has been within the processes of the HIPC initiative, which is set to result in partial debt relief connected to further poverty alleviation resource redirection.

The condition for this fractional debt relief is tied to a completion point that is defined to include fiscal belt tightening beyond what has been the case so far. The pressure and controversies over the completion point

[6] Address by Fidel Castrol Ruz, President of the Council of State and the Council of Ministers of the Republic of Cuba, on April 12, 2000 at the opening session of the Group of 77 South Summit Conference in Havana, Cuba in Fidel Castro, Neoliberal Globalisation and the Third World, Resistance Books 2000, Chippendale, Australia, Pages 27 to 32

conditions has slightly shifted unto these fiscal disciplinary areas, from privatizing ZESCO, which is being commercialized, and National Commercial Bank, which is being privatized but under modified terms. This completion point and the economic and poverty alleviation benefits that are expected to accrue with it are the immediate goals of the Government. For the government to achieve this any lingering governance issues should be resolved and it should strive to meet all other conditions placed on Zambia in order to reach the completion point.

This is the much contested environment of development intervention options, within which this Seminar is to address another type of debt swap arrangement. But this debt swap intervention, this time, and hopefully, shall be determined and driven o-operatively between Government and genuinely locally driven civil society, with a flavour of Pan-African solidarity support. This shall not be achieved through an easy or fast track, matter of verbal resolution, at one Seminar, but it is my hope that this shall be a step towards establishing a significant additional angle for additional contributions to resolving the debt problem and unfreezing more development resources. It is with this faith that I declare this Seminar open.