

**Economic Development Priorities:
what next after HIPC Completion Point and PRSP?**

Round table discussion

InterContinental Hotel

Lusaka

15 December 2004

Introduction

The discussion was designed around, but not limited to, the following questions:

- Is the Highly Indebted Poor Countries (HIPC) initiative a panacea for debt sustainability or is debt sustainability a myth?
- Do Poverty Reduction Strategy Papers (PRSPs) really address the poverty challenge in many countries?
- As countries move from first to second round PRSPs have they led to improvements in the lives of the majority?
- Have governments supported the implementation of poverty reduction strategies or are these strategies proving to be a perpetuation of unfulfilled policies?
- What are the pros and cons of HIPC and the PRSP in achieving sustainable development of poor countries?
- What should be the status of the PRSP in Zambia after the HIPC completion point?
- How can PRSPs and other development programmes be integrated into a comprehensive national development plan?

The chairperson, Mr. Kasote Singogo introduced the topic and the key questions the meeting would address.

Presentations

I. Jack Zulu, Jubilee Zambia

The IMF and World Bank designed the HIPC in 1996. The idea was not to remove debt completely but to get the most heavily indebted poor countries to a point where they could service their debt on a sustainable basis.

Eight years later HIPC has brought only seven out of 42 countries' close to debt sustainability. Despite reaching completion point a number of countries, including Uganda and Ethiopia have not achieved debt sustainability and the period has had to be extended. Although Zambia may reach its completion point sometime in May or June 2005 its debt may not become sustainable until 2010. Despite its shortcomings many countries would be worse off without HIPC. Zambia, for example, would have been paying US\$600mn per year to service its debt instead of the current amount of around US\$170mn per year. The record indicates that HIPC is not the best response to the debt issue and needs to be made more responsive to the debt crisis if Zambia is to stick with it.

One of the failings of HIPC has been an over reliance on export led growth. If we look at the nature of growth in Zambia we see that it is a necessary but sufficient condition for poverty reduction. In Zambia positive economic growth has not led to an increase in job creation. Growth needs to be broad based and ensuring this requires additional initiatives. Given the failure of HIPC 100% debt cancellation is an option along with the establishment of a monitoring process to ensure that any new debts can be repaid. At present the government does not have a plan for this.

During its first two years the implementation of the PRSP suffered from lack of political will and insufficient allocation of funds. Although there has been an increase in disbursements for poverty related programmes donor commitment still appears to be lacking. This is difficult to measure as figures for donor allocations are not available. The change of PRSPs to Poverty Reduction Papers (PRPs) which are just supposed to be a component of PRSPs is worrying as are the gaps created by the lack of stakeholder consultation in the Poverty Reduction Growth Facility (PRGF). On the whole there is a need to sustain the gains already gained.

II. Venkatesh Seshmani, University of Zambia

The presentation began by answering the questions posed as the basis of the roundtable discussions.

- Is HIPC a panacea for debt sustainability or is debt sustainability a myth? *The question is irrelevant; no one ever said HIPC was a panacea, and anyway as developing countries we are not interested in debt sustainability but in sustainable human development.*
- Do PRSPs really address the poverty challenge in many countries? *The PRSP is a better policy initiative than earlier ones such as the structural adjustment programmes (SAPs) because it contains priorities related to poverty reduction. The SAP did not contain a single priority related to human development.*
- As countries move from first to second round PRSPs have they led to improvements in the lives of the majority? *What happens to the money that is claimed to be disbursed? Is there a significant dent on poverty?*

- What are the pros and cons of HIPC and the PRSP in achieving sustainable development of poor countries? *HIPC only has cons. The IMF and World Bank were aware that Zambia would not have been able to pay US\$600 m to service its debt. The aim of HIPC was to reduce repayments to an affordable level to ensure payment. The biggest pro of the PRSP is that it has brought poverty reduction to the forefront of the development agenda in Zambia.*
- What should be the status of the PRSP in Zambia after HIPC completion? *Zambia has to continue to implement a poverty reduction strategy, though not necessarily in the form of a PRSP, until poverty is eradicated.*

Domestic debt is a very important issue in Zambia. The government's domestic debt has risen to nearly US\$1 billion over the last few years and debt service on this debt is not more than the service on the external debt. This is largely because donors who are supposed to support the servicing of the external debt has not done so and the government has had to borrow internally to service the external debt.

In order to eradicate poverty we will have to be persistent and continue to repeat what needs to be done until we change people's mindsets. Once this happens things will start to change. We should not be ashamed of repeating the same things over and over again. He also added that while external debt may be reducing it was not coincidental that internal debt was getting nearer US\$ one billion in Zambia.

III. Professor Oliver Saasa, University of Zambia

The HIPC initiative was designed to ensure that no poor country faces a debt burden that it cannot manage. In 1999 the initiative was modified to ensure deeper and broader relief, faster relief and a stronger link between debt relief and poverty reduction. Due to serious structural problems in the initiative there are a number of ongoing reviews both within the World Bank and outside. The issues they are looking at include:

- Whether the HIPC debt sustainability criteria are appropriate to many poor countries. The initiative compares the ratio of debt to export income to establish debt sustainability. Export income is subject to volatility in international markets and the 'rule of thumb' threshold of 150 percent debt to export ratio is based on Latin American experience where socio-economic characteristics are significantly different from those in many African HIPC countries.
- Linking debt sustainability primarily to export earnings assumes that export receipts are the primary constraints to debt sustainability. In many HIPCs debt sustainability is linked to other issues such as the debt service schedule for a given debt stock, the size of domestic debt and its servicing and the flow of grants and concessional loans.

The narrow definition of what constitutes debt sustainability has ignored the reality that a country can have a 'sustainable debt' while the majority of its citizens experience poverty, hunger and disease, hence, ignoring important developmental goals and challenges. The issues that are the biggest threats to growth and welfare in many HIPCs such as HIV/AIDS are still 'non-issues' in assessments of future debt sustainability. The result is that debt reduction may contribute very little to social spending, which HIPC was supposed to allow.

Zambia is only expected to receive the bulk of debt relief assistance under the enhanced HIPC Initiative when, at completion point, it satisfies as many as 20 conditions including:

- Continued commitment to the financial and economic program supported by the IMF's Poverty Reduction and Growth Facility (PRGF) and the International Development Association (IDA)'s structural adjustment loans.
- The adoption of a full PRSP prepared through a participatory process, and satisfactory progress with implementing and monitoring the PRSP for at least one year based on an annual report.
- Implementation of an agreed set of measures in the context of the government's poverty reduction strategy, particularly in the areas of HIV/AIDS, education, health, expenditure management and control, privatisation (including privatisation of Zambia National Commercial Bank) and poverty reduction.
- Confirmation of the participation of other creditors in the debt relief operation.

Zambia has made considerable progress towards meeting the following completion point triggers:

- Commercialisation of Zambia Energy Supply Company (ZESCO),
- Increasing the discretionary budget share of education to 20.5%,
- Issuing bidding documents for the privatisation of ZANACO (a controversial area),
- Implementing the medium term expenditure framework.

Zambia reached its decision point in December, 2000, but its completion point, initially envisaged for the end of 2003 could be reached by 2005 provided the government successfully adheres to the conditions under the new PRGF arrangement and demonstrates satisfactory implementation of the remaining triggers. The PRSP is one trigger that could also cause delay. The World Bank review of the PRSP felt that it did not reflect fully whether Zambia has reduced poverty in the first years of the PRSP. Essentially the bank has rejected the review and called for a new review.

Comments and Questions

Theme: HIPC and poverty reduction

- Elements of civil society have always had problems with the HIPC but went along with it believing that once we reached completion point we would be in a better situation. However, the picture now is alarming because it appears that the HIPC will only help to pay back the debt and will not help to implement the PRSP. Zambia needs to come up with its own strategy to reduce poverty that is not subject to approval by the World Bank. We need to come up with a plan and present it in simple way so that it can be taken to people at village level.

It is very important to ask whether we would have been servicing the external debt at the present level without the HIPC. It is also a fallacy to think that once we reach completion point our economic woes will be sorted out. This is not the position.

Even if we draw up our own development plan the international financial institutions (IFIs) will be able to criticise it. The lesson is that we must produce good plans and develop the skills to present them internationally. An example is Tanzania, which was able to counter the IMF successfully by presenting a stronger proposal than theirs. We have to accept the need for IMF and World Bank approval if they are going to fund the plan. But if we do the job well they will have to recognise that what we propose is good.

We are raising fundamental questions about the HIPC and PRSP. We have to find the answers internally; the institutions that caused the problems cannot provide the answers. This becomes a governance issue. Do we have the personnel, structures and vision to offer an alternative? If we don't we need to develop them or we will remain a country of complainers.

The government accepts that Zambia has to handle debt policy and aid policy together. But it has left the development of debt policy to the World Bank. Zambia is also very weak when it comes to discriminating between good and bad aid and saying no to the latter. Political leaders need to pay more attention to the advice of our own professionals and not always prefer advice from outside.

Sometimes it is not a case of bad initiatives but of poor management. Zambia has been congratulated for being the fastest privatising country in Africa but we should not see this as a complement. Privatisation is not necessarily bad but that we have to look at the capacity to manage it. This is true for the private sector as well as for government.

- What benefits do countries expect to get from the HIPC process?

When a country reaches the completion point its credit worthiness improves based on its sustainable ability to pay of debts. However, this has not yielded as much of a return as the World Bank and IMF expected and few countries have actually benefited from poverty reduction as a result of HIPCs releasing additional expenditure.

Theme: Local initiatives

- What can people do for themselves as participants and beneficiaries in the context of the PRSP? For example in Mauritius the economy is in the hands of the people. They are not just waiting for someone to create a job.

What can people do for themselves is fundamental. We want to empower people. Is the PRSP responding well to that challenge? In some areas such as the land issue the PRSP has clearly identified the need to address the issue of title so that people can use land as collateral. In a similar way we have to address all the other structural impediments in the country. To do this we need to do a lot of thinking. We also need to look at situations where we have the right diagnosis but the wrong intervention.

- Zambia has a history of poverty but in the past there were subsidies that took care of it.

People are already doing a lot for themselves, especially in rural areas. They have two main assets: their labour and way that they organise that labour, and secondly their social capital. But to use these assets effectively they have to have a minimum level of empowerment and government has to provide this. In old days this was done through subsidies. Whether or not this was right or sustainable in itself, it did mean that they could sustain their livelihoods. Now it is very difficult to provide this but there has to be a minimum level of empowerment. For example farmers get very little support and as a result the means of economic empowerment (labour and land) have become the means of entrenching poverty.

Theme: Progress in poverty reduction

- The PRSP has been implemented from 2002-4. Given the extent of poverty did we expect the report to show a reduction in poverty in that time period?

We do not expect to see poverty reduction in such a short period. But there is a chain that links the allocation of resources and its distribution through line departments to local areas and to specific inputs and outputs that should be provided.

We find that resources have not been well managed and distributed. Government says it has not been able to spend enough on poverty reduction because donors did not give enough, and it has also had to deal with unexpected expenditure such as drought and by elections.

But if we analyse it we find that, even with the funds available, expenditure on poverty reduction has not been adequate while there have been big increases in expenditure in areas that have little connection to poverty reduction.

- There has been expenditure on some of the triggers for development in the area of HIV/AIDS and health. What have been the positive benefits?

In the area of health the establishment of an AIDS council has been seen as evidence of a serious commitment. But it is not clear at this stage whether this in itself has led to positive benefits. This raises questions about whether addressing these triggers really ensures progress.

There has been an increase in the budget allocation for education but has this resulted in an improvement in education? The fact is that we still have a huge problem in education.

The real question is whether resources can be managed in a way that delivers positive benefits once they have been allocated.

What represent triggers for development to external organisations may be very different from what people see as necessary for poverty reduction internally.

External organisations have a more theoretical approach while internally we tend to look at what has actually happened. Often the external evaluation does not look at the end result but only at whether the mechanism is in place. We have to look at what resources are actually going into delivery of outputs not just into the maintenance of institutions.

- Are we seeing a positive impact on the poor? People are trying and there are a lot of things happening in rural areas but how can you give people the skills to fish if there are no fish.

Interventions have to be relevant to the situation. We need to identify those who need relief and how to deliver it. In Zambia the poor are not homogeneous. We even have working poor so employment itself does not necessarily mean you are ok.

The PRSP failed to register clearly whether we have put in place the institutional structures to make progress in the next few years. This involves both strengthening institutional capacity and effective use of existing capacity. Institutions matter and we have to realise that we cannot increase debt sustainability without proper institutions. Although some other countries are looking at this Zambia has not yet done so.

Theme: Poverty reduction frameworks

- In addition to the PRSP there are a number of national poverty reduction policies and frameworks that are not monitored by outside bodies. Can we propose a single development policy that will bring together all the diverse develop policies related to trade, health and other areas?

When we talk of need to continue with the PRSP we are not necessarily talking about the World Bank programme but about continuing with a poverty reduction programme by whatever name.

Uganda has an indigenous programme that is not called the PRSP but has been accepted as the country's PRSP.

- We need a regional approach that will enable us to learn from one another.

Regional learning is possible and we can make use of cross-country studies. Within in the World Bank there has been ongoing critical assessment of the HIPC. Internal evaluation has identified problems with HIPC in the bank and there is a process to update it.

Summing up

To recapitulate the main points Zambia needs to:

- improve institutional and human capacity for poverty reduction;
- develop internal capacity to plan and implement poverty reduction and the ability and will to refuse bad aid;
- recognise that the poor are not homogeneous and that we need to think about differentiated targeting of specific groupings;
- evaluate programmes from an indigenous perspective and look at the effect of interventions on the poorest; and
- look at a regional approach and build on this.