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Deriving maximum social benefits from debt relief: A case of Zambia

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In April 2005, Zambia became eligible for debt forgiveness from the World Bank and International Monetary Fund (IMF) under the two organisations' Highly Indebted Poor Countries (HIPC) initiative. After adhering to strict austerity conditions, the bulk of Zambia's debt amounting to about US\$ 4 billion was approved for relief by these multilateral aid agencies. This changed stance regarding debt servicing was not driven by altruistic motives but by among others, a new global development dispensation. The former was typified by, *inter alia*, international solidarity that pressurised the World Bank, the IMF and other western donors to reform the debt paradigm. In effect, the debt question was turned into a moral issue. Nonetheless, it must be cautioned that the HIPC is not a universal remedy to the woes of debt ridden countries. More importantly, it needs to be examined against the former organisations' past errors relating to development prescriptions for the developing world such as the Structural Adjustment Programme (SAP).

It is noteworthy that most of Zambia's debt stock is multilateral in nature. Multilateral debt is unique in the way in which it is always serviced because the international financial institutions enjoy "preferred creditors" status. This is because a default on a multilateral debt obligation is likely to result in a country being cut off completely from international credit of any official or private source. On the other hand, this is different from the debt owed to bilateral and private sector creditors - significant proportions of which are in arrears, i.e. not serviced regularly (Kapoor, 2005). This policy brief explores debt relief in the light of Zambia's social policy options and outcomes after it attained the HIPC completion point.

A backdrop to Zambia's debt crisis. Zambia's debt crisis originates from the 1970s, with debt overhang emerging in the 1980s when the country's economic programme started to deteriorate rapidly and its balance of payments' position continued to worsen. The debt situation would be exacerbated by the IMF stabilisation programme in May 1987 that resulted in the suspension of external financing by donors. During that period, the country had accumulated external payments of US\$ 2 billion (Saasa, 2001). By the end

of the 1980s Zambia's external debt was hovering around US\$ 6 billion.

Implications for social policy. Social policy in Zambia has evolved in the last five decades from a colonial instrument of social intervention, to a developmental vehicle after the country attained independence in 1964; a palliative tool under the debt crisis and presently, to something that resembles a hybrid of the aforementioned. Present-day social policy responses are influenced by the debt question in the following manner. First, debt relief has freed up a lot of money that was previously earmarked for debt servicing and which has since been re-deployed to education, health and social welfare investments. Already, the impact of debt relief is positively influencing the lives of the poor due to the government's shift in social policy that was necessitated by this fiscal reprieve. Second, social policy has been emboldened by the injection of these needed funds. In line with this new development, the government began providing free anti-retroviral drugs (ARVs) to one hundred thousand Zambians in June 2005. The government also scrapped the 40,000 Zambian Kwacha (US\$ 9 at the time) fee that HIV positive citizens had to pay in order to receive ARVs.

Furthermore, the "user fees" in the health sector that were demanded from Zambians so that they received medical attention were discontinued in the rural areas in 2006 due to the extra finances from the HIPC initiative. User fees had been in place since 1991, when Zambia implemented the SAP. Additionally, the government re-introduced free education at primary school levels in 2006 (after it was scrapped during the implementation of the SAP). Furthermore, the Public Welfare Assistance Scheme (PWAS) under the aegis of the Ministry of Community Development and Social Services (which provides social protection to vulnerable households in Zambia) has begun to be considered by the government for favourable higher budgetary allocations. Debt relief is also slowly stimulating the economy as it has enabled the country to offset its domestic debt. Zambia's social policy now has a stronger poverty reduction thrust and most of government's

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interventions, such as stimulating economic growth, are geared towards this goal.

Unfortunately, the current global financial meltdown is threatening to wipe out all the gains that have been made thus far. Consequences may be dire if prudent policy decisions are not made by policy-makers and politicians alike. Already, several mines have closed down operations and retrenched workers; the local currency is in free-fall whilst the price of the country's main export, copper, has plummeted. As called for by analysts, diversification of the economy is indeed one long-term measure that could counteract the negative effects of the current crisis. However, in the short-term, innovative strategies are needed as opposed to the old bad ways of extensive borrowing, which should not be encouraged at all. During this global financial crisis, the government should create *smart partnerships*. The government has to be business-minded and identify performing enterprises for partnerships. Private companies that are offering a public good for instance and have proved their worth in terms of high profits could be considered (Noyoo, 2008). It is also commendable that the Minister of Mines has announced that the government will take over some of the mines that have been abandoned by foreign investors. Though pragmatic, this initiative must be couched in a new state paradigm. Zambia must seriously consider becoming a developmental state. The existing neo-liberal policy thrust will not effectively deal with the current financial crisis. Also, social policy should be operationalised within the notion of a developmental state. Zambia must be able to marshal resources aimed at creating equitable social and economic systems in the country. Its ideological underpinning must be *developmentalist* in that it should conceive its "mission" as that of ensuring economic development (Mkandawire, 1998:1) that is informed by a transformative social policy.

Lastly, debt sustainability should be the point of departure of the Zambian government in these turbulent times. It should also sharpen its debt negotiating skills and ensure that either new bilateral or multilateral loans or financial agreements that are entered into are henceforth relevant and beneficial to the poorest segments of the country (Noyoo, 2008).

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