IMF Response to the Global Campaign for Education

A recent paper released by the Global Campaign for Education[1] states that 8,000 to 9,000 newly qualified teachers in Zambia have not been hired. The paper concludes that this situation is a consequence of "IMF policies".

The IMF agrees on the importance of improving educational standards to make progress toward the relevant Millennium Development Goals (MDGs). However, the presentation of this issue in the Global Campaign's paper is full of inaccuracies. **At no time have IMF policies prohibited the Zambian Government from hiring new teachers or other priority workers such as doctors and nurses. In fact, the Fund has worked closely with the Zambian authorities to find solutions that allow for such hiring.** This note describes the issues that the Government of Zambia and the IMF have had to address over the past year, particularly the need to contain the government wage bill at a manageable level, even as it sought to meet the needs of poverty reduction. Most importantly, steps have been taken to hire some 7,000 new teachers.

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The performance of the Zambian economy has improved considerably in recent years. After more than two decades of sustained declines in per capita income and rising poverty, economic growth has averaged more than 4 percent per year since 2000. But this recovery-which must be stronger and sustained over a longer period to make deeper inroads into Zambia's severe poverty-remains fragile, with inflation still running at around 20 percent.

The improved performance of the Zambian economy has been aided by Government policies geared toward fostering private sector development and macroeconomic stability. However, in recent years, government borrowing in the domestic market to finance the budget deficit has resulted in high interest rates. Indeed, the government's domestic interest payments now exceed its external debt service by a wide margin. A key objective of fiscal policy has therefore been to control this borrowing to allow interest rates to decline-as they have done in 2004-and thereby both avert endangering the economic recovery and allow for more priority spending.

The government wage bill in Zambia, which rose sharply from 5.3 percent of GDP in 2000 to 8 percent of GDP in 2002, has been a central issue in policy discussions with the IMF because of its implications for the fiscal deficit and government borrowing. The increase in the wage bill since 2000 has primarily been caused by large wage increases-both in nominal and real terms. It is not a result of increased employment of government workers.

In April 2003, government wages were raised substantially and a new housing allowance was introduced. These measures were *not* part of the budget approved by Parliament, and were not otherwise sanctioned by Parliament. Moreover, the increase in the wage bill was again to come from higher wages and benefits rather than from the hiring of more teachers or other priority employees. If these amounts had been paid in full, total remuneration of government employees would have exceeded the budget allocation of 8 percent of GDP in the 2003 budget by 2.5 percent of GDP.

In July 2003, the IMF staff and the Government of Zambia agreed that payment of this large wage bill and related allowances would have jeopardized the recovery and squeezed priority spending. Specifically:

- Attempting to meet the increased wage bill through budget cuts elsewhere would not have left sufficient funds for priority spending to support the government's poverty reduction strategy.
- Financing the wage bill through monetary expansion ("printing money") would have brought even higher inflation, which would have had negative effects on growth and reduced the real incomes of the poor, who are least able to protect themselves from inflation.
- Financing the increase in the wage bill through additional government borrowing would have resulted in further increases in interest rates, thereby increasing the burden of domestic interest payments, and leaving still less room for priority spending.

Against this background, understandings were reached on a program for 2003 that was monitored by IMF staff as a precursor to a new PRGF arrangement. The government reopened negotiations with public service unions on housing allowances in an effort to contain the growth in civil service compensation in 2003 and set the basis for returning the wage bill to a more manageable level in 2004. A new PRGF arrangement was approved by the IMF Executive Board in June 2004.

As a result of the large increases in wages and related payments in 2003, some ministries found that their budget allocations did not allow for recruitment of new staff during the year. Also, the savings from the removal of some 4,000 employees from the payroll during the year were not used to hire more priority staff, such as teachers and health care providers, but to hire more employees in the central administration. Structural factors have also impeded the timely recruitment of priority staff. There could be currently some 7,000 qualified teachers available to join the teaching service. However, there are also over 7,000 teachers ready to leave the service on retirement but not able to do so because the government cannot afford to pay their termination benefits. These teachers have therefore remained on the payroll, receiving their salaries but not working. **The IMF and Zambia's development partners have been working to find ways to resolve this problem that has impeded new hiring. The Government of the Netherlands is this year providing a grant of nearly K 50 billion (US$10 million) to cover unpaid termination benefits to allow 7,000 teachers to leave the service and to allow replacements to be hired.** In addition, work is underway to strengthen management of the payroll, so as to solve problems that have impeded informed decisions on employment in the education and other sectors, and to ensure that the budget for 2005 provides resources to pay termination benefits that will fall due in 2005.

The economic programs that the IMF has supported in Zambia under the PRGF have *not* included limits on government hiring in health or education. Teachers, doctors, and nurses were specifically excluded from the freeze on civil service hiring in the government's Memorandum of Economic and Financial Policies dated November 2002 (available at www.imf.org). The program supported by the

PRGF arrangement approved in June 2004 does not include a freeze on hiring in the public sector.

Also, the charge made in the paper that sizeable payments to the Fund are preventing Zambia from spending on education is highly misleading. **While Zambia does indeed owe a large amount of debt service to the IMF this year, these amounts will be largely covered by new disbursements, so that the net payments to the IMF are near zero.**

[1] "*Undervaluing Teachers—IMF Policies Squeeze Zambia's Education System*" issued by the Global Campaign for Education, with the participation of Voluntary Service Overseas and Oxfam International; October 2004.

Note: SARPN acknowledges the IMF website as the source of this response:
http://www.imf.org/external/np/vc/2004/111804.htm