

CHAPTER 4

POLICY CONSTRAINTS ON PUBLIC DEBT MANAGEMENT IN ZAMBIA

INTRODUCTION

As already shown in the conceptual framework of this study, a policy is a framework for facilitating managerial decisions about recurring or programmable problems. These problems occur within as well as between operating units. A policy's intermediate goal is the effective resolution of the problems. Its ultimate goal is efficient management. Policy management therefore, means developing policies, plans, programs, and procedures for implementing the strategic choice. An operational policy will therefore mean that there are guidelines to a predetermined operation in terms of how, when, and for whom.

It will be shown in more detail in Chapter Seven of this study that between 1991 and 2004, the government of Zambia had laws and regulations in form of Statutory Instruments which comprised the formalized policies or strategies of managing both its external and domestic debts. The management of both the external and domestic debt was dependent on the implementation of the Loans and Guarantees Act Cap 366 of 1966 as amended from time to time¹⁵³ and the attendant Statutory Instrument which, defined the regulations for public debt management in Zambia. The borrowing ceiling was set by Statutory Instrument Number 53 of 1998 and was a broad target of K20 Trillion for

¹⁵³ Zambia, *The Constitution of Zambia*, Cap 366

external borrowing per year. In addition, the government could guarantee up to two hundred thousand million Kwacha. The government could also borrow up to K5 Trillion domestically per year. In other words, the law provided an open-ended authority to the minister responsible for finance to contract and manage the public debt. The law was essentially weak as it did not provide for many necessary safeguards such as when to borrow, from where, for what purpose, evaluation and due process requirements, accountability and sanctions for failure, and the involvement of parliament and civil society in oversight functions. It will become apparent in the discussion, even when the law on which the various policy options could be anchored on was available, the implementation of the legal requirements were compromised by the lack of strategic plans to support the policy perspectives. In other words, Zambia suffered from both bad policies together with implementation and monitoring weaknesses.

This chapter analyses Zambia's public policies that impacted on public debt management between 1991 and 2004. After this introduction, the general policy environment and macro economic reforms are discussed. This is followed by an analysis of the policies as they related to public debt management. The chapter ends with suggestions in which policy reform perspectives are recommended.

GENERAL FISCAL AND MONETARY POLICY

In respect of public debt management, monetary authorities are confronted with many constraints which include among others, balance of payments constraints, the crowding out constraint, and the interest burden constraint. As already shown in Chapter Three, the

historical development of public debt management in Zambia was closely tied to factors that determined Zambia's fiscal policy. The major policy perspectives were underpinned by the import substitution industrialization policy. Before 1964 and during the first 10 years of Zambia's independence, the state budget was seen by the governing authorities purely as an accounting and administrative device. Borrowing by the state was generally regarded as undesirable and Zambia had sufficient foreign reserves. During this time, fiscal policy was aimed at generating government revenue. Up to about 1972, Zambia continued to adhere to the "British orthodox principle" according to which deficit financing was discouraged. The total current revenue had to fund all expenditure – both recurrent and capital. The objectives of government then were not to create any unsustainable public debt.

However after 1972 as already argued in Chapter Three, Zambian authorities wrongly assumed that (a) the fall of copper production and copper prices would be temporally and that both would soon rise and (b) that the price of oil would also soon fall¹⁵⁴. This assumption however was not to be. Instead of making appropriate changes in its fiscal policy, the government maintained its consumption habits and levels of deficit financing.

The government loss of foreign exchange resulted in low import volumes, scarcities of consumer goods and high prices. The country thus suffered GDP declines in various sectors. Table 23 shows decline in per capita growth rate while Table 24 shows the decline in the various economic indicators from 1975 to 2004. The per capita growth rate

¹⁵⁴ McPherson M F. 2004 *The Historical Context*, (in) Hill, C.C. and McPerson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass,) pp30

which had been positive from independence up to 1974, recorded consistent negative growth rates consistently up to 2004 as Table 23 below shows. Per capita growth rate declined from an average of 0.8 per cent between 1965 and 1969, to an average of negative 0.8 per cent between 1985 and 1989 improving marginally and reaching an average of negative 0.2 per cent between 1995 and 2000.¹⁵⁵

Table 23
Per capita Growth Rate in Zambia by Five year Periods 1961-2005(in %)

YEAR	GROWTH RATE
1961-64	0.7
1965-69	0.8
1970-74	0.5
1975-79	-4.0
1980-84	-2.2
1985-89	-0.8
1990-94	-2.7
1995-00	-0.2
2001-2005	

Source: Zambia, MOFNP, Economic Report (several years)

Table 24
GDP Growth in Zambia 1975-2004(Average Annual Percentage Rates)

	1975-1984	1985-88	1990-99	2000-2004
Agriculture	0.5	8.3	3.5	1.6
Mining	1.4	-4.8	-6.1	1.2
Other	-	-	0.1	
Total GDP	0.4	3.2	-0.5	

Source: Ministry of Finance, Economic Indicators (Various years)

In 1991 following the change of government from a One Party state to a multi party state system, the new Movement for Multi Party Democracy (MMD) government introduced

¹⁵⁵ Zambia, MOFNP, Economic Report (several years)

an economic programme aimed at stopping the economic decline. These¹⁵⁶ changes were summarized in our work published in 2006. Within a year, the relationship with the donors was quickly restored. Over the next five years, radical liberal economic reforms were implemented that resulted in the reduction of inflation from an annual rate of about 400 per cent at the beginning of 1992 to double digit figures by 1995. The public sector deficit was reduced from 7.5 per cent of GDP in 1991 to 2.5 per cent of GDP in 1995. The growth of money supply in 1992 was limited to 35 per cent. Excess copper earnings by Zambia Consolidated Copper Mines (ZCCM) were sterilized in the Bank of Zambia and this measure went a long way in curbing runaway inflation¹⁵⁷.

Other monetary measures to stabilize the economy included raising core liquidity requirements for commercial banks from 3.5 per cent to 42.5 per cent, raising bank interest rates from 49 per cent to 54 per cent, imposing a five per cent charge on Treasury Bills re-discounted with the Bank of Zambia, utilizing Bureau de Change rates to determine import taxes, freezing all non-essential government spending for the remainder of 1992 and reducing budgetary allocations to the Ministry of Defence by five per cent.¹⁵⁸

To restore the dynamic role of the private sector, prices were liberalized, price controls were abolished, exchange rates were decontrolled, all controls on deposit and lending

¹⁵⁶ McPherson M.F. 2004 *The New Economic Recovery Programme: The Second Time Around*, (in) Hill, C.C. and McPerson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass,) pp49-77; Chitala, Mbita (2006) **Not Yet Democracy** (Zambia Research Foundation, Lusaka) pp44-82. See also Mwanza A. (1992) *The Structural Adjustment Programme in Zambia* (SAPES, Harare, Zimbabwe)

¹⁵⁷ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia pp 147--155

¹⁵⁸ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia pp 147--155

rates were removed, a stock exchange was established and many mutual funds were encouraged to develop. The external trade and payment system was liberalized and Zambia moved towards a market-determined exchange rate. The tariff structure was rationalised removing many barriers and restrictions on imports and exports.¹⁵⁹

The country adopted a tight fiscal and monetary policy termed the Cash Budget.¹⁶⁰ The Cash Budget system was introduced in 1993 where spending officers were permitted to spend what was available in the budget without resorting to deficit creation. This measure impacted the economy in many ways. For instance, Capital Expenditure was reduced and this measure directly affected economic growth adversely. Subsidies were eliminated which resulted in prices of commodities and services increasing. Cost saving measures such as restrictions on travel abroad and cutting on numbers of diplomats abroad were introduced which positively impacted on the national budget expenditure.

However, as is shown in the Addendum of Chapter Six concerning Commitment Control regulations, in spite of all these measures, budgetary discipline still remained a problem. For instance, in 1993, more than 10% of the discretionary budget expenditure was unbudgeted for but had been spent unlawfully by spending departments.¹⁶¹ This, naturally, adversely affected the government's fiscal deficit which remained very high.

¹⁵⁹ Hill, Catherine 2004 Trade Policy and Liberalization During the 1990s (in) Hill, C.C. and McPerson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass,) pp 237-262

¹⁶⁰ Hill, Catherine 2004 Fiscal Policy and Public Expenditure Control, (in) Hill, C.C. and McPerson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass,)

¹⁶¹ MoFNP (2003) *Inspection Reports on the Functioning of the Commitment Control System (CCS) in Line Ministries*, Lusaka, Zambia

The government attempted to address this increasing deficit by revamping the tax collection function by introducing a new way of tax collection so as to broaden the tax base and increase the quantum of tax collection. In 1993, the Zambia Revenue Authority (ZRA) was created as a relatively autonomous Statutory Institution. It replaced the inefficient Tax Department and Department of Customs which had been sections of the Ministry of Finance and National Planning. The two departments were merged to form the Zambia Revenue Authority. In July 1995, the ZRA introduced the Value Added Tax (VAT) system replacing the Sales Tax system in the hope that more taxes would be collected. Furthermore, the government introduced user fees in many social activities such as health and education in an effort to broaden the tax base. The objective of these measures was to reduce the unsustainable fiscal deficit.¹⁶²

However, all these efforts did not help much as the fiscal deficit still remained relatively high¹⁶³. The total government revenue as percentage of GDP ranged from 20.3 percent in 1990 and fell down to 17.5 in 1999 and remained almost the same all the years between up to 2004. Whereas tax collections decreased from 19.9 percent in 1991 to 17.1 per cent in 1999, it on average hovered around 18 per cent up to 2004.¹⁶⁴ The implication for this was that taxes collected were relatively too low to enable Zambia service its public debts from its own resources whenever payments fell due. It needed the assistance of the donor community.

¹⁶²Hill, Catherine 2004 *Tax Reform in Zambia* (in) Hill, C.C. and McPerson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass,) 79-105

¹⁶³ IMF, *Zambia: Statistical Appendices*, Various issues

¹⁶⁴ Hendrick van der Heijden 2000, *The Ineffectiveness of Economic Policy Reform, Foreign Aid and External Debt Relief in Zambia*, Economic Association of Zambia, Lusaka, June p 10

Other policy reforms reported and examined by Hill and McPherson (eds)¹⁶⁵ included (a) the liberalization of maize and fertilizer marketing and eliminating the associated subsidies¹⁶⁶ (b) removing most of the labour market controls; (c) freeing bank interest rates and letting them be determined by the market in September 1992 and following suit in January, 1993, liberalizing the Treasury Bill market. The end result of these measures was to see a rise in interest rates. Over time, GDP growth between 1990-1999 fell by an average of negative 0.5 percent while per capital incomes fell from US\$449 in 1990 to US\$322 in 1999.¹⁶⁷

The mining industry declined due to non-recapitalization of the mines and this adversely affected the profitability and solvency of the mines. Copper production, which was in the range of 825,000 tonnes in 1969, fell drastically in the period of this study reaching as low as 252 MT tonnes in 1999 before ZCCM was privatised in March 2000.¹⁶⁸

The Terms of Trade, largely on account of changes in copper earnings, had also been declining. And more tragically, investment in Zambia during the period 1990-2004 did not show significant growth¹⁶⁹. Public investment as percent of GDP fell from 6.8 in 1990 to 1 in 1994 before rising to 7.9 in 1999. These objective structural problems had a

¹⁶⁵ Hill, C., McPherson M.F. 2004 M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass.)

¹⁶⁶ McPherson M.F. 2004 *The Role of Agriculture and Mining in Sustaining Growth and Development in Zambia* (in) Hill, C.C. and McPherson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass.)

¹⁶⁷ Hendrick van der Heijden 2000, *The Ineffectiveness of Economic Policy Reform, Foreign Aid and External Debt Relief in Zambia*, Economic Association of Zambia, Lusaka, June p 2

¹⁶⁸ Hendrick van der Heijden 2000, *The Ineffectiveness of Economic Policy Reform, Foreign Aid and External Debt Relief in Zambia*, Economic Association of Zambia, Lusaka, June p

¹⁶⁹ Hendrick van der Heijden 2000, *The Ineffectiveness of Economic Policy Reform, Foreign Aid and External Debt Relief in Zambia*, Economic Association of Zambia, Lusaka, June p 16

strong bearing on Zambia's debt policy options. The fact that Zambia's economic growth was depressed as a result of reduced earnings from her metals meant that Zambia could not alone address the problem of its public debt. It required international assistance or other measures to improve on its productivity. It was for this reason that Zambia requested the Bretton Woods institutions (IMF and World Bank) to include it for assistance in the Highly, Indebted and Poor Countries (HIPC) initiative for debt resolution.¹⁷⁰

When Zambia acceded to the HIPC initiative after successfully completing an IMF/World Bank supervised Structural Adjustment Programme and reaching the decision point in December 2000, it qualified to benefit from total debt-relief off US \$2.5 billion in net present value terms or 62.6% of the total debt outstanding at the end of 1999.¹⁷¹ In reality, at the end of 1999, Zambia had a total foreign debt stock of about US \$ 6.5 billion. After the Paris Club creditors and other bilateral creditors offered various other debt reliefs, Zambia ended up with a debt stock of about US\$ 5.5 billion¹⁷². Zambia started to receive interim relief measures from multi-lateral institutions in January 2001. The assumption and objective of those relief measures were for Zambia's contracted debt service costs to reduce by US\$ 260 million per year during the 2001-2005 period and

¹⁷⁰ The IMF and the World Bank launched the HIPC initiative in 1996. It was designed to provide deeper assistance to 32 countries with a 1993 GNP per capita of US\$695 or less and 1993 present value of debt to exports higher than 220 percent or present value of debt to GNP higher than 80 percent. The initiative was to be implemented in two phases. First, was the Paris Club rescheduling phase. Second, was the decision point phase which was the comprehensive assessment of the debt sustainability with and without further debt relief. This phase was to last another three years. At the end of this period, the country would reach the completion point which refers to the phase at which all measures were to be taken to ensure that the country was on a sustainable external debt path, including the reduction of debt stock. Under the enhanced HIPC initiative approved in September, 1999, the thresholds for debt relief were made more generous. NPV debt/exports were reduced to 150 percent from a range of 200-250 percent, NPV debt/revenue was reduced to 250 from 280 percent, Export/GDP was reduced from 40 percent to 30 percent, and revenue/GDP was reduced from 20 percent to 15 percent.

¹⁷¹ IMF 2005 *Zambia: Enhanced Initiative for Heavily Indebted Poor Countries-Completion Point* Document IMF Country Document Report Number 05/137, Washington D.C USA

¹⁷² Interview with Director of IDM, Ministry of Finance and National Planning on 14 July, 2006

US\$ 130 million per year between 2006-2015. However, compared to the actual debt service paid during 2000, Zambia would save only US \$30 million per year over the next 15 years. This HIPC initiative though helpful marginally, was not only inadequate but did not solve Zambia's public debt problems.

The public debt difficulties of Zambia were worsened by a few well known factors. The policy of import substitution industrialization did not afford Zambia to build a strong and independent economy. Firstly, Zambia had long standing internal and external imbalances. Between 1991 and 2004, Zambia continued to be largely a mono economy dependent on copper exports. Its weak industrial sector depended on imported inputs and was as a result very vulnerable to external shocks. Because of this, Zambia accumulated external debts in its bid to finance the savings-investment gap and sustain its economic development. Secondly, Zambia borrowed heavily from overseas. The borrowed funds were invested in infrastructure and other consumption oriented projects or in projects which had low rates of return rather than to boost export production and earnings.

This policy perspective was responsible for bringing about the debt overhang that Zambia experienced in the late seventies. It is also noteworthy that Zambia's fiscal policies which were expansionary were highly inflationary. The dependence on use of deficit financing meant that the growing fiscal deficits would lead to monetary expansion. These policies of import substitutions industrialization and of reliance on deficit financing increased borrowing needs and with the lowered export earnings, Zambia's capacity to meet rising debt service obligations was reduced..

And thirdly, Zambia suffered from exogenous factors from which the country was helpless from resisting. The exogenous factors that adversely affected public debt management in Zambia were the two oil shocks in 1974 and 1978 which have already been highlighted in Chapter two of this thesis. The terms of trade for Zambia declined which in turn aggravated the public debt problems as there were reduced foreign exchange earnings to service the debt.

Between 1991 and 2004, the government continued funding the budget gaps by employing the policy of deficit financing.¹⁷³ To finance the budget gaps, the government relied on both external and internal borrowing. Internal borrowing was mainly from the Central Bank (Bank of Zambia) and the borrowing had the effect of adding to reserve money which in turn increased money supply and consequently induced inflationary pressures on the economy.

Table 25

¹⁷³ IMF: Selected Issues and Statistical Appendix. IMF Country Reports Numbers 04/160 July, 2004 and 05/137, April, 2005

Zambia: Overall Balance of Deficit Financing 1995-2004

(In % of GDP)

Year	Overall Balance	Financed By	
		Domestic	Foreign
1995	-3.8	-0.3	4.1
1996	-5.4	-0.3	5.0
1997	-4.1	-0.1	4.2
1998	-8.1	-3.7	4.4
1999	-4.0	1.0	3.0
2000	-7.0	1.8	5.3
2001	-8.0	4.5	3.6
2002	-6.3	2.1	4.3
2003	-6.6	5.1	1.5
2004	-1.7	0.8	0.9

Source: IMF: Selected Issues and Statistical Appendix. IMF Country Reports Numbers 04/160 July, 2004 and 05/137, April, 2005.

Table 25 above summarizes central government operations between 1995 and 2004 and shows the magnitude of the deficit that Zambia had to fund through deficit financing from both domestic and foreign sources was quite large. The overall balance of the deficit financing reduced from 8 percent GDP in 2001 to 6.6 percent of GDP in 2003. This however was still large. In 2001, 4.5 percent of domestic finances which could have been used by the private sector, found itself taken over by government to fund public goods. The same was the case for foreign exchange where the government borrowed from the public 3.6 percent of GDP at the expense of the private sector.

In the management of government securities (bonds and treasury bills and commercial paper) which provided the bulk of domestic financing, up to 1992, the system was haphazard and not well co-ordinated. The Bank of Zambia sold treasury bills and bonds at anytime in uncontrolled and unregulated amounts with interest fixed in advance. In 1993, the Bank of Zambia as the agent of government introduced the policy of auctioning

government securities to raise funds for government. However, since 1994, the government was not able to pay the bills when they fell due. Instead, the government would roll the debts over and only pay interest from the budget living a huge domestic public debt.

The country experienced three broad constraints in its public debt management. The first constraint was in the area of balance of payments. As is generally recognised, the borrowing policy of any central government is an essential and integral part of public debt management. For Zambia, in order to service interest and amortization liabilities, it had to commit a large portion of its export earnings to debt service payments as Table 26 shows. This was at a time when real GDP growth, investment rates and exports were declining.

Table 26

Zambia: Debt Service to External Creditors and External Inflows (US\$ million) 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Debt service paid	290	655	354	326	326	407	1584	319	217	147
Debt Service paid in % of exports of goods & non-factor services	21.6	56.0	29.6	31.2	34.8	120.4	28.7	17.6	18.0	16.2
Debt service Paid in % of GDP	7.7	19.4	10.7	10.0	12.2	45.7	9.7	5.6	4.6	4.2
Debt service paid in % of government revenue	38.2	103.7	58.3	63.2	60.9	230.2	47.1	27.9	24.4	24.5
Gross external inflows (including rescheduling)	-	-	1106	795	550	1816	510	401	297	511
Net external flows (official)	-	-	752	469	141	232	191	184	150	374

Source: IMF 1999, 2004, 2005 Selected Issues and Statistical Appendices , Washington D.C. USA

The result of declines in capital and intermediate goods imports adversely affected the capacity of the economy to grow. Naturally, with the decline in national savings to levels that were inadequate to fund desirable investment and which were important to boost real economic growth, Zambia resorted to the policy direction of money creation or borrowing from the Bank of Zambia to address the resultant resource gap. This policy, as has been shown above, was inflationary and imposed high costs on the economy.

Secondly, as a result of earlier borrowing policies, the country was compelled to pay heavy debt service payments and this put pressure on Zambia's budget as almost all debt service was public. Zambia's debt service was huge and unsustainable as Table 26 above shows. The debt service paid as percentage of government revenue which in 1990 was 38.2 percent, reached its peak in 1995 when it was 230.2 percent before it reduced and stabilized around 24 percent after 1998.¹⁷⁴ In real terms, Heijden¹⁷⁵ noted that Zambia's net external debt service which was US\$425 Million in 1991 progressively reduced to US\$ 356 Million in 1995 and US\$154 Million in 1999. This statistic alone shows that Zambia had unsustainable debt.

Furthermore, the debt service was compounded by high interest rates. This situation is attested in Table 27 below. The lending interest rates which were compounded were consistently high at unaffordable rates. Between 1995-2003, interest rates ranged between 66.7 percent and 44.4 percent. At the same time, treasury bill rates were quite high at

¹⁷⁴ IMF 1999, 2004, 2005 Selected Issues and Statistical Appendices , Washington D.C. USA

¹⁷⁵ Hendrick van der Heijden 2000, *The Ineffectiveness of Economic Policy Reform, Foreign Aid and External Debt Relief in Zambia*, Economic Association of Zambia, Lusaka, p4

between 51.3 percent and 19.7 percent in which the banks invested their money. The result of this scenario meant that there could be no sufficient investment particularly in the export sector that could have enabled Zambia to earn foreign exchange and service its debts.

Table 27
Zambia: Structure of Interest Rates, 1995-2003
(In Percent; end of Period)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bank rate	51.5	69.8	23.3	42.1	46.0	44.1	52.5	34.5	15.8
Treasury Bill rate	51.3	59.6	18.8	32.5	36.1	33.8	48.2	31.7	19.7
Annualized (weighted by maturity)									
One year government Bond	43.6	37.0	23.3	43.9	48.6	38.7	54.1	42.7	22.0
Lending rates (Minimum)	66.7	69.0	37.2	37.9	44.8	54.9	54.6	51.5	44.4
Kwacha Savings Deposit Rates	30.6	30.2	16.5	7.4	9.4	11.5	8.7	8.3	7.6

Source: MoFNP, Macroeconomic Policy Unit, Planning and Economic Management Department, Macroeconomic Indicators, January, 2003.

This meant that the government had to increase taxes in order to service the debt and reduce the budget deficit. This policy measure of increasing taxes had the effect of depressing investment as a result of the debt overhang effect.

Thirdly, the policy of government resorting to borrowing from the public via government securities was not only inflationary but also tended to crowd out the private sector. The

tendency of the Zambian government to sell treasury bills and bonds which were naturally viewed as very secure and high yielding made the securities to be very attractive for banks to invest their savings at the expense of private investment. Table 27 shows that the bank lending rates between 1995 and 2003 hovered between 40 and 69 percent while the Kwacha deposit rates went as low as 7.6 percent. At the same time, banks could make more money by investing in Treasury Bills and Bonds whose rates were 51.3 percent and 43.6 percent respectively.

Table 28
Zambia: Net Domestic Credit of Commercial Banks, 1995-2003
(In billions of Kwacha)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Net Domestic Credit	441	563	589	583	869	1331	1722	1818	3040
Net Claims on Government	150	159	159	68	96	247	649	786	1635
Claims	194	216	223	156	232	357	777	916	1858
Treasury Bills	142	164	189	142	187	228	510	516	1091
Other Assets	53	52	34	13	45	129	267	400	767
Deposits	-45	-58	-64	-88	-136	-60	-128	-130	-223
Claims on non government	291	404	430	515	773	1034	1073	1032	1405
Other items (net)	-71	-98	-37	-178	-223	-361	-655	-388	-799

Source: MoFNP, Macroeconomic Policy Unit, Planning and Economic Management Department, Macroeconomic Indicators, January, 2003.

Table 28 shows the net domestic credit of commercial banks in Zambia. In 2003, out of the total net domestic credit of Kwacha 3,040 billion, Kwacha 1,858 billion were claims on government of which Kwacha 1,091 billion were Treasury bills.

The resultant course of these policy perspectives of borrowing from the market was the so called “crowding out” constraint.¹⁷⁶ As is well recognized in economic theory¹⁷⁷, a sudden increase in public sector demand for available savings will not only result in competition with the private sector in the money and capital market, but also forces interest rates to rise. An excessive demand for funds by the government can have an adverse effect on other borrowers and even on a country’s output. For Zambia, the tendency of the government to excessively rely on budget deficits, led to this crowding out effect which adversely affected the gross output of the private sector as it eroded the capacity of the country to produce and export goods and services and on that basis be able to service the debts that fell due.

The persistent rise in the external public debt of Zambia over the years tended to push the debt position of the country into the unsustainable levels to the extent that Zambia found itself in a debt trap. This condition of being in a debt trap meant that a debt explosion was ever apparent and eminent to the extent that between 1999 and 2004 both Zambian and co-operating partners had no choice but to work towards resolving the debt crisis of Zambia as has been shown above when Zambia acceded to the HIPIC initiative in 1999.

The third constraint which was a result of high interest rates shown in Table 27 above was the ever-increasing interest burden which grew exponentially. This constraint was as a result of government policy of financing its budget gaps from borrowing from the

¹⁷⁶ SJ van der Walt 1997 *Public Debt Management : Constraints on Public Debt Operations* The South African Financial Sector Forum, South African Reserve Bank, September.pp1-4

¹⁷⁷

public at attractive interest rates determined by a cartel of foreign commercial banks. As is well recognised, interest is a current account item. Its persistent growth adversely affected the ability for Zambia to increase its national output which grew at a less faster pace than the cost of the debt burden. During the years 1991-2004, real economic growth was below real interest rate growth and this meant that running budget deficits was inherently a poor policy. As is well recognised in economic theory, only when national output grows faster than the cost of the debt burden can a government prudently run deficits.¹⁷⁸ This is because only in such an event will the extra revenue obtained by the government from successful refraction being sufficient to service the extra borrowing. The challenge for any government faced with this problem is therefore to stimulate long-term economic growth to such an extent that it is higher than real interest rates and to raise taxes and/or cut government expenditure.

STRUCTURAL ADJUSTMENT POLICIES AND PERSISTENCE OF DONORSHIP

It is clear from the analysis above that Zambia needed to do a lot to improve its policy framework in general to reduce on the difficulties that it had in efficiently and effectively managing its public debt. Weeks et al (2006)¹⁷⁹ observed that “the constraining burden of Zambia’s debt burden was closely related to a second constraint, condinationalities placed upon lending from external agencies that severely limited the policy space in which successive governments could make decisions. Indeed, so numerous and specific have the conditionalities been, that once the conditionalities were accepted by the governments, very little discretion remained for the important decisions affecting

¹⁷⁸ Keynes, J.M. 1936 *The General Theory of Interest, Money and Employment*. New York: Harcourt, Brace, USA

¹⁷⁹ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia

economic development.” The HIPIC debt reduction process was very much a continuation of this donorship which had as its central effect, the undermining of Zambia’s capacity for national policy making. Weeks et al demonstrated that from the 1980s, policy making in Zambia was characterized by conditionalities that directly constrained the governments’ actions in almost every important area of economic and social policy.

A selected outline of some conditionalities that were forced on Zambia are itemized in Table 29. The effects on Zambia of these conditionalities from the IMF/World Bank and other multi-lateral institutions and bilateral countries grouped under the auspices of the Paris Club,¹⁸⁰ were to severely limit Zambia’s policy space to make decisions. Policy space for such decisions could have enabled the country to invest productively in the export sector which could in turn allowed the country to earn sufficient foreign exchange to service its external debts.

Furthermore, on some occasions, the donors would just unilaterally cancel programmes. That is what happened to Zambia in 1982 when the World Bank suspended disbursement due to government non-payment of external debts. A similar incidence occurred in 1985 and 1987 when both the World Bank and the IMF cancelled their programmes. The last suspension occurred in 1991 when the two institutions suspended their programmes in Zambia as shown in Table 29.

¹⁸⁰ World Development Movement (2004), up-dated from WB and IMF websites

TABLE 29:**Some IMF & World Bank Conditionalities for Zambia 1991 – 2004**

Date	IFI	Details
1991	World Bank	Economic reform Credit Deregulate maize markets, limit bank credits, remove tariff bans, reduce civil service employment, initiate privatisation
1992	World Bank	Privatisation and Industrial Reform Credit (PIRC I) Harmonise sales taxes, broaden tax base, reduce tariffs, reduce public employment by ten thousand, pass privatisation law, restructure state mining company
1992	IMF	Rights Accumulation Programme Pay arrears to international creditors
1993	World Bank	PIRC II Reduce tariffs, develop land market, change investment act, privatise 60 companies including state copper corporation
1994	World Bank	Economic & Structural Adjustment Credit (ESAC I) Redirect budget funds to social sectors, eliminate export ban on maize, create legal framework for land leasehold, sell public owned farms, financial plan for Zambia Airways
1995	World Bank	Economic Recovery & Investment Project (ERIP) Introduce value added tax, minimum budget and spending targets for social services, change social security system, privatise state copper corporation
1995	IMF	Enhanced Structural Adjustment Facility (ESAF) Quantitative benchmarks including increase domestic assets o BOZ, increase foreign reserves, reduce government domestic debt arrears, restructure civil service, publish banking regulations, privatise state copper corporation
1996	World Bank	ESAC II Social sector funding at least 35% of total public budget, implement 1995 land act, amend employment & industrial labour relations act, formulate policy for NGOs to delivery social services
1999	World Bank	Structural Adjustment Fund Reform civil service, publish banking regulations, privatise state copper corporation
1999	IMF	ESAF Privatise state enterprise including ZCCM, telecommunications, electricity, post office; no intervention in exchange rate market; deregulate strategic grain reserve; end public distribution of fertiliser; restrictive monetary & a fiscal policy
2000	IMF & World Bank	HIPC decision point complete privatisation of public enterprises
2001	IMF	PRGF Privatisation of ZNCB & ZESCO, deregulate & private energy sector and ZNOC; no intervention in exchange rate market; limit government expenditure

The difficulty of these relationships is that when the two institutions cancel their programmes with a country, most of the other bilateral donors follow suite. If not redressed, it could lead into a recipient country experiencing a severe economic and political crisis that could disturb the peace. The result of the 1991 suspension of programmes on Zambia, for instance, resulted in people rioting and protesting the shortage of goods in the country. This situation in turn motivated some soldiers to attempt to overthrow of the government.¹⁸¹

Zambia, not having a programme for self-development found itself in a situation where it became public debt distressed and only dependent on the resources and goodwill of foreign assistance. As it was shown in Chapter One of this study, between 1991 and 2004 when Zambia was forced to implement several structural adjustment programs, its total public debt expanded to unsustainable levels. As shown in Table 18 of Chapter Three, the adjustment programs resulted in Zambia suffering debt service ratios in excess of twenty five percent and the debt service as a share of GDP averaged nine percent of GDP – double the ratio of other nations in Sub Sahara Africa. The adjustment program did nothing to address Zambia’s public debt crisis.

It is clear from the presentation in Chapter Two that among others, the public debt crisis was the central problem that impeded Zambia’s capacity to engage in sustainable growth

¹⁸¹ Chitala, M 2006 *Not Yet Democracy*, The Zambia Research Foundation, Lusaka

and reduce poverty and underdevelopment. The full cancellation of the external debt could have made available to Zambia more than five percent of GDP resources for development. In other words, instead of servicing the debt, Zambia could have used those savings in poverty eradication programmes. But this was not to be as these resources were used to service the external public debt as demanded by the creditors under several policy conditionalities..

It was because of the mounting external debts after the early 1970's that the government initiated programmes to resolve these debts under various Structural Adjustment Programmes (SAPs). In terms of debt management, these adjustment programmes were meant to assist Zambia build capacity to service its debts. However, this did not occur. Instead, the country got more debt distressed as Table 30 shows. A historical review of SAPS in Zambia is necessary to show they constrained public debt management.

Table 30
Zambia: Indicators of Debt Distress

	1990	1995	1999
DEBT DISTRESS			
External Debt as % of exports of Goods and Services	506	550	691
Scheduled Debt Service as % of Exports of goods and services	47	46	63
Net Debt Services as % of Exports	6	30	20
Net Debt Services as % of GDP	2	10	5

Source: Calculated from data provided by IDM, MoFNP

Table 31 summarizes the debt relief Zambia has enjoyed in the form of debt rescheduling and write-offs with respect to Paris club creditors. Zambia first obtained

relief from Paris club creditors in may 1983 when Zambia's cut-off date was established and backdated to January 1, 1983.

Table 31
Paris Club Rescheduling of Zambia's official Bilateral Debt (US \$ million)

Agreed minute	Date of Meeting	Terms obtained	Consolidated period	Amount consolidated
Paris club 1	May 1983	Flow reschedule ordinary	12	375 million
Paris club 2	July 1984	Flow reschedule	12	253 million
Paris club 3	March 1986	Flow reschedule	12	371 million
Paris club 4	July 1990	Toronto 33% flow	18	963 million
Paris club 5	July 1992	London 50% flow	33	917 million
Paris club 6	February 1996	Naples 67% flow	36	566 million
Paris club 7	April 1999	Naples 67% flow	36	1,200 million
Paris club 8	September 2002	Cologne 90% flow	YTD	Yet to be determined

Sources: Agreed Minutes, Paris Club Secretariat, and Internet

(Note: The 1996 rescheduling was not fully implemented because government terminated ESAF in 1987.)

In 1973-1974, Zambia negotiated a stand-by arrangement with the International Monetary Fund (IMF) amounting to Nineteen Million Special Drawing Rights (SDR)¹⁸². The objective of the arrangement was to improve Zambia's international reserves position and reduce its budget deficit. This was in response to falling copper prices and rising oil prices. Not much was achieved, as external factors were still unfavourable. So, in 1976/77, Zambia negotiated for another stand-by programme that involved the IMF disbursing US \$62 million¹⁸³. The conditions included Zambia putting a ceiling on growth of domestic credit, a devaluation of the Kwacha, a wage freeze and a reduction of government expenditure. As with the 1973/74 programme, the new 1976/77 programme did not succeed to make Zambia's foreign debt sustainable..

¹⁸² Zambia, Ministry of Finance and National Planning, Draft Debt Sustainability Report, December, 2003

¹⁸³ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

In 1979, Zambia negotiated for a third stand-by facility that involved the disbursement of SDR 250 million¹⁸⁴. Conditions attached to the disbursement of money included limiting credit growth and further devaluation of the Kwacha. However, as soon as the programme was completed in 1980, poor rainfall and falling copper prices disrupted the economic take-off. As a result in 1981-83, Zambia was compelled to go back to the IMF for yet another support agreement.¹⁸⁵ It entered into an Extended Structural Adjustment Programme with the IMF committing to disburse SDR 800 million on condition that the adjustment programme was implemented fully. The programme focused on the supply side policies, unlike the earlier three facilities that were directed at containing demand in the economy. Due to adverse external factors – bad weather, fall in copper and cobalt prices and output, the programme was cancelled in 1982 and only SDR 300 million was disbursed.

Over the period, 1983 to 1985 a comprehensive structural adjustment programme was entered into with the IMF¹⁸⁶. It included two stand by facilities of SDR 211.5 million to cover the period 1983 to 1984 and SDR 225 million for the period 1984 to 1985. The reform programme involved far ranging structural policies and was complemented by a World Bank adjustment credit aimed at promoting non-traditional exports. The conditions that were attached to the IMF support for this programme included adoption of crawling exchange rate policy, a devaluation of Kwacha, auctioning of foreign exchange,

¹⁸⁴ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

¹⁸⁵ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

¹⁸⁶ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

removal of restrictions on imports, decontrol of prices, liberalization of interest rates, a wage freeze, and reduction of the budget deficit. Unfortunately, the programme failed to achieve the intended results of stabilizing the economy. Consumer prices and inflation increased, economic activity declined, the exchange rate depreciated, and the fiscal deficit rose. In addition, pressure mounted on the government to abandon the adjustment programme as it became very unpopular among the people.

With respect to the external debt, even as the country had programmes with the Bretton Woods institutions (IMF and World Bank), the external debt continued to grow. The external debt which in 1970 was US \$ 700 million more than doubled in 1980 to over US \$3.3 billion. After 1980, the debt overhang set in Zambia.

The Balance of Payments situation worsened when Zambia failed to amend the stabilization programme and on May 1, 1987, unilaterally abandoned the IMF/World Bank package of economic reforms and replaced it with a locally designed programme that lacked the financial and technical support from the IMF, the World Bank and other donors¹⁸⁷. The government complained that the conditions attached to the programme were too onerous and difficult to implement as the austerity measures it sought to implement such as, stopping the subsidization of necessary social goods like education, health and the staple food, Maize Meal. It was apparent that these measures would not only be opposed by the people but may destabilize the state. Because of these objections among others, between 1987 and 1989, Zambia implemented a domestically designed

¹⁸⁷ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

programme known as the New Economic Recovery Program (NERP)¹⁸⁸. Some of the policy measures that were introduced included import controls, fixing of interest rates, administrative allocation of foreign exchange, revaluing of the local currency – the Kwacha - from about K21.00 to K8.00 per United States Dollar and limiting external debt service to only 10 percent of foreign exchange receipts.

Strangely, Zambia did not suffer so much. Rainfall that year was plentiful and the economy grew by 6.3 percent of GDP as agricultural output increased. However in the foreign exchange market, the parallel market also known as the black market reappeared, inflation increased to more than 60 percent, donor disbursements were frozen, external debt service arrears emerged and there was a build up in the external debt stock. Zambia accumulated arrears and was declared ineligible to borrow from the IMF effective September 1987¹⁸⁹. The break in relations with the IMF/World Bank stopped the flow of funds from both the multilateral and bilateral members of the Paris Club to the extent that by 1990, the Debt/GDP ratio had risen to over 200 percent. At the same time, Zambia had accumulated external debt payment arrears of more than \$ 3 million. This situation was not sustainable and brought untold suffering on Zambians who could not conduct normal international trade as they had inadequate foreign exchange to pay for imports.

At the risk of inviting anarchy in governance, Zambia was forced to go back and seek support of the Bretton Woods Institutions (The IMF and the World Bank). In 1989,

¹⁸⁸ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

¹⁸⁹ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

Zambia entered into another arrangement with the IMF to cover the period 1989 to 1993 referred to as the Policy Framework Paper (PFP)¹⁹⁰. Restrictive policies in the functioning of the economy embodied in the slogan of “growing from own resources”, which were reintroduced in the NERP of 1987, were reversed. The thrust of the new policy was to target the liberalization of the economy, development of the private sector, ensuring a market clearing exchange rate, liberalization of trade and obtaining financial and technical support from the donors. This programme could not however be completed, as the government led by President Kenneth Kaunda was removed in November 1991 by a new government led by President Fredrick Chiluba. The new government found the stock of external debt for Zambia by the end of 1990 had increased to US \$ 6.6 billion before peaking at US \$ 7.286 billion in 1991¹⁹¹.

Upon the MMD government coming into power in November 1991, it sought to continue with the structural adjustment policies. It entered into a new arrangement with the IMF known as the Rights Accumulation Programme (RAP), which covered the period 1992 to 1995¹⁹². The Rights Accumulation Programme (RAP) was principally designed at clearing outstanding external payments arrears to the IMF. Under this programme, the government committed itself to a much faster pace of economic adjustment. The focus of the adjustment programme was on (i) removal of subsidies, (ii) economic liberalization and stabilization, (iii) privatization of public sector enterprises and (iv) decontrol of

¹⁹⁰ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

¹⁹¹ Zambia, MoFNP, Economic Report, 1992

¹⁹² IMF, Zambia, The Rights Accumulation Programme (IMF Website)

prices. By 1995, the RAP was successfully completed and outstanding external payment arrears to the IMF were cleared.

During the RAP programme, one significant reduction of Zambia' external debt was initiated under the 1992 rescheduling agreement with Paris Club Creditor countries under the Enhanced Toronto Terms (ETT), sometimes referred to as the London Terms, which resulted in Zambia's debt stock falling to US \$6.943 billion at the close of 1992¹⁹³. Over the next three years a decline of 8 percent of the debt, which dropped to US \$6.853 billion, was recorded.

Over the period 1995 to 1999, Government entered into agreements known as Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF) with the IMF/World Bank¹⁹⁴, with the IMF committing to disburse Special Drawing Rights (SDR) 182 million under SAF and SDR 702 million under ESAF¹⁹⁵. With the normalized relations between Zambia and the IMF/IBRD, Zambia began to contract more debt from both these multilateral institutions and others. By 1995, Zambia had a multilateral external debt of US \$ 3.219 billion which was 50.5 percent of the country's total external public debt exposure. The share of bilateral debt stood at US \$ 2.935 billion (46%) and private debt stood at US \$ 113.6 million (3.5%)¹⁹⁶.

¹⁹³ Mwanza, A et al (1992) *The Structural Adjustment Programme in Zambia* (SAPES, Harare, Zimbabwe)

¹⁹⁴ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

¹⁹⁵ Mwanza, A et al (1992) *The Structural Adjustment Programme in Zambia* (SAPES, Harare, Zimbabwe)

¹⁹⁶

Under these economic reform programmes, Zambia continued to build on the successes of the RAP. Economic reforms included (i) decontrol of interest rates, (ii) the removal of exchange controls and floating of the Kwacha, (iii) liberalization of banking sector, (iv) removal of quantitative restrictions on imports and exports (v) compression and simplification of tariff structure, (vi) introduction of the cash-based budget system, and (vii) establishment of capital market.

The outcome of economic performance was mixed, with real GDP growing modestly averaging 1.5 per cent over the period 1995–1999, annual inflation dropping sharply from 189 percent in 1993 to 34.6 percent in 1995 and averaged 27.9 percent over the period 1995-1999, export values for non-metal products rising and the external position improving slightly. This situation was quite beneficial to Zambia. However by close of 1996, Zambia's debt stock-still stood at \$ 6.2 billion in spite of Zambia benefiting from various relief measures provided by creditors. In other words, the debt relief initiatives did not address the real issue to make Zambia's debt sustainable

After 1999, ESAF was renamed as Poverty Reduction and Growth Facility (PRGF)¹⁹⁷. This signalled renewed commitment by the IMF to pursuing objectives of poverty reduction and sustained economic growth. To make operational the PRGF, the Government in 2002 finalized the preparation of the Poverty Reduction Strategy Paper (PRSP)¹⁹⁸ through a broad-based consultative process involving the key the stakeholders. The focus of the PRSP was to achieve sustained economic growth.

¹⁹⁷ IMF, (1999), Letter of Intent for a Three Year Arrangement under the Poverty Reduction and Growth Facility (IMF Website)

¹⁹⁸ Zambia, MoFNP 2002, *Poverty Reduction Strategy Paper* Lusaka, Zambia

The PRGF was implemented through annual programmes. The government conveyed its annual economic and structural policies to the IMF through a Letter of Intent (LOI). In 2001, the IMF pledged to financially support the programme through (a) US \$ 151 million interim HIPC assistance that was disbursed at the beginning of the year and (b) US \$ 130 million PRGF arrangement¹⁹⁹. However, during 2003 Government failed twice in July and December to get a new arrangement due to slippages in expenditure²⁰⁰. On the basis of this the country was placed under an IMF Staff Monitored Programme (SMP), which was extended to June 2004 in order to provide an opportunity for Zambia to re-establish a good track record of macroeconomic management and performance²⁰¹. The lack of a Poverty Reduction and Growth Facility (PRGF), even despite having an SMP with the IMF, still led to the withholding of programme support by some donors, notably the European Union.

The PRGF arrangement was finally re-approved on 16 June 2004. With that approval, Zambia was expected to benefit from a US \$220.1 disbursement upon fulfilment of conditions under the programme. The conditions under the PRGF facility which began to be monitored from July, 2004 and run up to December 2004, were divided into two categories; (i) Quantitative criteria and benchmarks and (ii) structural reforms.²⁰²

¹⁹⁹ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P138. See also: World Development Movement (2004), up-dated from WB and IMF websites

²⁰⁰ IMF, Zambia, Letter of Intent, Lusaka, March 16, 2004 (On IMF Website www.imf.org/External/NP/LOI/2004/zmb/01/index.htm)

²⁰¹ The SMP went off track as a result of expenditure overruns in September and October, 2003 which resulted in domestic financing exceeding the cumulative adjusted programme ceiling by 1.7 percent of GDP in December, 2003

²⁰² UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P139. See also: World Development Movement (2004), up-dated from WB and IMF websites

The aim of quantitative performance criteria and benchmarks was to ensure macroeconomic stability. Several conditionalities were forced on Zambia. The country agreed to undertake programmes that would ensure that: (a) there was limited credit expansion by the Bank of Zambia to the entire economy; (b) limited Government borrowing from the Bank of Zambia and the commercial banks; (c) increase in external reserves of the Bank of Zambia; (d) ensure no accumulation of new external payment arrears to all of the Government's external creditors; (e) eliminate outstanding domestic payment arrears to suppliers of goods and services to the Government; (f) limit the stock of short-term debt and on contracting or guaranteeing of non-concessional debt; (g) limit on the cumulative new concessional loans collateralised or guaranteed by the Government or Bank of Zambia for the Zambia Electricity Supply Corporation (ZESCO); (h) limit on the accumulation of arrears on the central Government wage bill; and (i) ensure deposits into HIPC Account 49 at the Bank of Zambia were utilized for poverty reduction programs.

With respect to other structural reforms, under the PRGF ending in December 2004, the Zambian Government and the IMF agreed on several conditionalities, which included that the Government would refrain from paying any amount for which it was not legally liable and which was not included in the budget; that Government would produce quarterly budgetary execution reports using the Activity Based Budgeting classification²⁰³, within 45 days of the end of each quarter; that Government would award a contract for the supply and installation of the hardware and software needed to

²⁰³ IMF, (1999), Letter of Intent for a Three Year Arrangement under the Poverty Reduction and Growth Facility (IMF Website)

implement the Integrated Financial Management and Information System (IFMIS)²⁰⁴, and would initiate the pilot implementation of the IFMIS in at least three ministries; that Government would commence negotiations for the settlement of domestic arrears identified in the multi-year plan of clearing domestic arrears; that Government would define a policy for the granting of tax concessions; that Cabinet would approve a proposal to repeal sections of the Building Societies Act, National Savings and Credit Bank Act and the Development Bank of Zambia Act, which were in conflict with the banking and financial services act; that Government and the bank of Zambia would adopt action plans finalised in consultation with the World Bank and IMF staff, for the restructuring of the Zambia National Building Society, National Savings and Credit Bank and the Development Bank of Zambia; and that unforeseen expenditures would be funded only to the limits of the budget contingency or after cabinet approval including the identification of savings elsewhere in the budget.

Simultaneously, the Government was implementing the World Bank Programme²⁰⁵, which focused primarily on structural reforms. Structural reforms were aimed at regaining control over fiscal expenditures, especially domestic debt which posed a serious threat to private sector growth. In addition, structural reforms were aimed at improving the efficiency of the public sector and strengthening economic Governance.

²⁰⁴ IMF, (1999), Letter of Intent for a Three Year Arrangement under the Poverty Reduction and Growth Facility (IMF Website)

²⁰⁵ UNDP, 2006 *Economic policies for Growth, Employment and Poverty Reduction: Case Study for Zambia*, Vol. 2, Lusaka, Zambia. P139. See also: World Development Movement (2004), up-dated from WB and IMF websites

Zambia also rescheduled external debt owed to banking and financial institution under the auspices of the London Club. In 1994-95, Zambia benefited from the World Bank grant through IDA to conduct a debt-buy back of the private debt. Under this arrangement, a total debt of US \$ 200 million was written off after being bought at a discounted cost of 10 cents for every dollar owed²⁰⁶.

The IMF is the central player in international monetary affairs, because, as Peter Korner et al (1984)²⁰⁷ observed, it is the crisis manager for Third World debt. The main function of the IMF is to provide its members with financial aid to cover short-term gaps in their balance of payments. The objective of this is to prevent deficit countries from resorting to measures that would restrict international trade and money transfers. The IMF has since its formation after the second world war, and especially after 1974 during the first oil crisis, been creating many funding facilities targeting the chronic balance of payments problems of many developing countries starting with the Extended Fund Facility in 1974, the Supplementary Financing Facility in 1979, the Policy of Enlarged Access in 1981 and other finance windows and stand by arrangements all anchored on structural adjustment programs.²⁰⁸

The HIPC initiative entails coordinated action by multilateral, bilateral and private commercial creditors to reduce the debt burdens of developing countries to sustainable levels, meaning, to levels that will enable them to service their debts without compromising on their needed development expenditures.

²⁰⁶ Interview with Director of IDM, MoFNP, on 14 July, 2006

²⁰⁷ Korner, P (1987) *The IMF and the Debt Crisis* (Zed Books, London, UK)

²⁰⁸ IMF Website

As already shown in Chapter Three, to qualify for assistance under HIPC, a country must adopt an adjustment and reform program approved by the IMF and World Bank and pursue these programs for three years. After implementing a three-year SAP, a country would then reach a decision point. At that point, the creditors would then assess the country to determine the amount of debt relief it needs to reduce its debt to sustainable levels. The country that reaches decision point is then given another three years to execute SAP programs and policies with a view of reaching the completion point when the debt relief will actually be given by the creditor's cartel. In 1999, the creditors decided to make the completion point to float, meaning that instead of the rigid three-year requirement, a debtor country would be deemed to have reached completion point when it fulfilled the conditions given in the reform program. In theory, at completion point, the debt reduction could be up to 80 per cent in present value terms.

As at the end of December 2004, many countries had reached Completion Point and had benefited through reduced debt stocks²⁰⁹. However, Zambia reached the decision point under the enhanced HIPC initiative for debt relief in December 2000 when the Executive Boards of the IMF and the IBRD resolved that the country's debt was not sustainable as defined under its sustainability criteria. At the end December 2004, Zambia reached the completion point which was formally endorsed by the two Bretton-Woods institutions (the IMF and the World Bank) in April, 2005²¹⁰.

²⁰⁹ As at June 2004, thirteen countries had reached HIPC Completion Point. Fifteen countries were expected to reach completion point by end of 2004 and eleven were still striving to reach decision point.

²¹⁰ IMF/IDA (April, 2005) *Zambia: Completion Point Document for the Enhanced Heavily indebted Poor Country (HIPC) Initiative* (Washington D.C., USA)

Although a HIPC country enjoys some debt relief, reaching completion point and exiting from the HIPC initiative does not, in itself, guarantee long-term external debt sustainability. Depending on many factors, such as structural weaknesses in economic management; weak policy and institutional frameworks; ineffective public debt management; lack of growth in exports and poor fiscal revenue collection; and the effect of donor aid that tends to make a country become complacent and lacking in initiatives to free itself from donor dependency, a country such as Zambia that has exited HIPC might well slip back into the debt trap.

If Zambia had not been included to benefit from debt relief under the HIPC initiative, an analysis of the total debt stock shows that she could have been condemned to service an unbearable external debt on its own without the support of donors. This theoretical supposition is presented in Table 32 below. Without the assistance of donors and without any new borrowing during the period 1998 to 2004, the debt service burden for Zambia could have risen from US\$ 328 Million in 1998 to an all time high of US\$ 710 Million in 2004. This debt service represented 35.7 per cent and 34.8 per cent of Zambia's export of goods and services for the years 1998 and 2004, respectively. With such debt burden, it was obvious to all observers that Zambia which not only lacked the capacity to honour its debt obligation but was also traversing the route of a failed state on account of the huge debt burden, urgently required assistance from the international community.

Table 32
Zambia: Scheduled External Debt Payments without HIPC*
(In Millions of US Dollars)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Scheduled Debt Service	590	453	399	328	318	388	590	593	616	710
Interest	252	198	219	192	156	155	144	137	131	121
Amortization	338	255	181	136	162	233	446	456	486	588
Scheduled Debt Services As % of export of Goods and services of which	44.9	41.6	32.7	35.7	37.8	44.5	55.9	54.9	49.4	34.8
Interest	19.1	18.2	17.9	20.2	18.5	17.8	13.6	12.6	10.5	5.9
Amortization	25.7	23.4	14.8	14.8	19.3	26.7	42.7	42.3	39.0	28.8
Exports of Goods and Services	1,315	1,089	1,223	918	842	872	1,055	1,080	1,246	2,041

Source: IMF 2006 Selected Issues and Statistical Appendices, Washington D.C. USA

* Not Including debt relief under the HIPC Initiative

Zambia reached the decision point in December 2000 and qualified for debt relief. The sustainability analysis that the IMF conducted in 2000 was very optimistic and most of its parameters were not met. However, after Zambia reached the HIPC completion point and did not contract further external loans, the Zambia 2004 Debt Sustainability Assignment (DSA) Report for completion point report projected debt service as shown in Table 33

below. The IMF estimated that the HIPC Initiative interim debt relief would amount annually to a reduction of debt service of 5.7 per cent of GDP for 2001-2005.²¹¹

Table 33
Zambia: External Debt Service Projection of Zambia with HIPC

Year	Total Debt Service	Principal	Interest
2003	138.9	112.4	26.5
2004	202.5	170.3	32.2
2005	198.2	173.4	24.8
2006	82.5	55.4	27.1
2007	79.4	53.5	25.9
2008	79.1	54.1	25.0
2009	81.0	56.9	24.1
2010	83.9	60.6	23.3
2011	84.5	62.6	21.9
2012	84.4	63.9	20.5

Source: IMF 2005 Zambia : Enhanced Initiative for Heavily Indebted Poor Countries-Completion Point Document; See also MoFNP, DSA Document, 2004

The report projected a high debt service principally due to principal and interest payments to the multilateral institutions (IMF, IDA and the ADB) which had the bulk of the loans still owed by Zambia. In other words, in spite of all the debt relief initiatives that Zambia enjoyed, its external debt up to 2004 remained high and unsustainable at US\$170.3 million of principal and US\$32.2 million of interest. This would be happening in a country where poverty levels were still high as Appendix 6 Zambia would still be in danger of reverting to its highly indebted and poor country situation if the policy constraints on public debt management were not adequately addressed.

²¹¹ IMF 2005 Zambia : Enhanced Initiative for Heavily Indebted Poor Countries-Completion Point Document; See also MoFNP, DSA Document, 2004

CONCLUSION

The basic conclusion of this chapter is that the policy framework for public debt management coupled with the Structural Adjustment policies that Zambia adopted failed to address the debt overhang that so badly constrained development in Zambia.

The Structural Adjustment Policies in particular had conditionalities that severely limited Zambia's policy space in which government could make decisions. The conditionalities robbed Zambia of any discretion on important decisions affecting economic development.

The ESAF and HIPC initiative which Zambia implemented after 1991 and 2000 respectively, were too little to enable Zambia create a meaningful take-off. Out of the debt relief that Zambia received in 2000, about fifty five percent of it was used to settle IMF and World Bank debts. In other words, the half of the debt relief was a mere book entry.

In general, Zambia suffered from a profound aid dependency and debt distress which undermined the capacity for national policy making. It is tragic that Zambia was prevented by the various conditionalities given by the donors from investing in projects like power generation, manufacturing and other public works which could have prepared the country to sustainably earn foreign exchange and service external debts. Instead, most of the expenditure from the budget went to consumption related items. This policy environment constrained Zambia's ability to built capacity in this area. The country needed to create fiscal space to manage its public debt.

CHAPTER 5

MANAGEMENT CONSTRAINTS ON PUBLIC DEBT MANAGEMENT IN ZAMBIA

INTRODUCTION

The establishment of a sound debt management system is now widely recognized as a major element of a well designed economic management strategy, because of the crucial link with fiscal and monetary policies as well as overall macroeconomic management. Because of this significance, the combined staffs of the IMF and the World Bank in 2003 prepared guidelines for public debt management.²¹² It is now recognized that effective and efficient public debt management for any country requires a capacity to formulate, implement, monitor and evaluate a comprehensive debt management plan. Some of the requirements to achieve this objective include establishing an administrative arrangement for the collection and compilation of data required for debt management, facilities for the storage, retrieval and analysis of the debt data, the organizational arrangements of debt management and the whole component of debt management strategy and risk management. This chapter discusses and analyses the status and factors affecting public debt management in Zambia between 1991 and 2004. These factors included the following: Staffing and Technical Resources; Documentation of public debt data; Risk Management; and Public Debt Management Strategy.

²¹² IMF/World, (2003) Guidelines for Public Debt Management (Washington D.C.)

STAFFING AND TECHNICAL RESOURCES

In the interviews²¹³ that were conducted at the Bank of Zambia and the Ministry of Finance and National Planning, it was apparent that between 1991 and 2004, Public debt management arrangements in Zambia were characterized by many shortcomings. One key one area of weakness which this study addressed was the diffusion of responsibilities among several departments. The study found that public debt management was characterized by lack of co-ordination, poor data and information management, poor record keeping, lack of capacity on the part of the civil servants.

In 1991 when the Movement for Multi-Party Democracy (MMD) assumed power, responsibilities for debt management were split across multitude of departments and units. At the Ministry of Finance, the departments included the following; the Investment and Debt Management Department; the Economic and Technical Cooperation Department in charge of multilateral, bilateral and all aid coordination; the Accountant General's office responsible among other functions, the management of other aspects of domestic debt other than government securities. Cooperation and collaboration among the different departments was weak and information flow weak. Public debt data recording was inadequate. For instance, the new IDM department which was created in 2004 failed to provide data to this study on total domestic debt statistics of Zambia for the

²¹³ The list of those interviewed included the following: External Debt Experts- Gideon Lintini, Ronald Simwanga, Michael Mwanga from the Ministry of Finance and National Planning and Dr. Denny Kalyalya from the Bank of Zambia.; Domestic Debt Experts were Mr. Stephen Mbewe and Mr. William Kabwe from the MoFNP and Dr. Denny Kalyalya the Deputy Governor (Operations) of the Bank of Zambia who also made a written submissions as per questionnaire shown in the appendices of this study. The Legal Officer to the Treasury was also interviewed.

years 1991 to 2000 because no integrated data base was available to capture all liabilities. Only data for the years 2001 to 2004 were available. This was not surprising as during that period 1991-2001, the MMD government was accused of many manners of abuses some of which have been highlighted in the case studies on Callable Guarantees in Chapter 6 of this study.

The Ministry of Finance and National Planning is principle government agent that manages the country's public debt. The Minister of Finance is empowered to operate as a body corporate under the Minister of Finance (incorporation) Act²¹⁴ to contract debt. In 1991, the section in the Ministry that managed the public debt was known as the Loans and Investment Department. The department was later in 2003 fused into the Budget and Economic Affairs Division and renamed as the Investment and Debt Management Department and given the functions of managing the foreign and domestic debt of the country. The department was also responsible for managing the public debt data base. Specifically, the department was responsible for debt contracting, arranging government guarantees; issuing and redeeming government securities; monitoring, controlling and evaluating the public debt; conducting external and domestic debt servicing; and negotiation with creditors.

The other institutions which was involved in the management of Zambia's public debt was the Bank of Zambia (BOZ) which had been established in 1966 as the Central Bank of country and made responsible for the formulating and executing monetary and supervisory policies, with the ultimate objective of achieving price and financial systems

²¹⁴ Zambia, Ministry of Finance (incorporation Act) Vol xi, Cap 588

stability. The BOZ which was a Bank of last resort, also served as a fiscal agent and adviser to the government. It derived its mandate from the Bank of Zambia Act²¹⁵ and the Banking and Financial Services Act.²¹⁶

The Chief Executive Officer of the BOZ was the Governor who was also the Chairman of the BOZ Board of Directors. The Governor and the two Deputy Governors constituted the executive of the bank. The three officers were appointed by the Republican President for contract period of not more than five years and the contracts were renewable. The Board of Directors of the BOZ was responsible for formulating the bank's policies and comprised of no more than six other persons appointed by the Minister of Finance and National Planning. The Secretary to the Treasury of the Ministry of Finance and National Planning sits on the BOZ Board as a representative of government but without voting rights.

At the Bank of Zambia, the Economics Department was responsible for balance of payments and debt management. In terms of domestic debt, the BOZ managed both the Treasury Bill Market and the Government Bond Market.²¹⁷ With respect to the Treasury Bill Market, the government through the BOZ in 1993 introduced the tender system of selling Treasury Bills. Previous to that, financing of government expenditure from the public was by selling Treasury Bills at pre determined prices. The public bought these bills on any day and in any amounts or rediscount any amounts without restrictions.

²¹⁵ Bank of Zambia Act No 43 of 1996

²¹⁶ Banking and Financial Services Act of 1994

²¹⁷ MoFNP (2004) Financial Sector Development Plan for Zambia 2004-2009

Treasury bills had terms to maturity of 28, 91, 182 and 273 days issued on a competitive and non-competitive basis to the public every week.

With respect to the government bond market, prior to 1995, government bonds were sold at a fixed interest rate and on an ad hoc tap basis. In 1998, the BOZ in collaboration with the Lusaka Stock Exchange (LUSE) developed the secondary market in long term instruments and began trading at the LUSE.²¹⁸ Government bonds were of three maturity categories of 12, 18, and 24 months offered to the public on a competitive basis through tender and also through non-competitive window for amounts less than K30 million.

As regards to external debt management, the objectives of the debt unit in the BOZ were to register all external debt obligations; to plan, control, co-ordinate and manage the administration of external debt; and to monitor, service, analyze and evaluate the nation's external debt burden obligations in order to facilitate formulation of policies and strategies to reduce it. The functions of the unit included the following:²¹⁹

- Process and monitor debt service payments on current maturities falling due on publicly guaranteed debt
- compile and prepare report on short term and medium to long term external debt stock on private sector debt
- compile and prepare data by creditor on commitments, disbursements and repayments of private sector external debt obligations

²¹⁸ Bank of Zambia Circular Number SCID/CB/2/98

²¹⁹ Dr. Denny Kalyalya's written responses to interview dated 20 July, 2006

- analyze and evaluate the nation's external debt stock portfolio in order to facilitate formulations of policies and strategies by Management
- assist in compilation of data for Paris Club rescheduling negotiation and
- Coordinate with the Ministry of Finance and National Planning on external debt matters.

This study was informed by the Deputy Governor(Operations) that the debt unit at the BOZ also provides debt reports for both internal and external debt by reconciling with figures produced by the Ministry of Finance and National Planning figures. With respect to staff establishment, the Economics Department was headed by a Director who oversaw the day to day functions of the public debt division. The division itself was headed by an Assistant Director who managed three units, namely, Balance of Payments Unit, Economic Programme Unit and Public Debt Unit. The Public Debt Unit was staffed by a Senior Economist and an Economist.

At the Ministry of Finance, public debt management was carried out by the Loans and Investments Department. The name of the department was changed to Investment and Debt Management Department in 2002. The department was responsible for the monitoring and evaluation of the performance of government investment and the management of government's debt stock, both domestic and external debt. The department was also responsible for managing the database for the country's national debt and was involved in the operations of the capital market by selling government

instruments such as Treasury Bills and Bonds. The functions of the department included the following:²²⁰

- contracting, managing and restructuring external and domestic debt,
- managing, monitoring, evaluation and restructuring government investments,
- overseeing the performance of government investments, including financial performance,
- arranging for on-lending and guarantees to parastatals and the private sector,
- contracting government domestic and external debt,
- issuing and redeeming of government securities in consultation with the Bank of Zambia,
- monitoring, controlling and evaluating government domestic and external debt,
- restructuring government public debt,
- maintaining and managing the domestic and external debt database,
- conducting external debt servicing, and
- negotiating with creditors in order to reduce or restructure the debt or refinancing arrangements

The department was headed by a Director who was assisted by three Assistant Directors each responsible for a specific unit, namely, Investment Unit, Domestic Debt Unit and External Debt Unit. The overall establishment in 2004 when the interviews were conducted for this study comprised of the following as shown in Table 32:

²²⁰ Chikuba, P.M. (2002) Consultancy Report on the Review of Organisation Structure for the Ministry of Finance and National Planning (MoFNP, Lusaka)

In assessing the staffing and equipment of Debt Management Units at the Ministry of Finance and National Planning (MoFNP) and the Bank of Zambia (BOZ), the study found lack of qualified staff, office space and computer equipment tended to prevent the debt management units at both the Ministry of Finance and Bank of Zambia from

Table 34

Staff Establishment of the Investment and Debt Management Department in 2004

Post	Salary Scale	Establishment
Director	PMS/1	1
External Unit		
Assistant Director	PMS/3	Vacant
Chief Economist	PMS/3	1
Principal Economist	PMS/4	2
Senior Economist	PMS/6	2
Economist	GPS/2	2
Domestic Debt Unit		
Assistant Director	GPS/3	Vacant
Chief Economist	PMS/3	1
Principal Economist	PMS/4	1
Senior Economist	PMS/6	2
Economist	GPS/2	2
Investment Unit		
Assistant Director	PMS/3	Vacant
Chief Economist	PMS/3	1
Principal Investment Analyst	PMS/4	1
Senior Investment Analyst	PMS/6	2
Investment Analyst	GPS/2	2

Source: Interviews of IDM Director

providing the necessary support to policy makers.²²¹ At the Ministry of Finance and National Planning, recruitment and retention of professional staff in the Debt Management Unit was problematic. In 2004, both the External Debt and Domestic Debt Units were grossly understaffed. In the External Unit, there were only seven officers comprising of one Chief Economist, two Principal Economist, two Senior Economists and two Economists. In the Domestic Debt Unit, there were only one Chief Economist, two Senior Economists and two Economists.²²² This status is also confirmed by Chikuba (2002)²²³. Clearly, the establishment needed to be increased to manage the many functions in public debt management.

Coupled with the of inadequate manpower was the high staff turnover which was mainly caused by poor conditions of service in the civil service relative to the private sector²²⁴. This problem adversely affected the efficiency and effectiveness of public debt management. At no one time, were there sufficient staffing trained and experienced enough to undertake debt management duties. Table 33 above for instance, shows that in 2004, both the Domestic Debt Unit and the External Debt Unit did not have the positions of Assistant Director filled up validating the assertion of lack of management leadership as well as high staff turnover. The fact that they were vacant meant that capacity management was definitely compromised. The poor conditions of service also meant that both morale and staff motivation was an impediment to efficient public debt

²²¹ Interviews with Staff of MoFNP and BOZ

²²² Interviews with Staff at MoFNP and BOZ

²²³ Chkuba, P.M. (2002) Consultancy Report on the Review of Organisation Structure for the Ministry of Finance and National Planning (MoFNP, Lusaka)

²²⁴ Interviews with Staff at MoFNP and BOZ

management. It is important that the recruitment and retention of staff is addressed to guarantee efficient public debt management.

In addressing the issue of capacity of public debt management in Zambia, in May, 2003, a team of key officials and debt management experts comprising of 5 external debt experts, 3 domestic debt experts, 5 computer experts, 8 macroeconomic experts, 4 new financing experts, 10 poverty reduction experts and 3 consultants from the MEFMI and the Debt Relief International (DRI) conducted a workshop in Livingstone, Zambia at which they attempted, among others, to identify capacity constraints of debt management in Zambia and suggest possible solutions.²²⁵

The workshop conclusions are presented in Appendix 15.²²⁶ Items on human resources in Appendix show the following. In respect to staff numbers, the debt units needed additional staffing. Job descriptions existed but that there were inadequate experience and training of staff. Motivation and compensation were low and staff assessment and development plans were inadequate. Staff experience was less than 3 years and the members of staff in debt management units did not have enough training and qualifications. There was virtually no analytical training because most of the staff were new. Staff salary scales were the same as in the overall civil service since this was determined centrally. Job descriptions did not cover all tasks and staffs were not clear of their job descriptions. There was ad-hoc training, but no staff assessment and there were no development plans. Furthermore the assessment of external and domestic data, as well

²²⁵ MoNP,(19-30 May, 2003) Zambia 2003 DSA for Completion Point Report (MoFNP, Lusaka)

²²⁶ MoNP,(19-30 May, 2003) Zambia 2003 DSA for Completion Point Report (MoFNP, Lusaka)

as grants, pointed to ineffective data base management at both the Ministry of Finance and National Planning and the Bank of Zambia

The above findings were confirmed by the findings of our study. With respect to staffing, the two senior positions of Assistant Director of the Domestic Debt Unit and the External Debt Unit were vacant symbolising inadequacy in management. The study found that the Public Debt Management Unit in Ministry of Finance and National Planning had insufficient office space and outdated equipment²²⁷. Up to 2004, the Ministry depended on manual calculations as they lacked appropriate computer hardware and debt management and software tailored to the Zambian conditions. The Ministry in 2004 acquired the Debt Management and Financial Analysis (DMFAS) system to be used for recording, monitoring and analysis purposes.²²⁸ With this software system, it was hoped debt management would be enhanced. However, it was important to acquire the appropriate computer systems and provide sufficient and sustainable training to staff. An integral part of building an effective public debt management system was the development of an Information Technology (IT) which could be among the debt manager's most important assets. As at the time of our research, the computer hardware had not yet been fitted and training had not yet commenced.

It was apparent from the findings that Zambia lacked an appropriate IT systems to handle analytical requirements, such as those required in the front office (debt issuance and trading) cash flow tracking; middle office strategy portfolio evaluation, risk management,

²²⁷ Interview with Staff of IDM on 14 July, 2006

²²⁸ DMFAS, A Brief Description, Ref. UNDP/DID/DMS/Rev. 3

performance assessment; and all back office operations including settlement, accounting, reporting and auditing. Zambia needed a centralised database as opposed to the segmented databases at Bank of Zambia and the Ministry of Finance which made it difficult to generate and to monitor a comprehensive risk management strategy.

DOCUMENTATION OF PUBLIC DEBT DATA

In the area of documentation, the study looked at the coverage of the debt data, documentation, debt servicing and the accuracy of the debt statistics produced by the Ministry of Finance and National Planning and the Bank of Zambia. By and large, Zambia did not have complete coverage of all debts as the example of callable guarantees and commitment control discussed in the addendum to Chapter Seven attests. The country did not routinely track private guaranteed debt or contingent liabilities.

As regards loan documentation, the Secretary to the Treasury and his Permanent Secretary in charge of the budget at the Ministry of Finance and National Planning indicated that up to 2004²²⁹, loan documentation in the IDM department was fairly comprehensive. However, because of capacity inadequacies, a comprehensive database had not yet been created. That was the reason why it was not possible to publish the data of domestic debt for the years between 1991 and 2000. During that period too, there occurred a system of callable guarantees and contingent liabilities discussed in the agenda of Chapter six of this study which rendered any reconciliation of debt data very difficult.

²²⁹ Interview of Secretary to the Treasury and Permanent Secretary on 14 July, 2006

There was also no central deposition of all loan agreements. This further compounded the documentation problem in that some documents which were kept by specific agencies as opposed to being kept by the public debt office centrally could not be accessed easily. On account of lacking a central depository, it meant that the data was scattered in various departments of Government. In other words, the haphazard nature in which public debt data were kept, timely information on loan disbursements as well as on debt servicing to many aspects of both the domestic debt and the foreign debt were very problematic. A particular difficulty that was reported²³⁰ related to reconciliation of the debt records. This problem was particularly exacerbated when the debts were related to exchange and interest rate movements.

The study also observed that, Zambia often made late payments on its debt service and suffered huge penalty charges. The reason given for late payments was either lack of foreign exchange or delays in approval of remitting process. The lack of data because of bad record keeping was also given as a bottleneck²³¹.

In terms of projections, the Minister of Finance and National Planning when announcing the Annual Budget estimates for the country every year projected the debt service for the year. However, this estimate was not based on a comprehensive data base. Because of lack of a centralized data base for all government debt, it was not possible to say with exactitude the quantum of public debt that government was liable for.

²³⁰ Interview of Staff of MoFNP and BOZ

²³¹ Interview of Staff of MoFNP

The results of the research pointed to the need for Ministry of Finance and National Planning and the Bank of Zambia to adopt the higher version of Debt Management and Financial Analysis System (DMFAS). This is a computerized system for the management of government and government guaranteed debt developed by the UNCTAD in collaboration with the World Bank and the software firm ORACLE. The Bank of Zambia had acquired the programme in 1986. The Ministry of Finance and National Planning on the other hand was, in 2004, still using the old version of Debt Pro and only installed on a few machines. There was need to have a fully integrated information system, automated to the maximum extent, to meet the requirements of the front office (debt issuance and trading), middle office (strategy risk management and performance evaluation) and back office (settlement, accounting and reporting). A centralized database was needed as opposed to the stand alone IT system that was in operation. Michael Hogan (1999)²³² observed that an integral part of building an effective debt management operation is development of an IT system which can be among a debt manager's most important assets. Furthermore, there was need for enhanced skills of staff at both the two institutions.

RISK MANAGEMENT

As is well recognized, any public debt manager faces six well defined risks, namely, operational risks, counterparty credit risk, liquidity risk, interest rate risk, market risk and exchange risk. In this study, two risks were investigated. These were operational and liquidity risks.

²³² Horgan, M (1999) *The Building Blocks of Effective Government Debt Management* (UNITAR, Geneva) p 29

To manage operational risk, a debt manager must implement a comprehensive control environment such as having in place segregated duties in terms of dealing, processing, payments, reporting and risk control.²³³ Other duties include managing a strong IT system and an auditing function.

In the assessment by the Ministry of Finance workshop done in 2003,²³⁴ it was reported with respect to portfolio and risk analysis that there was among government debt management departments ad hoc coordination among agencies for portfolio and risk analysis, ad hoc ad hoc analysis of concessionality and a risk for some loans, and no policy conclusions were ever drawn. The overall portfolio review was also ad hoc and not user friendly. It was neither comprehensive nor detailed enough and had little analysis of policy implications. Furthermore, there was very basic risk analysis if any (percentage of variable rate in the portfolio, currency composition, maturity), and no conclusions on implications for policy. Lastly, the workshop reported that some results in debt portfolio and risk analysis were achieved, particularly in debt restructuring, but not in risk prevention.

In this study, weaknesses in portfolio and risk analysis were reported by both the Ministry of Finance and National Planning as well as the Bank of Zambia. At the Ministry of Finance and National Planning, it was reported by the Director of IDM that

²³³ Kappagoda, Nihal (1993) Requirements for Effective Debt Management (in) Good Debt Management Pays, Vol 3 (UNITAR, Geneva)

²³⁴ MoNP,(19-30 May, 2003) Zambia 2003 DSA for Completion Point Report (MoFNP, Lusaka)

operational risk management was compromised by loose controls which were a result of inadequate staffing levels. This inadequacy by the IDM directly affected operational risk management at the Bank of Zambia which depended on information from the Ministry of Finance and National Planning to reconcile its debt data.

With respect to liquidity risk management, the study found that, between the years 1991-2004, both the Ministry of Finance and the Bank of Zambia were not able to ensure that current and future funding needs for debt management could always be met.²³⁵ The reason was that the country had a huge public debt overhang but did not have capacity to generate sufficient foreign exchange earnings from its exports to service all the foreign debt. In other words, the debt could not be redeemed from government resources.

In analysing Zambia's public debt risk management, the study examined the specific situation of both the domestic and external debt and proposed strategic perspectives of dealing with them. With respect to domestic arrears shown in Chapter Four, stood at K579.9 billion in 2003 and were growing but needed to be liquidated to allow the private sector to enhance their operational abilities. The key question relating to clearance of arrears was how well this could be funded. One option was to use donor aid funds, as happened in Tanzania.²³⁶ The Zambian government could make a case for grant aid. If the donor aid was not available, the policy managers could try the option of rescheduling, but on the best possible terms. Furthermore, the outstanding debt could have been

²³⁵ Interview with Staff of IBM, MoFNP on 14 July, 2006

²³⁶ Bigsten, A , Levin Jorgen, Person Hakan (2001) Debt Relief and Growth: A Study of Zambia and Tanzania (A Paper prepared for the WIDER Development Conference on Debt Relief, Helsinki, 17-18 August, 2001

securitized after at least 50% of the interest was written off. All other outstanding debt could have been paid according to budgetary provision.

In the period of study, the government did not do much to reduce the stock of government securities as Table 8 in Chapter Three on the evolution of Zambia's domestic public debt shows. The government instead of reducing the debt, rolled all the maturities on Treasury Bills and Government Bonds and only serviced the interest on maturing securities. Because of this, the government debt expanded to huge levels which adversely affected other macroeconomic indicators such as interest rates and inflation. It was on account of the huge domestic public debt that accumulated that forced the government in 2003 to issue a long-term bond (ten years) against the consolidated debt owed to the Bank of Zambia. This was an attempt to address the huge domestic debt overhang.

With respect to location of the Debt Units, the study showed that their locations at the Ministry of Finance and National Planning and the Bank of Zambia were relatively not autonomous which tended to adversely affect effective and efficient debt management. This disadvantage was also recognized by both the MoFNP and the BOZ²³⁷ who correctly noted that with respect to government securities, the administrative structure between monetary issuance of government securities of the Bank of Zambia and fiscal policy of the Ministry of Finance and National Planning were better if they were separated. When this is done, the government through its budget outlays would be able to budget annually

²³⁷ MoFNP (2004) Financial Sector Development Plan for Zambia 2004-2009, p55-56

in its estimates to redeem the interest on government securities. In the long run, both interest costs were bound to drop.

As regards loans and advances from the central bank which in 2003 were K261 billion, one option of liquidating the debt was to convert the debt into a long-term security at a reasonable interest rate. If diligently managed, the debt can be redeemed. For instance if government issued the 10 years bond at below six percent interest rate payable monthly, it would be easily repaid as the interest rate is quite low coupled with this high maturity time frame..

As regards government securities which at end of December 2002 were K1, 300 billion and moved to K3, 908.4 billion in 2003 , a change of about 130 percent, the strategies to redeem them were varied. Between 1991 and 2004, as a consequence of this growth in securities, the country experienced high interest payments pressure on its national budget. This in turn led to spiralling growth in debt stock (when interest was capitalised) and high domestic debt servicing. It was advisable that the stock of Treasury Bills and the interest rates had to be reduced in order to avoid the rollover risks associated with huge short-term maturities. The government should have reduced the stock of short-term debt and issued more long-term instruments. The stock of all long maturing treasury bills should have been increased but at lower interest rate in order to reduce the financing risk. As regards short-term bonds, they should have been reduced in order to reduce the pressure on the national budget. The stock of all long-term bonds should have been increased but at lower interest rates.

As regards parastatal companies' debt, whose magnitude in 2004 was unknown, government made great efforts to settle the debts. It was only in 2003 that the Ministry of Finance and National Planning attempted to create a data base of the domestic debt.²³⁸ The government used a series of measures which included debt swaps with parastatal companies like ZESCO, ZAMTEL and water utility companies²³⁹. During the study, however, it became obvious that a verification exercise to determine the exact indebtedness to parastatal companies was required. The Director of IDM at the Ministry of Finance and National Planning failed to indicate with exactitude what government debt to parastatals was between 1991 and 2004. It was not possible to do so as the privatization exercise was still on going and most data was still held by the Zambia Privatization Agency or company liquidators.

As regards arrears on statutory contributions which were over K109 billion in 2003, it was surprising that there could even be arrears entertained in that category.²⁴⁰ The same was true for compensation and awards which, as shown in Chapter Three the government could have negotiated the payment time frame with those creditors who were awarded after litigations. Alternatively, the government could have considered converting the debt into a 15-year bond at consensually agreed yield rates payable semi-annually. This would avoid the high commercial interest rates that applied on the principal and thereby reduce this liability against government.

²³⁸ Nkhata, Lennard (2003) *Structure and Activities of the Ministry of Finance and National Planning* (MoFNP, Lusaka)

²³⁹ Zambia, MoFNP 2003 *Draft Domestic Debt Policy and Reduction Strategy*, Lusaka, March

²⁴⁰ Zambia, MoFNP *Debt Sustainability Analysis Report*. See also :2003 *Draft Domestic Debt Policy and Reduction Strategy*, Lusaka, March

PUBLIC DEBT MANAGEMENT STRATEGY

In contrast to policy, a strategy serves as a framework for dealing with nonrecurring problems at the level of internal and external integration.²⁴¹ Its intermediate goal is competitive advantage. Its ultimate goal is effective performance.

This study enquired about whether Zambia had a public debt management strategy. In redeeming both the domestic and foreign public debt, it was important that the country had a strategy for reducing the debt. The study found that the country had no formalized strategy. Between 1991 and 2004, Zambia's public debt management was based on the annual announcements of the Minister of Finance and National Planning when the Annual Budget was presented in Parliament. In other words, the country had no written national debt strategy based on a technical debt sustainability analysis.

In addressing the strategic perspectives of Zambia's public debt, with respect to the domestic debt, one suggestion of financing domestic debt, achieving debt service reduction and/or clearance, the government should have considered creating a domestic debt fund. This fund could have been modelled along the lines of the Multilateral Debt Funds established in Bolivia, Burkina Faso, Guinea Bissau, Mozambique, Tanzania and Uganda.²⁴² It was possible that if the authorities had made a good case, such a fund could have been supported by donors. It was after all, a cost effective way of mobilising and

²⁴¹ Prasad, Benjamin S (1983) *Policy, Strategy and Implementation*, (Random House, New York) p5

²⁴² Bigstern, Arne et al (2001) *Debt Relief and Growth: A study of Zambia and Tanzania* (UN-WIDER, Helsinki)

co-ordinating donor funds and would have enabled the government take the lead in resolving the domestic debt problem.

The study further enquired whether the government had considered helping develop an active retail and secondary markets for government securities. During the period of research for this study, the market in government securities was based on two major instruments – Treasury Bills and Bonds. The auction of government securities started in 1993. In 2004, Treasury Bills were auctioned weekly while bonds were auctioned once in each month. In both auctions, commercial banks and institutional investors were the major buyers of government paper in the primary market. The holder profile of government securities was that these institutions held about 73.5% of all securities and the remaining 26.5 % was held by the Bank of Zambia.²⁴³

As has already been shown in this study, the management of Treasury Bills in Zambia between 1991 and 1993 was not well co-ordinated. The Bank of Zambia sold Treasury Bills at any time in uncontrolled and unregulated amount with interest rates fixed in advance. After 1993, the Bank of Zambia started auctioning and the securities were sold according to budgetary requirements.²⁴⁴

The Treasury Bills policy in Zambia was used as a fiscal policy to finance the budget deficit as well as a monetary policy instrument to control inflation by mopping out excess

²⁴³ Zambia, MoFNP *Debt Sustainability Analysis Report*, Lusaka Zambia

²⁴⁴ Zambia, MoFNP 2004 *Financial Sector Development Plan for Zambia 2004-2009a*, Lusaka, Zambia, May

liquidity from the economy.²⁴⁵ The Bills were auctioned under multiple price system in four maturities of 28, 91, 182 and 273 days. The Bills were sold at discount with bidders competing on the price.

The objective for developing a retail market for government securities was in order to cheapen the cost of financing the government deficit. The rationale for this was that if a wider market was accessed, this would inevitably bring down the cost of funding the retail investors as the tendency in such a scenario was for them to accept a lower rate of return than wholesale investors (that is the commercial banks). This was so, because of several factors, such as, security considerations, tax incentives provision, lack of competing retail products, convenience of access, and so on, that could have offset any increased overhead costs for the authorities. This suggestion basically was meant to undercut the monopoly of commercial banks by opening up the retail market.

The administration of the retail market in government securities could be done variously. This study suggested the use of the Public Debt Commission or Agency suggested earlier, a government-run central processing unit, to administer the market.

There was also need to develop a secondary market in government securities. Though in 2004 about 62 percent of government securities were tradable, that they could be freely be bought and sold in the securities market, the market was not buoyant. A secondary market would enable the original investor in new government debt securities to sell his securities before maturity, and to do so with ease and without undue cost. With a

²⁴⁵ Bank of Zambia (2004) *Financial Sector Development Plan for Zambia 2004-2009* (MoFNP, Lusaka)

secondary market, the government would in addition to obtaining funding of its budget, also obtain the best possible issue terms in each operation, and hence minimize the cost of the outstanding amount of government debt in absolute terms. Investors would be willing to pay a higher price of government debt where the secondary market was liquid than otherwise. Operating an efficient secondary market would also minimize the market impact of government debt operations and co-ordination between monetary policy and debt management.

With respect to the external debt, it has already been shown in Chapter Four that the status and conditions attached to the reform program that Zambia had with the major creditors²⁴⁶ would not make Zambia's external debt sustainable. In terms of debt service, the external debt service after full implementation of debt –relief mechanisms between 2004-2023 would require Zambia paying US \$ 448.6 million as debt service in 2004, US\$447.0 million in 2005, US \$ 213.3 in 2006 and thereafter an average of US \$ 313.5 annually between 2004-2013 and US\$ 283.5 between 2014 and 2023²⁴⁷. However, if Zambia was allowed to enjoy unconditional delivery of enhanced HIPC assistance, the Net Present Value (NPV) of total debt would drop to US \$ 2078.1 million in 2003, US \$ 2052.2 million in 2004 and average US \$ 2123.5 between 2003 and 2013 and US\$ 2441.8 between 2014 and 2023. The debt service would move from US \$ 427.7 in 2004 to an

²⁴⁶ MoFNP (2004) Zambia Debt Sustainability Analysis Report 2004, (MoFNP, Lusaka)

²⁴⁷ Zambia, MoFNP 2003 Draft Zambia 2003 DSA For Completion Point Report, Livingstone, Zambia 10-30 May

average of US \$ 133.0 million between 2004 and 2013 and US \$ 72.7 million between 2014 –2023.²⁴⁸

It has been shown in Chapter Four that, Zambia became eligible for HIPC debt relief at the decision point in December 2000. The country obtained interim debt relief from most of its creditors. Zambia, which was expected to reach completion point in the fourth quarter of 2004 missed this date and was put on a supervised program and was expected to reach the completion point in the first quarter of 2005.²⁴⁹

At the decision point in 2000, Zambia was eligible for debt relief in the amount of US \$ 2.5 billion in net present value (NPV) terms or about US \$ 3.8 billion in nominal capital²⁵⁰. In the completion point scenario, it was estimated that at end 2003 Zambia's nominal external debt would be US \$ 6,999.4 whose Net Present Value would be US \$ 5,726.7 million. After traditional debt relief, the NPV of debt using end 2003 parameters would come to US \$ 4,872 million.

Notwithstanding the above hypothetical projections of the International Monetary Fund and the World Bank, it is clear that Zambia's principle debt was still too large and the debt service still too onerous. As it has already been shown in Chapter Two, even when implementing the maximum HIPC baseline strategy, the solvency condition showed that Zambia's external debt would not be sustainable after HIPC completion point debt relief

²⁴⁸ Zambia, MoFNP 2003 Draft Zambia 2003 DSA For Completion Point Report, Livingstone, Zambia 10-30 May

²⁴⁹ IMF Staff Monitored Programme (SMP)

²⁵⁰ Zambia, MoFNP 2003 Draft Zambia 2003 DSA For Completion Point Report, Livingstone, Zambia 10-30 May

because the ratios NPV/XGS and NPV/DBR would still be above their threshold values of 150 and 250 percent respectively in the years beginning 2003 to 2004 indicating that they would need more debt relief. The fiscal criteria of NPV/DBR also showed that the country's debt would be unsustainable in 2003 and 2004.

This thesis advocates cancellation of all external debts. This is because for as long as the external debt and the need to service it remained, the debt overhang directly threatened the basic needs of the poverty stricken human beings of Zambia.

CONCLUSION

There is need to reform public debt institutions in Zambia so that they conform to contemporary best practice in view of the importance of public debt management to development. It is important that the public debt management units are adequately staffed and provided with tools of the trade. Their staff must also be adequately motivated.

The study recognised that an effective public debt management system required developing an IT System best suited to each circumstances and needs. For Zambia, it was evident from the study that it required an IT system that needed to focus on both funding and liquidity risk management and portfolio management. Zambia needed an IT system to handle analytical requirements such as cash flow tracking, middle office portfolio evaluation, risk management, performance assessment and all back office operations including settlement, accounting and reporting. The general aim should be to

have a fully integrated information system to meet the requirements of the front office (debt issuance and trading), middle office (strategy risk management and performance evaluation) and the back office (settlement, accounting and reporting). It was recommended that Zambia needed to develop a centralised database as segmented databases between the Ministry of Finance and National Planning and Bank of Zambia tended to make it difficult to generate and monitor a comprehensive risk management strategy.

Furthermore, in developing a public debt management strategy, it is important that Zambia's public debt managers were able to monitor and evaluate the risks inherent in the government's debt structure. These risks should be mitigated to the extent feasible by modifying the debt structure, taking into account the cost of doing so. Some pitfalls of public debt management were in the areas of maturity structure, excessive unheeded foreign exchange exposure of debt with embedded put options, and implicit contingent liabilities. Other pitfalls encountered in sovereign debt management included debt management practices that distorted private versus government decisions such as debt collateralised by shares of parastatals or future tax revenue, misreporting of guaranteed debt liabilities because of inadequate information or repeated rescheduling, use of non-market financing channels and, improper oversight and/or recording of debt contracting and/or payments.

The study also recommended that the government should establish policies to manage these risks. Policies in such areas as borrowing, management of foreign currency and short-term debt and cash management should be written and be implemented.

With respect to risk management, the study recommended that *Zambian* authorities develop a framework to ensure that staff of the public debt office/s were able to identify and manage the trade offs between expected costs and risk in government debt portfolio. It was also important that public debt managers regularly conducted stress tests of the debt portfolio.

With respect to staffing matters, the study identified human resource constraints in public debt management as being central in adversely affecting efficient and effective public debt management in *Zambia*. During the period of study, the country had insufficient and inadequately trained staff particularly at the Ministry of Finance and national Planning where staff in the Investment and Debt Management (IDM) department was very lowly motivated. Because of this, the department suffered high labour turnover. To improve public debt management in *Zambia*, it was evident in the study that the country had an obligation to increase staff numbers in the IDM department and enhance staff motivation through a combination of training and improved working conditions.

Organisationally, this study recommended that *Zambia* considered establishing a Public Debt Management Office as a statutory body with clear mandate embodied in legislation. The division of functions that were identified by the study between several centres such

as the Investment and Debt Management offices, the Accountant General's office, the Bank of Zambia and so on did not lend themselves to efficient co-ordination.

It was further recommended that the Zambian government consider setting up a public debt policy committee to have the mandate and power of setting up annual borrowing plans and public debt management strategies. Such a committee should be able to monitor debt indicators and ensure that they were being complied with.

It was also important that the staff of the public debt management office had knowledge and experience in loan operations and accounts, computing skills, familiarity and knowledge of the work of money markets, capacity to undertake debt analysis and capacity to analyse the debt profiles of Zambia with a view of improving public debt management. For all this to be put into practice, the policy makers had to ensure that the debt management personnel were highly trained with good conditions of service.

CHAPTER 6

LEGAL AND INSTITUTIONAL CONSTRAINTS ON PUBLIC DEBT

MANAGEMENT IN ZAMBIA

INTRODUCTION

The literature review revealed that empirical studies had found that a poor legal and institutional framework was negatively related to efficient and effective managing of public debts. Kappagoda (1993)²⁵¹; Horgan, M. (1999)²⁵² and IMF and World Bank (2001)²⁵³ all argued that it was important for the legal framework to clarify the authority to borrow and to issue new debt, invest and undertake transactions on the government's behalf. Furthermore, the institutional framework for public debt management had to be well specified and be able to ensure that mandates and roles were well articulated.

Whereas the above considerations are important, many of which had been based on cross-country data, it is also important to study country specific situations to appreciate the legal constraints on public debt management. This chapter reports on a country specific analysis of Zambia and in this way compliments cross-country studies in showing how legal and institutional arrangements affect effective and efficient public debt management.

²⁵¹ Kappagoda, Nihala "Requirements for Effective Debt Management" (in) Good Debt Management Pays, Document No.3, UNITAR, Geneva, Switzerland

²⁵² Horgan, Michael. (1999) The "Building Blocks" of Effective Government Debt Management (UNITAR, Geneva)

²⁵³ IMF, World Bank (2001) Guidelines for Public Debt Management (Washington DC)

THE LEGAL FRAMEWORK

Public debt management in Zambia during the period of this study was broadly governed by the provisions of Part X of the Constitution of Zambia. The relevant clause, Part X (12)(1) on public debt, provided that “there shall be charged on the general revenues of the Republic all charges for which the government is liable.” Part X (120)(2) further provided that “for the purposes of this Article, debt charges include interest, sinking fund charges, the repayment or amortization of debt, and all expenditure in connection with the raising of the loans on the security of the revenues of the former protectorate of Northern Rhodesia or the Republic and on the service and redemption of debt thereby created”²⁵⁴.

The Constitution of Zambia further provided that taxes could only be imposed and loans raised by an Act of Parliament and that the use of public funds had to be controlled by Parliament. Furthermore, the Constitution provided that only the government could initiate the raising of taxes and loans and the spending of public money.

With respect to finance, the Constitution further provided that the executive was required to submit to Parliament estimates of expenditure which, after approval, were included in an Appropriation Act and the funds made available to expenditure. The Law clearly stated that no expenditure could be incurred until an Appropriation Act had been passed by Parliament. But, in reality, this was not the norm. Every year, the executive presented

²⁵⁴ The Constitution of Zambia, (19), Government Printers, Lusaka, Zambia (Part x (12) (1)

Supplementary Estimates in Parliament for approval for either not spending or spending unbudgeted funds.

Deriving authority from the above constitutional provision, the government of Zambia enacted several pieces of subsidiary legislation whose objective was to govern public debt management in general. The most important law was the Loans and Guarantees (Authorization) Act, Chapter 366 of the Laws of Zambia. This law gave blanket or open ended authority for the government to contract debt.

The Loans and Guarantees (Authorization) Act, CAP 366²⁵⁵ provided for the raising of loans, establishment of sinking funds, giving of guarantees and indemnities and guaranteeing of loans by or on behalf of the government. Under the Act, the Minister responsible for Finance could raise from time to time, in the Republic and elsewhere, on behalf of the Government, such loans as the Minister may deem desirable, not exceeding in the amount outstanding at any one time, for periods of not more than a year or in excess of one year, such amounts as the Minister shall from time to time be authorized by a resolution of the National Assembly to prescribe by Statutory Instrument. Notably, any loans raised were to be in accordance with such conditions and upon such terms as the Minister responsible for Finance shall, in respect of such loans, direct. In real terms, this was a blanket authority to the Minister which was in direct contradiction to democratic practices which allow for checks and balances.

²⁵⁵ Zambia, The Loans and Guarantees(Authorization) Act, CAP 366

With respect to public debt contraction and management, again, the most important piece of legislation was the Loans and Guarantees (Authorization) Act, CAP 366 of the Laws of Zambia²⁵⁶. Section 3 of the Act provided for the Minister of Finance and National Planning to raise loans through the issue of Bonds and Stock, issue of Treasury Bills from time to time as he may deem fit. The Minister was given power to determine the terms and conditions applicable. This obviously meant that the Minister had enormous discretion to commit the country to any level of debt.

Article 80 of the Constitution of Zambia provided that there would be a ceiling of what could be borrowed. It was provided that the ceiling had to be determined in a Statutory Instrument authorized by resolution of the National Assembly. The Statutory Instrument had to be published within 28 days after it was approved by Parliament and if Parliament was in recess, the Minister of Finance and National Planning was authorized in the public interest and with the approval of the President, under section 26, to vary the ceiling of borrowing. The ceiling since 1998 was set by Statutory Instrument No. 53 of 1998²⁵⁷ which set the ceiling at a maximum of K20 trillion for foreign loans. The meaning of this provision was that external loans were exempted from Parliamentary scrutiny before being contracted.

Furthermore, the Auditor General was also kept in the dark, namely, he was not supplied with loan documentation. This created a loophole for possible abuse of the loan contraction process.

²⁵⁶ Zambia, The Loans and Guarantees (Authorization) Act, CAP 366

²⁵⁷ Zambia, The Constitution of Zambia, Article 80

Section 14 of Cap 366²⁵⁸ of the Loans and Guarantees (Authorization) Act further authorized the Minister of Finance and National Planning to guarantee the repayment to any person of any loan or any portion of the loan. The maximum amount allowed by law to be guaranteed was Twenty Trillion (ZMK20,000,000,000). As these figures were set up in 1998 and were still being used up to 2004, it is obvious that the ceilings did not properly respond to realities on the ground. In 2004 for instance, using the exchange rate of ZMK5,000 to one United States Dollar, the ZMK20 Trillion was about US\$4 Billion on an external debt of Zambia of US\$7.2 Billion in 2004. It was apparent that the maximum figure of debt allowed for the Minister to contract was too large and could not in any way be a check to a careless Minister of Finance.

Section 27 of the Cap 366²⁵⁹ of the law further empowered the Minister of Finance and National Planning to delegate the signing of any loan, by Statutory Instrument to any public officer. Whereas this is normal practice, it still widened room for possible abuse by the Minister of Finance and National Planning.

Two other pieces of legislation also impacted on public debt management variously. The first law was the Finance (Control and Management) Act CAP 347 of the Laws of Zambia which was replaced by the Public Finances Act No 15 of 2004.²⁶⁰ It was particularly pertinent as it provided for the specific ways in which public funds including the public debt were regulated and managed. Under the Act, Public Moneys were defined

²⁵⁸ Zambia, Statutory Instrument Number 53, 1998

²⁵⁹ Zambia, The Loans and Guarantees (Authorization) Act, CAP 368, Section 14

²⁶⁰ Ibid, CAP 360, Section 27

to include all revenues and all moneys raised or received for the purposes of or benefit of the Republic and to include all stamps, bonds, debentures and other securities raised or received by or on behalf of or for the benefit of the Republic.

The Finance (Control and Management) Act provided that the Minister of Finance and National Planning shall be responsible for the control of all finances of the Republic unless control was assigned to any other Minister by law. The Minister of Finance and National Planning was assisted by controlling officers under the supervision of the Permanent Secretary of the Ministry of Finance and National Planning. Under the law, it was only the Permanent Secretary in the Ministry of Finance who could authorize the opening of government accounts, making deposits, and use of public moneys.

The Act was very weak and proved to be inadequate for public debt management. Many public officers could contract debt and pass it as a liability to government even without authority as provided by the law. This situation is depicted by the rampant mismanagement in the case studies on the non compliance on the Commitment Control system²⁶¹ and the various corrupt practices discussed in the addendum at the end of this chapter. Basically, the Act did not provide for punishment to those who contracted debt unlawfully.

In addition to the above legislation, the Republic of Zambia can also contract public debt using many other laws. The Treasury Bills Act, CAP 348 enabled government to borrow

²⁶¹ Zambia, MoFNP 2003 *Inspection Reports on the Functioning of the Commitment Control System (CCS) in Line Ministries* (Produced by Subh Ram Shivrain, IMF Resident PEM Advisor), Lusaka, Zambia, 5 September

from the public in the form of Treasury Bills²⁶². The General Loan and Stock Act, CAP 350 defined the terms and conditions applicable to loans authorized to be raised by the government and provided for the creation of stock and for the raising of loans by debentures and stock²⁶³; The Local Loans (Registered Stock and Securities) Act, CAP 353 made provision for the creation and issue of registered stock and debentures for the purpose of raising loans in Zambia²⁶⁴; The Loan (Authorization) Act, CAP 355 made provision for the raising of loans and for authorizing the raising on behalf of the Republic of a loan or loans by the President and Secretary to the Treasury²⁶⁵; The General Loans (Guarantee) Act, CAP 358 empowered the government to guarantee in whole the discharge by certain corporations of their obligations under agreements between certain corporations, governments or other public organizations outside Zambia. The Minister of Finance and National Planning was empowered on such terms and conditions as the Minister thinks fit to provide guarantees²⁶⁶. The Minister could guarantee in whole or in part the discharge by the corporation of its obligations under any agreements; undertake such other obligations as the Minister may deem necessary or expedient; and give written authority to any person to sign and execute any such guarantee or undertaking as the Minister's representative;

Further to the laws discussed above, there were several laws on the statutes of Zambia which indirectly impacted on public debt management. These laws included (a) the Minister of Finance (Incorporation) Act, CAP 349 that made the Minister of Finance a

²⁶² Zambia, The Treasury Bills Act, Cap 348

²⁶³ Zambia, The General Loan Stock Act, Cap 350

²⁶⁴ Zambia, The Local Loans (Registered Stock and Securities) Act, CAP 353

²⁶⁵ Zambia, The Loan (Authorization) Act, CAP 355

²⁶⁶ Zambia, The General Loans (Guarantee) Act, CAP, 358

body corporate²⁶⁷; (b) the Finance (control and Management) Act, CAP 347 that regulated the management of all public finances of the Republic²⁶⁸; (c) the Loan Act, CAP 351 passed in 1931 which empowered the government to borrow the equivalent of K4.5 million²⁶⁹; (d) the Savings Certificate Act, CAP 352²⁷⁰; (e) the Securities Act, CAP 354²⁷¹; (f) the Governments Securities Act, CAP 357²⁷²; (g) the Bank of Zambia Act, CAP 360²⁷³; (h) the Banking and Financial Services Act²⁷⁴; (i) the International Development Association Cap 361²⁷⁵; (j) the Bretton Woods Agreements Act, Cap 367²⁷⁶; (k) the International Finance Corporation, Cap 368²⁷⁷; and (l) the Rhodesia Railways Loans Guarantee, Cap 369 which empowered government to co-sign with the government of Southern Rhodesia to borrow and share 50% liability on loans for Rhodesia Railways²⁷⁸.

All these laws collectively provided for the raising of loans, the establishment of sinking funds, the giving of guarantees and indemnities, the giving of loans by or on behalf of the government of Zambia and regulated public debt management. There are too many of them and can be subject to abuse. Where as in this study no evidence of abuse could be adduced, it is still important to integrate all these pieces of legislation into one for easy management of the public debt.

²⁶⁷ Zambia, The Minister of Finance (Incorporation) Act, CAP 349

²⁶⁸ Zambia, The Finance (Control and Management) Act, CAP 347

²⁶⁹ Zambia, The Loan Act, CAP 35

²⁷⁰ Zambia, The savings Certificate Act, CAP 352

²⁷¹ Zambia, The Securities Act, CAP 354

²⁷² Zambia, The Government Securities Act, CAP 3 - 194 -57 - 194

²⁷³ Zambia, The Bank of Zambia Act, CAP 360

²⁷⁴ Zambia, The Banking and Financial Services Act, CAP

²⁷⁵ Zambia, The International Development Association Act, CAP 361

²⁷⁶ Zambia, The Bretton Woods Agreement Act, CAP 367

²⁷⁷ Zambia, The International Finance Corporation Act, CAP 368

²⁷⁸ Zambia, The International Finance Corporation Act, CAP 368

THE INSTITUTIONAL FRAMEWORK AND PUBLIC DEBT CONTRACTING

The process of contracting public debt differed between domestic debt contracting and external debt contracting. With respect to domestic debt, the procedures for debt contracting were quite diverse. Concerning government securities, the process started at the Annual Budget that the Minister of Finance and National Planning announced in the first quarter of each year. The Minister was required by law to announce the size of the deficit that the country would have for that year. The Minister would also indicate the deficit to be financed by domestic and by external debt. Domestic financing was affected through the sale of Treasury Bills and bonds and by way of bridge loans from the Bank of Zambia.

A big part of the domestic debt comprised of domestic arrears that were incurred by default and on which there was no procedure for contracting the debt. This was true for such public debt as arrears to suppliers, contingent liabilities, compensation and awards and arrears to pensioners.

As regards external debt contracting, both the Zambian Constitution and subsidiary legislation gives authority to the Minister of Finance and National Planning to contract external debt. This discretionary power is not subject to control by any other organ of government or civil society.

With respect to the institutional framework for public debt management in Zambia, the Loans and Guarantees (Authorization) Act, CAP 366²⁷⁹ provided for the establishment of institutional structures to carry out the day to day functions of contracting loans and repayments of debts. Zambia had basically two primary units where public debt management was anchored. These units were the Ministry of Finance and National Planning and the Bank of Zambia. Other institutions that also played a role in public debt management included the Attorney General, the Auditor General, the Zambia National Tender Board and Parliament.

In Addition to the above institutional structures, it has already been shown in this chapter that the Finance (Control and Management) Act, CAP 347²⁸⁰ of the Laws of Zambia regulated the way to which public funds were managed.

In general, the legal framework in Zambia is constituted by many provisions which can tend to create confusion in its application. However, the legal framework did provide a legal process for contracting public debt. It was the implementation that was not complied with. As a result of this inadequacy which will further be amplified below, Zambia suffered from onerous conditions, poor management of guarantees, unnecessary losses and poor monitoring of the public debt.

²⁷⁹ Zambia, The Loans and Guarantees (Authorization) Act, CAP 366

²⁸⁰ Zambia, The Public Finance Act, Section 7(1)

Role of Bank of Zambia

The Bank of Zambia Act CAP 360²⁸¹ of the Laws of Zambia made the Bank an agent of Government. The Act empowers the Bank of Zambia to receive and disburse government money. Under sections 4 and 48 of the Bank of Zambia Act, the Bank was a banker of last resort, an economic adviser and fiscal agent for the Republic of Zambia and official depository of government funds. Under section 50 of the Act, the Bank of Zambia, may also, under the terms and conditions determined by the Minister of Finance and National Planning, issue and manage government securities. The Bank of Zambia was also responsible for the monitoring of the government external debt and the debt contracted by the private sector. The Bank oversaw and monitored balance of payments and the general issuance and management of government paper.

When interviewed for this study on 20 July, 2006, the Deputy Governor (Operations)²⁸² bemoaned the fact that the Treasury Bills Act was outdated and needed modernizing to take into account advances in the secondary market. He further indicated that there was need for close coordination between ministries and departments on debt contraction and management and that Parliament should be given the final authority on contraction of external debts instead of the Minister of Finance and National Planning as was the case then. The Bank of Zambia could not be involved in this fiscal activities as its legal mandate was to administer monetary policy.

²⁸¹ Zambia, The Bank of Zambia Act, CAP 360

²⁸² Dr. Denny Kalyalya was then the Deputy Governor of the BOZ

Role of the Attorney General

The Attorney General of Zambia as provided for in Article 54 of the Constitution was the principal legal adviser of the government. Article 54(3) provided that “Subject to the other provisions of this Constitution, an agreement , contract, treaty, convention or document is a party or in respect of which the Government has an interest, shall not be concluded without the legal advice of the Attorney General, except in such cases and subject to such conditions as Parliament may by law prescribe”²⁸³. The Constitution gave power to the Attorney General to draw and peruse agreements, contracts, treaties, conventions and documents, by whatever name called, to which the Government had an interest.

In practical terms, agreements were forwarded to the Attorney General’s Chambers prior to negotiation or after negotiation but always prior to signing. The contract, particularly external loans, were not supposed to take effect until the Attorney General had rendered a legal opinion in writing. However, there were many instances where this requirement was not observed.²⁸⁴ Below, we present case studies of callable guarantees where public debt was contracted without following procedure.

²⁸³ Zambia, The Constitution of Zambia, Act. 54(3)

²⁸⁴ Details are presented in Addendum on Callable Guarantees

Role of the Auditor General

Another statutory control on public debt management was the office of the Auditor General. Articles 121 and 122 of the *Zambian Constitution*²⁸⁵ set up the Office of the Auditor General. The functions of the Auditor General were set out in the *Public Audit Act, CAP 378*²⁸⁶ of the *Laws of Zambia*. In relation to public debt management, the primary responsibility of the Auditor General was to audit the publicly disclosed debt, based on information in the government financial statement or other documents and to ensure that the amount was measured on appropriate bases.

The Auditor General undertook analysis of the data disclosed to foster improved public debt management. The scope of the audits covered such fields as control environment, risk assessment, control activities, information disclosure and communication, and monitoring and evaluation. The aim of the audits was to help ensure full disclosure to all interested parties of complete and reliable information on government liabilities in order to increase awareness and encourage policy makers to adopt debt and risk management practices that were sound and robust. Furthermore, the audits helped government put in place a proper regulatory and supervisory framework to help ensure that the public debt was sustainable and public finances were prudently being managed.

²⁸⁵ Zambia, *The Constitution of Zambia, Act. 121,122*

²⁸⁶ Zambia, *The Public Audit Act, CAP 378*

However, in the period 1991 – 2004, the Auditor General’s Office was not only inadequately funded by the government but also did not have sufficient auditors to audit the public debt.²⁸⁷ In fact during the period of study, it was observed that Zambia had never conducted a comprehensive audit of its public debt. There were isolated audits of specific debts which were audited when requested but the country did not have a system of auditing its debt annually as was the case in other democracies. The Auditor General informed this study that she did not have adequate officers and resources to conduct the constitutional obligations of her office.

Role of Parliament

Another statutory control to public debt management was that provided by Parliament. Under article 115 of the Constitution, no money could be expended from the general revenues of the Republic unless the President issued a warrant or the money was a direct charge by law or it was raised by the department seeking to use it. The President would issue a warrant if an Appropriation Act had been passed by Parliament.

Article 20 of the Constitution of Zambia considered the public debt as a direct charge on the general revenues of the Republic and should therefore be subject to the power of Parliament. Parliament through its Ways and Means Committee, the Estimates Committee and the Public Accounts Committee exercised control over public finance. The Ways and Means Committee which was also the Committee of Supply first examined the government budget under various heads of expenditure and approved amounts to be spent under each head.

²⁸⁷ Interview with the Auditor General on 27 July, 2006

The Estimates Committee analysed estimates and supplementary estimates submitted by the executive with a view of making possible advisory recommendations to possible changes in the estimates with justifications. The consideration of estimates by the Estimates Committee came to an end at the end of the first quarter of each year, after significant expenditure had already been incurred. The Committee's observations were therefore of mere academic value as they did not impact on the budget proactively.

The Constitution also provided that the Executive must be checked by the Public Accounts Committee of Parliament. It required the Executive to present to Parliament a comprehensive Financial Report. In order to give legitimacy to the Financial Report, the Auditor General was required to give an opinion on the report and its accuracy. The Financial Report contained among other issues the management of the public debt.

On receipt of the Financial Report, the Public Accounts Committee of Parliament was required to examine the accounts and report its findings and recommendations on various issues to Parliament. The unfortunate case was that the Committee, as was true for all other Parliamentary Committees, could make recommendations but the recommendations were not binding to the Executive. This constraint meant that even good advice could be ignored by the Executive as the Committee's resolutions were not legally enforceable.

Role of the Minister of Finance

The last statutory control to public debt management was undertaken by the Minister of Finance and National Planning. The Constitutional power to manage the financial affairs of the Republic of Zambia was vested in the Minister of Finance and National Planning. The Constitution provided for the Minister of Finance and National Planning to be the sole person entitled to borrow or issue financial guarantees on behalf of the state and having flexibility during the year to choose the borrowing instruments likely to be most cost-effective. The Minister of Finance under statutory powers was also required to issue Financial Regulations which would set out the rules and procedures for the management of government finances.

A case study of the sale of cobalt by the Zambia Consolidated Copper Mines however shows that the Minister faltered in supervising government interest as provided to the Minister as corporate sole to the extent that Zambia lost money to unscrupulous traders. It is possible that had the Minister provided leadership to compel managers to adhere to good corporate practice Zambia could not have been cheated. The case study is summarized below.

ASSESSMENT OF THE LEGAL AND INSTITUTIONAL FRAMEWORK

Having presented the legal and institutional framework for public debt management in Zambia, an assessment of the framework should bring out many issues that need to be addressed to improve public debt management in Zambia.

The first issue relates to constitutional provisions. Article 115 of the Constitution provided that public funds shall not be expended from the general revenues of the Republic unless the expenditure was authorized by a warrant under the hand of the President and authorized by an Appropriate Act of Parliament. In here, the phrase “general revenues” was not defined. In other words, instead of having one fund, it is possible to have several “funds” also ascribing to the “general revenues” concept. During the study period 1991 to 2004 for example, any controlling officer could open a Bank Account. In fact the Accountant General informed this study that he was not aware of all government Bank Accounts.²⁸⁸ This defect of not being aware of all Bank Accounts meant that the Accountant General could not know with exactitude government obligations in terms of both assets and liabilities as there was a possibility that liabilities could be incurred and not reported to him on time to be included in the annual Financial Report to Parliament.

The Constitution provided that a Supplementary Warrant could only be issued when expenditure had been proposed in a Supplementary Estimate approved by the National Assembly. In other words, the Act or Law to support the supplementary expenditure comes much later after money has already been expended. Parliament simply makes a resolution to approve. This approach leads to creation of unnecessary public debt by the executive. There was need to close this lacuna with an appropriate law such as a Supplementary Appropriation Act which should require that before any expenditure is

²⁸⁸ Interview with Mr Goma who was then the Acting Accountant General on 16 July, 2006

incurred, especially by way of debt contracting, the executive must first present the request to Parliament for approval.

The Constitution provided that a warrant could be issued where provision did not exist for the expenditure and the President considered that there was such an urgent need to incur the expenditure that it would not be in the public interest to delay the authorization of the expenditure until such time as a Supplementary Estimate could be laid before and approved by the National Assembly. This provision was subject to abuse in respect of both the purposes and amount of such expenditure. The 'contingency' provision could be abused and to create more public debt as happened on many occasions during the study period as shown in the example of callable guarantees in this study.

The Constitution further provided that a warrant could be issued when the expenditure was necessary to carry on the services of the government in respect of any period, not exceeding four months, beginning at the commencement of a financial year during which the Appropriation Act for that financial year is not in force. Furthermore, the Constitution provided that a warrant could be issued when expenditure was incurred on capital projects continuing from the previous financial year and was so incurred before commencement of the Appropriation Act for the current financial year. These constitutional provisions raised two salient practical problems. First, there were no limits imposed both in time duration for the warrants as well as quantity of money that could be expended in this way. This absence of limits could be subject to abuse. Secondly, the giving of a blank cheque to the executive to expend as they wish could be a subject of

abuse. This study was, however not made privy to any abuses during the period of study. However from the point of view of both logic and theory, limits should always be provided in governance, especially if the expenditure is funded by way of contracting public debt.

Apart from the above constitutional provisions, there were other laws that impeded the effective and efficient management of the public debt in Zambia. The provision in the Loans and Guarantees (Authorization) Act, CAP 366 of the Laws of Zambia which gave absolute power to the Minister of Finance to raise public debt on terms and conditions determined by him could be subject to abuse. Taking the awesome power of the global financial community and contrasting it with the weak position of a developing country, it is possible the Minister of Finance and National Planning working with such discretion can be overpowered and be made to contract debt that is not in the best interest of a poor and weak country such as Zambia. Section 3 of the Act gave too much discretion to the Minister of Finance to contract public debt. Furthermore, the provision empowering the Minister of Finance to vary the ceiling on debt contracting as he wished, created a loophole where the Minister could imprudently contract debt.

The loan contraction process during the study period was not subject to the scrutiny of other organs of government such as Parliament before they were obtained, neither were they subject to audit by the Auditor General. This raised serious questions of accountability and openness.

The borrowing ceilings of K20 trillion per year which were set up in 1998 appear to have been made arbitrarily. The ceiling did not relate to criteria such as exchange rates or capacity of Zambia to service such debts.

The Finance (Control and Management) Act of the Laws of Zambia which provided for management of government finances was also weak with respect to public debt management. It was observed by this study, for instance, that loans were very difficult to monitor because of the manner in which they were managed. Loans for a period of not more than one year were payable into a special depository account. But loans for more than a year were payable into the general revenues account of the Republic. It was also a condition that loans were to be applied only to purposes to which they were contracted. However, in practice, the IDM department was not able to monitor what because of management inadequacies

Whereas it would be useful for an institution like Parliament to be informed before loans are contracted, Parliament only got to know of any loan after the Financial Report was tabled. This report came after the fact and did not facilitate Parliament to give guidelines or suggestions on how debt contracting can be improved.

In general, the law as it existed in Zambia between 1991 and 2004 did not provide adequate safeguards with regard to procedure to be followed by the Ministry of Finance in debt negotiating, contracting and monitoring. The Law and Financial Regulations

were legally and institutionally weak. They did little to allocate responsibility and failed to identify and empower the appropriate stakeholders effectively.

With respect to improving the management of public domestic debt, it is important to deal with the weaknesses of the Loans and Guarantees Act, Cap 366 of the Laws of Zambia. The first weakness was the huge target of ZMKK20 trillion which the government had discretion to borrow per year. This figure was too large and needed to be reduced to be consistent with reasonable expectations. In a country whose budget in 2004, for instance, was K9 trillion, allowing the government to borrow up to ZMKK20 Trillion was imprudent.

Furthermore, laws and regulations governing external financing were not clearly outlined with respect to functions and responsibilities of various agencies and this was instrumental in poor co-ordination of external debt management. There was need to amend the relevant laws, particularly, CAP 366 of the ILws of Zambia to introduce the requirement for the Minister of Finance and National Planning to report all debt contracted including private sector debt to regulatory institutions such as Parliament. The national planning process was incomplete without incorporating all public debt including private sector debt in planning.

The haphazard manner of storing debt records that existed between 1991 and 2004 where each department had separate records was not good for coordination purposes. This

study recommended the establishment of a central depository for original loan agreements.

It was also recommended that the new legal framework should involve a committee of cabinet in the contraction of debt and that Parliament should have the power of ratification of any external debt so contracted. The amendment to the laws should be such that it redefines the roles of the Ministry of Finance and Bank of Zambia with respect to domestic debt management. The debt management function must be removed from the Bank of Zambia so that the Bank of Zambia concentrates on liquidity management.

The organisational structure of public debt management did not function in a well coordinated way as the responsibilities were split between the Investment and Debt Management department at the Ministry of finance and National Planning and the various departments at the relatively autonomous Bank of Zambia. There was deficient coordination and sharing of information between the two organisations. Because of this, it was impossible to have a consolidated debt management strategy.

Taking domestic debt as an example, the big portion involving government securities was managed by the Bank of Zambia. This constituted more than 90 percent of the domestic debt.²⁸⁹ The problem was that it was possible to confuse monetary policy, which should be the work of the Bank of Zambia, with public debt management, which a fiscal responsibility of the Ministry of Finance. These ideally must be separately managed. To

²⁸⁹ Zambia, MoFNP 2004 *Zambia Debt Sustainability Report* Livingstone, Zambia

improve on this institutional weakness, it is important to distance the operation of debt management from monetary policy.

The law should also be amended to clearly require the Minister of Finance and National Planning, assisted by a statutory body such as a Commission, to publish annually the public domestic debt statement, the funding plan of government detailing the amount and timing of debt contraction, and a comprehensive public domestic debt strategy.

Zambia was noticeably weak with respect to transparency and accountability in public debt management. As is universally recognised, public access to debt information and the disclosure of fiscal information are important requirements to improving accountability in public and macroeconomic management. Specifically, fiscal transparency requires that information relating to the stock of debt, debt sustainability and the government's overall debt strategy is available to the public to enable them make informed decisions with respect to investment and consumption strategies. During the period of study, Zambia did not publish its debt strategy, nor its debt portfolio analysis. Worse still, it is only in 2004 and at the insistence of the IMF/World Bank, did Zambia attempt to conduct a Debt Sustainability Analysis (DSA). For Zambia, disclosure of debt information needed to be improved. It was important that this requirement to publish debt information was given legal backing.

Furthermore, because of the need to recognise the complexity of active national debt management as well as the need to manage the debt in a professional manner (conductive

to producing savings on debt service costs), it was advisable to set up a special debt agency outside both the Ministry of Finance and National Planning and the Bank of Zambia. Such agency must enjoy relative autonomy from political influence in undertaking borrowing and debt management operations. The agency must be comprised of professional staff who are not subject to civil service conditions of employment and approaches. The duty of the Ministry of finance and National Planning is to formulate the Annual Guidelines for the conduct of debt contracting and management such as amounts to be borrowed, performance measurement, risk evaluation, auditing, reporting and other strategic perspectives. The debt agency will then be required to implement the strategy in the most cost-effective manner.

This study is against the location of a debt office in either the Ministry of Finance or National Planning or at the Bank of Zambia. If located in the Ministry of Finance, this may compromise the professional day-to-day debt management function. If located within the Bank of Zambia, the criticism of overlapping debt management and money management is a reasonable proposition. These two aspects must be separated for accountability and professional reasons. It is much easier to co-ordinate the borrowings and risk management of both domestic and foreign debt in a professionally organised and autonomous debt agency.

During the years 2001 to 2004, the Bank of Zambia was responsible for issuing Treasury Bills and bonds while the foreign borrowing was conducted by the Ministry of Finance and National Planning. This overlapping of borrowing functions between the Bank of Zambia and the Ministry of finance and National Planning was difficult to justify. An

improvement would be a situation where all state borrowing was conducted through one government agency. This would no doubt make it easier to co-ordinate the borrowings and risk management. Such an agency should be organised along the same convectional lines of a front office in charge of devising strategy, conducting borrowing and debt management operations; a middle office in charge of risk control and performance assessment and the back office in charge of making payments, settlement of accounts, accounting and reporting.

CONCLUSION

It was very clear from the study that Zambia needed a clear and comprehensive institutional and legal framework to ensure efficiency in public debt management. The legal framework in Zambia was in dire need of strengthening through revised legislation, better-organised institutional arrangements and clear delimitation of responsibilities between the Ministry of Finance and National Planning and the Bank of Zambia. An improvement in accountability levels through publication of debt management goals and practice audits.

ADDEDUM ONE: DOMESTIC PUBLIC DEBT

Commitment Control System

The government faced serious problems of containing the growth of domestic arrears which became acute after 1999. By the end of June, 2002, it was reported that the arrears had exceeded K409 billion.²⁹⁰ The government had wanted to stop any further build up of new arrears. It had initiated a number of measures to bring about overall improvements in the public expenditure management system and to introduce the Commitment Control System (CCS)²⁹¹ in all line ministries. The CCS was aimed at ensuring that there was no excess expenditure over approved budget and that the government was not over committed to pay at a future stage. A commitment and expenditure ledger was required to be kept. A commitment would take place when a formal action was taken such as a Ministry entering into a contract or placing an order or issuing a Local Purchase Order (LPO). Such a commitment would result in creating a liability for government either immediately or at a later date.

The CCS system was introduced with the objective of; firstly, restricting commitment and expenditure to the quarterly expenditure ceilings and cash releases made by the Budget Office of the Ministry of Finance and National Planning; and secondly, to prevent further build up of domestic arrears. It was a requirement by all line Ministries to

²⁹⁰ Interview with Director of IDM Department, Ministry of Finance and National Planning on 14 July, 2006

²⁹¹ Zambia, MoFNP 2003 *Inspection Reports on the Functioning of the Commitment Control System (CCS) in Line Ministries* (Produced by Subh Ram Shivrain, IMF Resident PEM Advisor), Lusaka, Zambia, 5 September

submit a monthly report on outstanding commitments and unpaid bills to the Ministry of Finance and National Planning.²⁹²

The salient features of the CCS included the following: Each line Ministry was required to appoint a Commitment Control Officer (CCO) who was usually the Controlling Officer designated or Senior Official designated by the Controlling Officer. The Controlling Officer would be personally responsible for implementing the CCS and ensuring that the commitments did not exceed the expenditure ceilings and cash releases. All non-wage recurrent expenditure and capital expenditure were to be processed through the CCS. Quarterly expenditure ceilings for non-wage expenditure would be provided by Budget Office to the line Ministries for planning their quarterly commitments and expenditure. To determine the quarterly expenditure ceilings, line Ministries were required to submit their quarterly expenditure projections and monthly cash requirements for Recurrent Departmental Charges (RDCs), Grants and Other Payments and Capital Expenditure, to the Budget Office which would review projections and allocate resources according to availability of funds and after taking into account other statutory payments which required to be given priority in settling such as servicing of loans, release of counterpart funds required for externally aided projects and funds required for the poverty reduction programme.

A Commitment Requisition Form was required to be submitted to the CCO through the Head of Accounting Unit for Approval. The Head of Accounting Unit would then ensure

²⁹² Zambia, MoFNP 2003 *Inspection Reports on the Functioning of the Commitment Control System (CCS) in Line Ministries* (Produced by Subh Ram Shivrain, IMF Resident PEM Advisor), Lusaka, Zambia, 5 September

that the amount given in the commitment requisition was within the uncommitted balance under the relevant budget line in the commitment and expenditure ledger and did not exceed the available balance in the quarterly expenditure limit and cash releases. If the required funds were not available the commitment requisition would be rejected and returned to the Authorised Officer. The commitment would then be recorded in the ledger and the uncommitted balance would be reduced accordingly. Only then would the CCO approve the requisition, and the LPO would be issued by the Authorised Officer. A voucher would not be processed for payment by the Authorised Officer if approved commitment requisition was not attached. The Controlling Officer was required to designate an Authorised Officer who would be responsible for authorizing the purchase of goods and services, signing and issuing of the LPOs after the commitment requisition had been approved by the CCO and authorise payment on the payment voucher.

After the cheque was issued for payment, the Accounts Section would record payment details in the Commitment and Expenditure Ledger and discharge the commitment. The Controlling Officer would be responsible for monitoring outstanding commitments and unpaid bills and submitting the Monthly Expenditure Report (MER) to the Ministry of Finance and National Planning by the 15th of every month

In an internal government inspection report²⁹³ by the IMF Resident Advisor on the functioning of the Commitment Control System in 18 line Ministries in August, 2003, the only Ministry that was found administering the CCS properly was the Ministry of

²⁹³ Zambia, (5 September, 2003) Inspection Report on the Functioning of the Commitment Control System (CCS) in Line Ministries (MoFNP, Lusaka)

Finance and National Planning. Consequently, line ministries continued to create new domestic arrears. Local Purchase Orders (LPO's) were still being issued without obtaining approval of the Commitment Control Officers to commit the required funds. Quarterly Expenditure Projections were not being submitted to the Budget Office in time which resulted in Budget Office delaying in communicating quarterly expenditure limits to them in time and delaying release of funds.

As already shown in this discussion, the Commitment Control System (CCS) was a management tool that the government developed in 2001 to control expenditure in government because of unpredictability of cash releases by the Ministry of Finance. Some government ministries and departments used to accumulate unacceptable amounts of arrears arising from committed funding that remained unfunded. Because of this, several Controlling Officers tended to contract debt without authority thus exceeding the budgeted targets and exacerbating the government's domestic debt management difficulties.

A good representative situation is provided by what was found at the Ministry Home Affairs, Zambia Police and National Assembly. It was found that at the Ministry of Home Affairs, Local Purchase Orders (LPOs) were issued without the funds being committed.²⁹⁴ Arrears of the order of K800 million were accumulated between January and June 2003. The reason for this was that food to feed prisoners had to be purchased

²⁹⁴Zambia, (5 September, 2003) Inspection Report on the Functioning of the Commitment Control System (CCS) in Line Ministries (MoFNP, Lusaka)

whether the funds were available or not. At the Zambia Police, huge arrears of K2.353 billion were created between January and July 2003. As for the National Assembly, between January and July, 2003, it had created huge arrears of K8.100 billion on all expenditure sub-heads of its budget. This violation of commitment control regulations and creation of public debt was common in most government agencies. The following general deficiencies were found by the Inspection Team:

- a) The CCS was not being implemented as prescribed by the Ministry of Finance and National Planning. Consequently, line ministries had created new domestic arrears from January to June 2003 and onwards.
- b) Local Purchase Orders (LPOs) were still being issued by line ministries without obtaining approval of the Commitment Control Officers for committing the required funds. All such LPOs were bound to result in to new domestic arrears.
- c) Quarterly Expenditure Projections were not being submitted to Budget Office in time. In turn, Budget Office also delayed in communicating quarterly expenditure limits in time. There was also delay in release of funds particularly for the month of June 2003.
- d) Many inaccuracies were noticed in the figures given in the Monthly Expenditure Returns. Quite a large number of line ministries had shown figures under actual cash release, which was different from the figures shown by Budget Office. Some ministries showed figures under budgetary provisions, which were at variance with the figures shown in Yellow Book.

- e) While some ministries were not filling in the Commitment Requisition forms properly, other ministries were found not obtaining approval of the Commitment Control Officers for commitment of the funds.
- f) Some ministries were not operating the Vote Books properly. Funds were continuing to be committed even beyond quarterly expenditure limits. All such commitments would become Over Commitments and later on as new domestic arrears.
- g) Monthly reports as prescribed under the CCS were not being submitted.
- h) Some ministries had incurred excess expenditure particularly under Other Emoluments, Allowances, Purchase of Goods and Purchase of Services. Excess expenditure which was new debt would need regularization to conform with the law as a supplementary expenditure.

Based on these findings, in order to control commitments and expenditure and prevent accumulation of new arrears, the Inspection Team recommended that the Commitment Control System (CCS) be fully and properly implemented and consolidated in all the line Ministries and provinces. Among the recommendations that the team made included the following:²⁹⁵

- a) The Controlling Officers be requested to implement the CCS properly as required in Ministry of Finance Planning letter of 18th September 2002.

²⁹⁵ Zambia, (5 September, 2003) Inspection Report on the Functioning of the Commitment Control System (CCS) in Line Ministries (MoFNP, Lusaka)

- b) Local Purchase Orders (LPOs) should be issued only after the approval of the commitment of the funds by the Commitment Control Officers, as recommended by Heads of the Accounting Unit in the Commitment requisition forms.
- c) Required funds for payment of essential service bills namely telephone bills, electricity bills, water bills and other fixed costs should be earmarked from cash releases made by Budget Office so that there are no new arrears. Some ministries had created huge arrears for such services.
- d) Quarterly expenditure Projections should be submitted to Budget Office in time. Monthly reports should also be submitted to the Accountant General's Office in time.
- e) Accuracy of the figures given in the monthly expenditure reports (MERs) were to be improved.
- f) Vote Books should be properly operated. Commitments should not exceed the quarterly expenditure limits as conveyed by Budget Office.
- g) Ministries should prepare list of pending LPOs as at 30th June 2003. All such pending LPOs may be analyzed and necessary action to regularize such LPOs may be taken and completed during September 2003.
- h) Excess expenditure incurred under various Sub-head items may also be regularized.
- i) Internal Audit Unit working in line ministries should authorize only those payment vouchers, which have been processed under the CCS. Internal

Audit should also check accuracy of the figures given in the MER and monthly reports.

These recommendations were principally aimed at strengthening the Commitment Control System to minimize unlawful public debt contracting which tended to make the public debt arising from domestic arrears unsustainable. However, because there was no corresponding penalties against any possible abuse, the CCS remained a discretionary programme which line Ministries and departments continued to ignore.

The second legal instrument was the Zambia National Tender Board Act,²⁹⁶ which provided guidelines for procuring goods and services. During the period of this study, many cases of non compliance with tender procedures were reported by officers from the Zambia National Tender Board. The case study reported in this study below involving the Presidential Housing Initiative (PHI) attests to this abuse which inevitably led to Zambia incurring unnecessary public debts.

The Presidential Housing Initiative (PHI)²⁹⁷

This is the second case study that shows how public debt was contracted in a manner that was neither transparent nor efficient and which added to the public debt problems of Zambia. The data was obtained by scrutiny of official files held by the Ministry of Local Government and Housing and interviews of the Managing Director of the National

²⁹⁶ Zambia, The Public Finance Act, CAP 347

²⁹⁷ Zambia, Auditor General's Report, (2003) on The Presidential Housing Initiative for the Period November 1998 to August, 2001

Housing Authority. During the 36th Organization of African Unity (OAU) Heads of State Summit held in Togo, Zambia accepted to host the 37th OAU Heads of State summit in July 2001. The Presidential Housing Initiative (PHI) created by the State President outside the normal ambit of the law, was assigned the responsibility of refurbishing the Mulungushi International Conference Centre and Mulungushi Village Complex for the accommodation of Heads of State.

On 15 November 2000, some civil servants who comprised Mr R.L.Sakala, Mr. M.C.Zulu, and Dr. A.J. Sickinga registered National Hotels Development Corporation (2000) Limited and became the Directors of the company.

Before the registration of National Hotels Development Corporation (NHDC), Mr R.L. Sakala signed an agreement as leaseholder representing NHDC with City Project Financiers Ltd on 1 December, 1999. The joint venture was to finance the construction of sixty Presidential Villas, 300-seater convention centre, recreation centre and the refurbishment of the Mulungushi International Conference facilities and Swimming Pool. In return, the Conference Centre and the Village Complex were to be jointly owned and managed by NHDC and a Foreign Investor.²⁹⁸

In August 2000, MOFED Limited, a company registered in UK by the then Ministry of Finance and Economic Development, signed an Export Supply contract with a Spanish company name Eaglet Corporation.²⁹⁹ Under the contract, the foreign company would

²⁹⁸ Interview with staff of the Auditor General's office in July, 2006

²⁹⁹ Interview with the Controller of Audits, Ministry of Finance and National Planning in July, 2006

supply building materials worth US\$55 million and the loan facility was to be honoured through promissory notes upon maturity. The purpose of the loan was, again, for the construction of 60 Presidential Villas, Recreation Centre and refurbishment of existing Swimming Pool, 300-seater convention Centre and refurbishment of Mulungushi International Conference Centre.

On 19 September, 2000, a London based commercial bank and the Zambia National Commercial Bank, informed the Ministry of Finance confirming having accepted for safe custody, promissory notes in the amounts of US\$66,000,000 for Eaglet Corporation Ltd and US\$35,400,000 for Forex Trading Ltd.³⁰⁰ The purpose for which the promissory notes amounting to US\$35,400,000 in favour of Forex Trading Limited were issued could not be ascertained by officials from the Ministry of Finance who attempted to audit the deals in 2001.

On 13 September 2000, NHDC signed a contract with MKP Holdings SDN BHD, a Malaysian Company, for the Construction of 60 Presidential Villas, 300 Seat Convention Centre, Recreation Centre and Bulk Services and infrastructure for the Villas.³⁰¹ The agreement was signed based on the Export Supply Contract signed with Eaglet Corporation Ltd of Spain.

On 28 November, 2000, the then Ministry of Finance and Economic Development informed Eaglet Corporation Ltd that both projects had been “frozen on account of

³⁰⁰ Interview with the Controller of Audits, Ministry of Finance and National Planning in July, 2006

³⁰¹ Interview with staff of the Auditor Generals office in July, 2006

integrity.”³⁰² It was not known how the promissory notes for the two projects were disposed off. Following the freezing of the financing arrangement with Eaglet Corporation Ltd by the Minister of Finance and Economic Development, other sources of funds had to be found to finance the construction works.

Initially a total of K6, 711,279,496 was diverted from PHI to finance the preparatory expenses for the hosting of the OAU Heads of State summit. Other sources and the amounts received were as tabulated below in Table 35:

Table 35
Money Received by PHI for Property Development

Source	Budgeted	Actual Received
GRZ OAU Budget	K12 Billion	K5,000,000,000
Sale of 52 Presidential Villas	US\$8,500,000	US\$7,000,000

Source: MoFNP, Internal Memorandum by the Accountant General, 19 December, 2001

According to minutes of the main Officials Committee on the funding of the hosting of the OAU Summit held on 30 March 2001,³⁰³ chaired by Secretary to the Treasury and attended by among others, the Permanent Secretary, Budget office; Permanent Secretary, of the Ministry of Works and Supply; Permanent Secretary, Ministry of Local Government and Housing; and the Chairman, PHI, it was agreed that K12 Billion would be sourced from the OAU Head of Expenditure at Cabinet Office. The estimate on this Head was K64 billion. The Ministry of Finance released K5, 000,000,000 to National Housing Authority (NHA) for onward transfer to the PHI on 11 April 2001.³⁰⁴

³⁰² Interview with Director of IDM, MoFNP in July,2006

³⁰³ Minutes of the meeting held by the IDM Department, MoFNP

³⁰⁴ Interview with Director of IDM, MoFNP in July,2006

In May 2001, a delegation from the Libyan Arab African Investment Company (LAAICO) visited Zambia and had discussions with officials of the National Hotels Development Corporation (2000) Limited.³⁰⁵ The two parties held meetings between 2nd and 4th May, 2001 in Lusaka resulting in the signing of a Memorandum of Understanding under which the Libyan company agreed to acquire on a turnkey basis Lusaka Millennium City, which was being constructed by MKP Holdings SDN.BHD at a purchase price of US\$8,500,000. The PHI Chairman signed the Memorandum.³⁰⁶ Under the Memorandum, the Zambian party was required to provide all assistance to establish the Libyan Arab Foreign Investment Company (LAFICO) and transfer the ownership of the villas to it. The Zambian Company (NHDC (2000) Limited) also had a put option to acquire back up to 50 percent shareholding in the LAAICOs asset- the Lusaka Millennium City within one year from the date of signing the memorandum.

It was also indicated in the Memorandum that the sale of the villas did not relieve the contractor of contractual obligations under a contract signed between MKP Holdings SDN. BHD and NHDC. The contract with MKP Holdings SDN. BHD was for the construction of 60 presidential villas (US \$6,378,623.48), a 300-seater convention centre (US \$11,648,306) and recreation centre (US \$1,208,348.85).³⁰⁷

³⁰⁵ Interview with General Manager of LAAICO in July, 2006

³⁰⁶ The Memorandum was held by the IDM Department, MoFNP which this study examined

³⁰⁷ Interview with Director of IDM, MoFNP

As of September 2001, a total of US \$ 7,000,000 had been received towards the purchase price of US \$8,500,000 leaving a balance of US \$1,500,000.³⁰⁸ Under the contract signed on 13th September 2001 between NHDC and MKP Holdings SDN. BHD for the contract sum of US\$16,842,461.77, MKP Holdings as a contractor was required to design, carryout and complete the construction works. The NHDC as employer were required to pay the contractor 50 percent of the actual contract sum of US\$8,421,231. The contractor was also required to fund 50 percent of the contract sum. Thereafter, payments would be made to the contractor on the basis of 50 percent of the value of certified works.

In the payment schedule, the employer NHDC agreed to repay the contractor, within a period of 30 months after completion of works, 50 percent of the contract sum funded by the contractor at the commencement of the construction works. The contract was amended on 18 November 2000 and NHDC was required to pay the contractor a total advance of US \$1,700,000 between 20th November 2000 and 30th January 2001.

In the contract, the contractor was required to mobilize workforce, plant and equipment, and submit detailed programme of works to NHDC between 27th November and 20 December 2000. According to the programme of works, NHDC would proceed with the construction works under the direction of MKP Holdings SDN. BHD. The works included construction of 60 Presidential Villas, access roads, water and sewer reticulation, storm water drainage, recreation centre, and refurbishment of swimming pool, site offices and boundary wall.

³⁰⁸ Interview with the Director of IDM, MoFNP

The effect of the amendment of 18 November, 2000 made to the contract, was to make MKP Holdings SDN.BHD, the supervising organization and NHDC the contractor (employee). Since NHDC was not physically in existence, PHI management mobilised resources and sub contractor companies to do work on its behalf under the ostensible supervision of the Malaysian workforce. However, no final contractual sum was agreed for the construction works to be carried out by NHDC.³⁰⁹ The contract sum of US\$16,842,461.77 agreed on 13 September 2000 was not adjusted to take into account the changed role of MKP Holdings SDN. BHD, from contractor to supervisor. Furthermore, there was also no evidence that MKP Holdings SDN. BHD was registered with the Zambia Institute of Architects for the supervision of works.

With respect to payments for the supply of goods and services, it was noted³¹⁰ that the Zambia National Tender Board declined to have any role in the development of the Presidential Villas, Recreation Centre and new Mulungushi International Conference Centre projects. This was because ZNTB was made to believe that the funding was to come from private investors and that the involvement of the Zambia National Tender Board in the procurement process would not be necessary.

Financial resources for the above-mentioned projects came from the Government Budget, sale of Government Pool Houses, Parastatals and sale of 52 Presidential Villas. As of August 2001, a total amount of K18,989,353,510,27 and US\$4,082,178.34 had been paid by government as shown in Table 36.

³⁰⁹ Interview with Director of IDM, MoFNP

³¹⁰ Minutes of the extraordinary meeting of PHI Management Committee held on 14 April 2000 at NHA

Table 36
Government Expenditure on PHI Activities

	Kwacha	US\$
(MKP Holdings SDN.BHD)	5,090,811,708.02	3,801,060.00
Payments to Sub Contractor	2,866,883,084.98	
Suppliers of building materials	5,457,749,140.49	160,382.39
Bulk infrastructure (site clearing, Road works and telephone Reticulation)	705,739,500.00	281,118.00
Cornerstone Heritage Labour claims	562,802,218.50	
Hire of plant, equipment	2,780,723,095.17	
Payments for other services and Expenses	1,524,644,763.11	
Totals	18,989,353,510.27	4,082,178.39

Source: MoFNP, Internal memo of Accountant General, 19 December ,2001

The contracts for construction works were between MKP Holdings and NHDC, and contracts for the supply of goods and services were between MKP and individual suppliers. The payments to the suppliers for such goods and services were made from PHI funds.

Although the above amounts of money were paid by PHI to the contractor and its sub-contractors, the contractor also submitted claims totalling US\$ 4,715,178.19 (K60 billion) to PHI for work that was unclearly defined. Since PHI was a government institution, these liabilities were passed to the Ministry of Finance and National Planning to add to its domestic debt to MKP. As at December, 2004, the government had started paying to MKP this debt obligation without even taking into account the amount PHI paid as indicated in the table 36.³¹¹

³¹¹ Interview with Staff of the IDM Department, MoFNP

ADDENDUM TWO: EXTERNAL PUBLIC DEBT

(a) Callable Guarantees

Callable Guarantees³¹² are debts which the government contracted without reporting them as required by the law and regulations. This section presents eight examples where debt was contracted dubiously but for which Zambia was liable when the debt fell due.

Food Reserve Agency

The first callable guarantee was the Government/ Food Reserve Agency (GRZ/FRA) indebtedness to Nedbank which arose as a result of the Importation of Fertilizer Agreement for the 1996/1997 farming season.³¹³ In 1996, the Zambian government contracted Kynoch Fertiliser to supply fertilizer to the FRA. The deal was for US\$15 million purchase price. An upfront payment of US \$4,574,409.91 was paid to Nedbank in compliance with the contract agreement. After further payments, an amount of US\$ 2,275,511.26 representing the balance remained outstanding as at 1 September 1998. Three payment instructions by the Ministry of Finance were made between September 9 and April 1999 totalling US \$3,270,206.06. This resulted in an overpayment to the NedBank of US \$994,694.80. No effort by the government officials as at the time of the study was ever made to recover this over- payment nor was it credited to another contract. This appeared to be a loss to Zambia.

³¹² Zambia, Controller of Internal Audits, MoFNP, Audit of External Debt and Callable Guarantees (Audit Reports for Several Years)

³¹³ Interview with Controller of Audits, MoFNP in July, 2006

Investec Bank

The second callable guarantee involved INVESTEC Bank of South Africa. This was a contract for maize purchases from the Grain Marketing Board (GMB) of Zimbabwe.³¹⁴

The amounts outstanding were reconciled at US \$9,154,240.86 which was confirmed to the Auditors by both the bank and G M B. But on the 13 April, 2000, the Secretary to the Treasury signed a minute to lawyers agreeing to a debt of US \$18,115,000. The debt to Chatfield Carriers could not be ascertained by government auditors as the gentleman who had been the middleman of the deals had migrated to South Africa for fear of the law in Zimbabwe taking all necessary documentation. Although the Ministry of Finance never guaranteed any loans, as they were purely business ventures of the Food Reserve Agency, the Ministry however made payments to redeem the debt through its budget. In 2001, the Ministry paid K7 Billion that was allocated in the budget for that year, meaning that Zambia again suffered another unnecessary loss.

Fap Famos

The third callable guarantee was the debt to FAP FAMOS.³¹⁵ This debt arose during the days when the United Bus Company of Zambia (UBZ Limited) was operating as a government owned company in passenger transport. The Ministry of Finance guaranteed the debt. As at 1 July 1995 the principal amount outstanding was US\$ 14,628.23. Due to sanctions and the disintegration of the State of Yugoslavia, payments were suspended until the situation improved. Even before this regularization of the former Yugoslav state

³¹⁴ Interview with Controller of Internal Audits, MoFNP

³¹⁵ Interview with Controller of Internal Audits, MoFNP

was completed in terms of sharing the assets and liabilities to the new states that emerged, in July 1999, an officer of the Zambian Government, while acting as Secretary to the Treasury signed an agreement with the General Director of FAP FAMOS to resume payments and undertook to pay US\$ 2 million monthly.

After the first payment, another agreement was signed with another agent, to split the payments into two – one to go to the Ukraine for FAP-FAMOS and the other to Channel Island in a numbered account in favour of the agent.³¹⁶ A total of US \$ 700, 000 was transferred but alert bank officials in the Channel Islands stopped the payment as it was not their policy to credit personal secret accounts with funds meant for loan repayments to companies. Government investigations conducted by the Controller of Internal Audits at the Ministry of Finance proved that the Ministry of Finance officials had actually compiled the debt figures submitted to FAP FAMOS which were exaggerated upwards to the detriment of Zambia.

Mofed Limited

The fourth callable guarantee concerned MOFED Limited of London.³¹⁷ Two major properties were owned in London by the Zambian government. These were acquired as a result of Debt Swaps between ZCCM and the Government.³¹⁸ A company called MOFED

³¹⁶ Interview with Controller of Internal Audits, MoFNP

³¹⁷ The directors of MOFED Limited were Dr Katele Kalumba as chairman, Mr Bonaventure C Mutale (Attorney-General), Mrs Stella Chibanda (Permanent Secretary, Ministry of Finance), Mr Yotamu W. Zulu (OOP) and Mrs Beauty Kaluba (ZANACO – London) as directors. Mr Geary and Mr Wise retained 2 shares while 98% of the shares vested in MOFED Limited were represented by the officers mentioned above.

³¹⁸

Limited was formed with the help of a Mr Geary and Mr Wise who transformed or converted their company, Bansols Limited into MOFED Limited.³¹⁹

The MEMACO House was being rented out for 567,000 Pounds per annum while the flat was still vacant. It was not clear how the rentals were utilised as no such income ever went to the government the treasury. Government auditors who made efforts to investigate further were blocked. In the year 2000, the Properties were given as a guarantee for the loan from an organisation called Eaglet Corporation as this company was supposed to supply some goods to a housing project in Zambia called the PHI. The representative of this Corporation was the same individual known variously as Micheal Katto, Raphael Suriano and Katebe Katoto. The person in the Ministry of Finance responsible for these transactions when queried through the Secretary to the Treasury said the contract was cancelled and no funds were ever received from Eaglet. There was no proof given of this cancellation. Ten years from now, this fictitious debt might resurface and the assets given as security seized. This would be to the detriment of Zambia.

Telecommunications Project

The sixth callable guarantee was the Telecommunication Project valued at US 47.5 million.³²⁰ This facility was meant to equip Zambia's security wings with Ultra modern communication equipment. A down payment of US \$3,050,000 was made in 2000, to which no benefit to government was ever received. The person representing the Zambian Government was again Mr. Katebe Katoto (alias Raphael Suriano or Alias Katoto).

³¹⁹ Interview with Controller of Internal Audits, MoFNP in July, 2006

³²⁰ Interview with Controller of Internal Audits, MoFNP in July, 2006

The US\$100 Million Facility

The seventh callable guarantee was the US \$ 100 million facility for the armed forces³²¹. A contract was signed for which US \$ 20.5 million was paid as at 30th April 2001 by the Ministry of Finance. The study found that there had been silence with no indication on whether any goods would ever be received.³²² Again, a Mr Suriano (alias Katebe Katoto) represented the Zambian government while the supplier was supposed to be a Bulgarian company.

Furthermore, three contracts were identified of US\$66 million, US\$ 100 Million and US \$ 100 Million. Two of these were with Eaglet Corporation whose integrity was doubtful and one with a Bulgarian company. All these had one individual representing the government – Raphael Suriano (alias Katebe Katoto). In all cases, the agreements had not yielded any benefits as always at the last minute, it was claimed the government had not met the conditions in the agreements.³²³ Meanwhile, debt servicing by the Zambian government continued to these fictitious companies through the Ministry of Finance and National Planning.

³²¹ Zambia, Controller of Internal Audits, MoFNP, Audit of External Debt and Callable Guarantees (Audit Reports for Several Years)

³²² Interview with Controller of Audits, MoFNP

³²³ Interview with Controller of Audits, MoFNP

Carlington Sales

The last case study on callable guarantees was the case of the Food Reserve Agency where it was supposed to import maize for the government in 1996-1997.³²⁴ Sometime in 1997, the government through the Ministry of Finance requested Dr Rajan Mahtani, a Zambian businessman, to source the maize; it is also possible Dr Mahtani may have convinced government that he could source and supply maize to the government.

Dr. Mahtani contacted a foreign company known as Carlington Sales and convinced them that he would get an order for them to supply maize to Zambia. On 15 September, 1997 Carlington Sales was able to sign a contract with the Food Reserve Agency to supply 100,000 MT of maize at a cost of US \$ 24 million. Conditions to the contract required the FRA to pay Carlington Sales US \$2.4 million before commencement of the shipment and for the GRZ to guarantee the contract; to deposit all proceeds of selling the maize into an escrow account; and to pay the balance of US \$21.6 million to Carlington Sales within 180 days.

According to an internal report of the Ministry of Finance and National Planning,³²⁵ the government provided the guarantee which enabled the FRA to borrow from a commercial bank and pay Carlington Sales the US\$ 2.4 Million deposit. At the same time, Dr Mahtani claimed from the GRZ his 10% being commission for the services rendered and the FRA paid him US \$240,000 through Carlington Sales accounts though Mahtani had

³²⁴ Zambia, Controller of Internal Audits, MoFNP, Audit of External Debt and Callable Guarantees (Audit Reports for Several Years

³²⁵ Zambia, Controller of Internal Audits, MoFNP, Audit of External Debt and Callable Guarantees (Audit Reports for Several Years

informed the government that he had no interest in the affair other man to help Zambia. In other words, the FRA paid an additional US\$240,000 to Carrington Sales making the total amount paid to be US \$2,640,000. The problem is that in spite of the FRA having met its contractual obligations, including a clearly unnecessary loss of US \$240,000 to Dr. Mahtani, Carrington Sales failed to ship the maize to the Food Reserve Agency (FRA).

Instead of making a claim for refund of the US \$2,400,000 deposit, the FRA re-negotiated the contract with Carlington Sales and on 5th December, 1997, they signed another contract which called for Carlington Sales to retain the US \$2,400.00 already paid as deposit and a marginal reduction in the price of the maize.³²⁶ The balance to be paid to Carlington Sales was given as US \$19,700,000. This was to be paid through a letter of credit.

In order to finance this maize import, the FRA borrowed US\$6 million from the Zambia National Commercial Bank (ZANACO). On 20th January, 1998, the FRA opened a letter of credit of US \$3,125,000 in favour of Carlington Sales. The problem for Zambia was that, again, no maize was ever shipped and received by the FRA.

On 3 March, 1998, the FRA attempted to import 25,000 Metric Tonnes (MT) of maize but failed because they could not raise US\$3 million to finance the order. However, on 10th March, 1998, the FRA signed another contract with the same Carlington Sales to

³²⁶ Interview with Controller of Internal Audits, MoFNP in July, 2006

supply 50,000 MT at a cost of US \$5 Million. According to the contract, the amount was to be paid in two installments of \$ 2.6 million and US\$ 2.4 Million respectively.

Following this, the FRA on 24th March, 1998 remitted US \$2.5 Million to Carlington Sales instead of US \$2.6 Million as agreed. Consequently, Carlington Sales refused to ship the maize. On 8th June, 1998, the Ministry of Finance remitted to Carlington Sales US \$600,038 bringing a total paid to Carlington Sales on this deal alone to US \$ 3,100,038. No maize was ever delivered.³²⁷

Carlington Sales also claimed damages of US \$500,030 arising from failure to remit US \$100,000 at the right time defined in the contract. And again, Carlington Sales did not fulfil any of its contractual obligations and Zambia again was the loser as neither was maize delivered nor were the moneys refunded. In other words, Zambia lost to Carlington Sales a large amount of public money through simple fraudulent behaviour:

³²⁷ Interview with Controller of Internal Audits, MoFNP in July, 2006

Table 37
Transactions with Carlington Sales

\$2,400,000	Deposit to Carlington in September 1997
\$ 240,000	Paid to Carlington as commission for Dr. Mahtani
\$3,125,000	Paid to Carlington on LC dated 20 th January, 1998 from ZANACO
\$2,500,000	Paid to Carlington on 24 th March, 1998 through Bank of Zambia and Citibank
\$ 600,038	Paid to Carlington on 8 th June, 1998
\$8,865,038	TOTAL

Source: Computed from Internal Report of the MoFNP

The fraudulent behaviour of this transaction was made more confusing by other communication. An Advisor³²⁸ to the state President writing to Carlington Sales on a State House letterhead authorized Carlington Sales to deduct from an alleged contract “payment of US \$2,304,531.30 from the Government of the Republic of Zambia for white corn” a sum of US\$1 million in full and final payment for the lobbying contract entered into on 10 March, 1998 in Lusaka allegedly signed by the Zambian Attorney General.³²⁹ The questions that arose from this were: which contract of US \$2,304,531.30 was the Advisor referring to? Did the Advisor have the legal authority to do what he claimed to do? As for the Attorney General, did he have authority to sign such a contract? These questions could not be answered with exactitude as the issues were obviously abuses of office.

³²⁸ Mr. Donald Chanda who was at the time Special Sdvisor to the Republican President

³²⁹ Bonaventure C Mutale was at the time, the Attorney General of Zambia

And later on 12th June, 1998, long after the Carlington Sales deals had been done, the Minister of Finance and Economic Development³³⁰ retroactively appointed Carlington Sales as General Agents of Zambia? This act appears to have been done under duress after realizing the wrongs done. It was incredible that the appointment was made to take retrospective effect 3 months after the deal.

From the documents and interviews of officials in government, it was not clear the roles of Bank of Zambia, Citi Bank and Nedbank with respect to Carlington Sales. Bank of Zambia, borrowed from Citibank as per the letter of the Deputy Governor dated 18th March, 1998 a sum of US\$2.5 million which was a “further facility” to import 50,000 MT of maize. It appears this money (US \$2.5 million) was also sent to Carlington Sales as a “further facility”. “Further facility could have meant another amount was given by Bank of Zambia as a loan from Citibank. A correct interpretation of the situation can only be arrived if an audit was carried out.³³¹

The case of Nedbank was even more intriguing. It appeared, Carlington Sales failed to honour its obligations to FRA, and the FRA appears to have been forced to seek funding elsewhere to purchase the maize and fertilizer. It appears the FRA borrowed some money from Nedbank which probably explains why the FRA signed a Deed of pledge with Nedbank in which the Carlington Sales maize deal contract was used as security to

³³⁰ At the time Ms.Edith Nawakwi was the Minister of the then Ministry Finance and Economic Development

³³¹ Interview with Controller of Internal Audits, MoFNP in July, 2006

borrow.³³² If this is the correct state of affairs, the claim brought by Nedbank against Carlington Sales could be sustained. Whatever the case, Zambia was the loser.

The above examples on callable guarantees show how unlawfully some debts in Zambia were contracted which added to its public debt overhang. These guarantees were simply ways of stealing from Zambia.

(b) The ZCCM Cobalt Sales³³³

The last example to illustrate the rather corrupt way in which Zambia's public debt was contracted were the abuses that the Zambia Consolidated Copper Mines Limited (ZCCM) made that led to the government absorbing unnecessary losses.³³⁴ The ZCCM was created in 1980 when the main copper mining interests in Zambia, Roan Consolidated Copper Mines and Nchanga Consolidated Copper mines were amalgamated. The ZCCM was one of the largest mining companies in the world and it provided the majority of the Zambian foreign exchange earnings and formal employment. However, during the period after 1980, ZCCM failed to invest sufficiently in new capacity and exploration and its production levels and profitability were gradually degraded.³³⁵ The world prices of copper also fell, reducing still further the profitability of ZCCM's operations.

³³² Interview with Controller of Internal Audits, MoFNP in July, 2006

³³³ Zambia, Auditor General (2002), Review of the DCDM Final Draft Report on the Audit Investigations of ZCCM Cobalt Sales During 1998/1999

³³⁴ The data was obtained by interviews of the former management of ZCCM as well perusal of government files held by the Ministry of Finance and National Planning

³³⁵ Interview with Controller of Internal Audits, MoFNP in July, 2006

On the ushering in of the Movement for Multiparty Democracy (MMD) government in 1991, a commitment was made to privatize government owned companies in Zambia. ZCCM represented by far the most significant of those companies to be privatized.

The privatization process was however not simple. As ZCCM represented a major and strategic component of the country's economy, the process was complicated and protracted. Negotiations for the bulk of the assets of ZCCM fell through with the collapse of Kafue Consortium negotiations and this left ZCCM in an unexpected and highly risky position. By 1998, ZCCM was suffering from an acute liquidity crisis and was technically insolvent. For instance, the working capital was negative US\$178 Million as at 31 March 1998 and losses were accumulating at around US\$17 Million per month. There existed a real danger that the company might go into liquidation with very serious social and economic consequences. Various survival plans, whose objective was to keep the company going until privatization, were sought as means to generate revenue. One such initiative was the sale of cobalt.

The whole idea to sale Cobalt Metal and excess Cobalt Concentrates arose from the ZCCM major shareholders' Transformation Plan,³³⁶ which was resolved at a special meeting held on 5th August 1998, chaired by the Minister of Finance. At this meeting, the major shareholders agreed to appoint a task team which developed the

³³⁶ Minutes of ZCCM Shareholders meeting held on 5th August, 1998 in Lusaka.

Transformation Plan to address the short-term operational and financial problems of ZCCM.³³⁷

The transformation plan was therefore adopted in September 1998 by the shareholders. This plan, among other objectives included finding investment finance from sales of the company's cobalt exports. Cobalt is classified as a Non-ferrous primary metal, which is not traded on any major metal exchange. It is traded in a relatively closed and restricted environment in which there are comparatively few major players. Pricing of cobalt is therefore not a particularly transparent process.

There are three main sources of reference data for cobalt prices as well as an often-monthly cobalt auction of United States strategic cobalt stockpiles by the Defence Logistics Agency (DLA) of the United States of America (USA). In the United Kingdom (UK), the London Metal Bulletin (LMB) publishes twice-weekly quotations for high grade Cobalt 99.8% and lower grade Cobalt 99.3%. In the US, Platt's Metals and Ryan's Cobalt quotations are published twice weekly. These quotations are derived from conversation and information received on cobalt trades during each week. However, the LMB price is often used as a basis for international trade and the LMB prices are normally very close to the USA publications. The Zambian, Russian and Congo cobalt is

³³⁷ The task team consisted of nominated members of the major shareholders and was assisted by staff members of the Ministry of Finance and Economic Development, the Ministry of Mines and Mineral Development as well as representatives of the Bank of Zambia and the firms of Grant Thornton, Ernst & Young and Deloitte & Touche.

normally classified as low grade and the LMB market price for 99.3% is used. The 99.8% is normally used by Falcon Bridge with high-grade cobalt.

Generally, there was a slump in the cobalt prices worldwide, which affected all cobalt metal and concentrates dealers especially during December 1998 and January 1999. Both cobalt – metal and concentrates- sold at 99.3% and were both adversely affected. This could have been either due to effects of general economic problems and/or market manipulation by the major players such as Metal Resource Group (MRG) who floated significant quantities of cobalt on the market arising from large quantities purchased from ZCCM and Gecamines in Congo. The supply of cobalt, which so much concentrated in the hands of MRG, outstripped the demand. As a result even large corporations such as Union Miniere (UM) made losses as per their annual report.³³⁸ This is the period in question during which ZCCM recorded significantly lower revenue.

As part of the Transformation Planm, the ZCCM management entered into several contracts for both cobalt metal and concentrates mainly with Metal Resource Group (MRG), Glencore, Comecim and Marubeni in order to sell the cobalt metal and concentrate. Contracts entered into included annual contracts, which were already running, pre-financing contracts and sales agency Contracts. A lot of amendments were also made to the contracts in the process.

In terms of sales 2803 tonnes of cobalt metal was sold to MRG under a pre-financing agreement. Out of a total of 76,040 dry metric tones of cobalt concentrates, 56,040 DMT

³³⁸ Union Miniere, 1998/1999 Annual Report and Operations of the Group

(73.6% of the total cobalt concentrate) were sold to MRG and the balance of 20,000 DMT (26.4%) to Glencore. From ZCCM overall cobalt sales data, it was also noted that MRG was by far the largest purchaser of ZCCM cobalt during 1998 and 1999, representing 45.55% of its cobalt metal sales over the two-year period. The second largest customer was Marubeni with 17.72% of the total sales followed by Comecin with 14.85% and Glencore with 9.4% of the total production.

In August 2000, concern was raised regarding the determination of prices for cobalt sold by ZCCM during 1998 and 1999 calendar year. Further, concerns were raised on the discrepancies in the revenue that were being realized and reported to the Bank of Zambia (BOZ) by ZCCM. In order to address these issues, the Minister responsible for Finance engaged DCDM Consultants to carry out an audit investigation. The consulting firm was engaged with the assistance of the European Union (EU).

According to the terms of reference, the objective of the audit was to investigate whether the discrepancy between realized prices of Cobalt metal and Cobalt concentrate during 1998 and 1999 by ZCCM and the international market provided reason for concern about the prudent management and Governance of ZCCM, particularly the marketing of ZCCM products. Any discrepancy was to be explained and the reason for such a discrepancy given. The Consultants were also asked to comment on whether the transactions were economically justified.

In their investigation, many areas of concern were highlighted by the DCDM Consultants. First to be highlighted was the rice discrepancy. A comparison was undertaken between the prices realized by ZCCM from its sale of cobalt metal and cobalt concentrate and those prevailing on the world market during the period. The comparison revealed discrepancies between the prices realized by ZCCM for its sales of cobalt and cobalt concentrates and the world market prices for the metal in the contractual month of pricing during the period. These discrepancies existed on almost any basis of comparison of sales to world market prices such as for the LMB, DLA and the Platt's Metal and Ryan's prices.

ZCCM usually sold its cobalt on the London Metal Bulletin Index for 99.3% Cobalt plus premiums and discounts for quality of metal. According to the DCDM, the estimated losses were based on the potential income ZCCM would have earned if its management had not made specific decisions.

According to the Consultants, metal price discrepancies arose largely from the following reasons:³³⁹ Discounts given for quality and quantity discounts, Agency commission, financing charges and prompt payments discounts on various sales made by ZCCM. Most of these commissions were flat United States Dollars amount rather than percentage figures. The largest single discount given on any contract was to MRG under the "pre-finance" Contract of US \$2.65 for 99.3% purity Grade Z2 Cobalt.

³³⁹ Zambia, Auditor General (2002), Review of the DCDM Final Draft Report on the Audit Investigations of ZCCM Cobalt Sales During 1998/1999

The consultants further reported that while evidence was found that the Board of Directors approved quality and quantity discounts as well as certain commission, no specific approvals were found for the Agency contracts, financing fees and prompt payments discounts. Whilst the overall levels of discounts given in the period were high, there may have been some commercial justification for the discounts provided. However, it is also clear from various correspondences between ZCCM and MRG management that despite the prompt discounts given to MRG by ZCCM, payments for deliveries were delayed thereby defeating the whole purpose of prompt payment discounts and the idea of improving the liquidity problems that ZCCM had been facing. For instance, in a letter addressed to MRG dated 8th November 1999, the ZCCM Chief Executive expressed concern at the outstanding payments for 1,900 metric tonnes delivered to MRG between October 1998 and December 1998. This was also after several correspondences were written on the same but never attended to at all. This was almost one year after cobalt metal was delivered. The non-approval of Agency contracts, financing fees and prompt payments by the ZCCM Board contravened the principles of good corporate governance.

The second discrepancy involved the Sale of 2,750 tons under Contract 8437A (98418). This was a pre-financing agreement entered into on 4 October 1998. Under this contract, a total quantity of 2,750 MT of cobalt metal was sold and delivered to MRG. The total quantity of 2750 MT was sold to MRG at an agreed fixed price of US\$8.188 per lb as shown in the Table 38

Table 38
ZCCM Cobalt Sales to MRG

MRG Pricing		ZCCM Pricing		Price agreed MRG & ZCCM
QTY (MT)	Price (US\$/lb)	QTY (MT)	Price (US\$/lb)	US\$/lb
950	6.40	1629	9.82	8.188
950	6.00	271	8.91	8.188
850	6.90	850	10.00	8.188
2,750		2,750		

Source: Zambia, Auditor General Report on DCDM Final Report on the Audit Investigations of ZCCM Cobalt sales During 1998/1999 commissioned by the Minister responsible for Finance, 2003

Though the price of US \$8.18 per lb was agreed by the two parties, effectively, no additional cash flow was realized by ZCCM. It was however, observed from the reconciliation that in fact 2,803 MT of cobalt were delivered between October 1998 and April 1999. MRG made prepayments amounting to US \$28,352,468.32 for the deliveries. The balance of US \$7,091,358.64 after taking into account various discounts of US\$14,304,511.55 representing 28% of the US \$50,644,872.36 of the total value of the cobalt delivered was not paid to ZCCM. Details are as shown in the Table 39:

Table 39**Cobalt deliveries and amounts payable**

a. First Delivery

Details	Metric Tonnes	Value Declared (US\$)
Total Delivered	1953.50	35,305,567.32
Total Discounts		9,871,241.19
Total Value		25,434,326.15
Less Pre-paid		15,223,636.62
Due to ZCCM (I)		10,210,686.53

b. Second Delivery

Details	Metric Tonnes	Value Declared (US\$)
Total Delivered	850.00	15,339,309.04
Total Discounts		4,433,270.36
Total Value		10,906,034.64
Less Pre-paid		13,128,831.70
Due to ZCCM (II)		(2,222,797.02)

c. Net Position (a+b) above

Due to ZCCM (I)		10,210,686.53
Due to ZCCM (II)		(2,222,797.02)
(I-II)		7,897,889.51
Less Freight		896,530.87
Net amount due to ZCCM but not paid		7,091,358.64

Source: Auditor Generals Report on Cobalt Sales, Ibid

The non-payment of the US \$7,091,358.64 was due to a dispute that arose between ZCCM and MRG regarding the poor performance of both the pre-finance and agency agreements. Under the pre-finance agreement ZCCM delivered 2803 MT of cobalt metal

but were not paid the entire amount due. Under the agency agreement, ZCCM only delivered 575 MT of the total 2300 MT per annum and could not complete all the deliveries. Therefore, MRG claimed loss of business estimated at US \$30 Million. Since there was no arbitration clause in all the contracts with MRG, the dispute was resolved through mediation by the Attorney General of Zambia and other parties. There was nowhere that the Board of Directors of ZCCM authorized the setting-off of the US \$7.1 Million against the MRG claim of US \$30 million.

It was also observed from the correspondence³⁴⁰ that the declaration of the prices of 2,750 MT of cobalt metal was done in November 1999, almost one year after deliveries. The prices quoted in January 1999 were the lowest ever in the history of cobalt metal sales. ZCCM did not, therefore, benefit from the high prices recorded at the LME in the other months. MRG took advantage of the low prices and decided to declare the final price for the entire tonnage at an average of US \$6.42 per pound before discounts.

MRG clearly breached the agreement and that was why a legal redress to recover the difference was being pursued by the Attorney General.³⁴¹ The amount claimed was about US \$21 Million, which later reduced to about US \$10 Million after the mediation. This was further reduced by an overpayment of US \$2,222,797.02. The US \$10 Million was not paid to ZCCM but treated as a settlement towards the breach of the Agency agreement.

³⁴⁰ Zambia, Auditor General Report on DCDM Final Report on the Audit Investigations of ZCCM Cobalt sales During 1998/1999 commissioned by the Minister responsible for Finance, 2003

³⁴¹ Interview with Controller of Internal Audit, MoFNP in July, 2006

It was further observed that there was a discrepancy on the 850 MT delivered from April to August 1999.³⁴² The discrepancy on this contract was about US \$3.10 per pound (US\$10.00-US\$6.90) which could have realized an income for ZCCM of the equivalent of US \$5.8 Million. This presentation of the dealings clearly shows that the price of cobalt was manipulated to the detriment of Zambia.

According to DCDM Consultants, the signature and later extension and amendment of a pre-finance cobalt sale agreement with MRG Trading Limited had been argued by ZCCM management to have generated important cash flows at vital times in the privatization of ZCCM. Whilst there was some validity to this argument to support the signature of the original contract, the amendment of the contract to increase the quantity sold and to change the pricing period terms, were commercially unsupported and generated an estimated loss of US \$25.1 Million to ZCCM and no addition cash flow was realized.

An example below depicts the type of amendments made to contract Number 98418 for a total of 2750 MT of cobalt metal purchased by MRG, which led to major losses to ZCCM.³⁴³ According to the original contract, there was a condition that the “Buyer may declare a maximum of one LMB quotation in any one calendar month during the pricing period (i.e. October 1998, November, 1998, December 1998, January 1999, February 1999 and March 1999) and the quantity to be priced on such quotations, by latest the last calendar day of the pricing period which period shall be from the date of this contract until 31st March 1999 (inclusive).” This clause was amended to read “The Buyer to

³⁴² Interview with Controller of Internal Audit, MoFNP in July, 2006

³⁴³ The Pricing terms Amendment No. 1 dated 5th October 1998.

declare the LMB quotations and the quantity to be priced on such quotations, by latest the last calendar day of the pricing period which period shall be from October 4th 1998 (the date of this contract) until 31st March 1999 (inclusive).”

Under other conditions – another clause was added. “Buyer has the right to extend the pricing period (for all quantities for which a price has not been declared) in the event of unforeseen events which causes hardship to the buyer in which case Buyer and Seller agree to meet and agree a new pricing period (the date for final payments will be automatically extended accordingly).”³⁴⁴

The implication of the amendments changed the pricing terms, which effectively placed MRG at an advantage in pricing 2750 metric tones under the contract on three consecutive LMB quotations. The amendments to the contract also meant that MRG had now very flexible pricing terms and could price the commodity at any price and time favourable to them within the pricing period. This is why MRG could not price the commodity despite numerous appeals by ZCCM management. The additional Clause “under other conditions” also exacerbated the whole pricing process and put ZCCM in an awkward position in that the management had lost control over their assets.

With respect to the Quantity Amendment Number 2³⁴⁵ which changed the amounts of cobalt to be supplied from 1000-1500 MT to 1000-1850 MT in Buyer’s option, the

³⁴⁴ The Pricing terms Amendment No. 1 dated 5th October 1998.

³⁴⁵ Quantity Amendment No. 2 dated 7th October 1998

implication of the change meant that with the change in pricing terms, MRG was to have access to more cobalt metal and have an added advantage when it came to pricing.

The Quantity Amendment 3³⁴⁶ again was changed from 1000-1850 metric tones to 2450-2750 metric tones in Buyer's option. The time of delivery was also changed from three months Lots of October, November and December 1998 to six months Lots of October, November and December 1998 and January, February and March 1999. The sentence "Subject to a minimum quantity of 200 metric tones in October 1998, 400 metric tones in November 1998 and 400 metric tones in December 1998 was deleted.

In the Pricing Clause, the sentence "for any quantity up to a maximum 500 metric tones in the Buyer's option, was changed to read "for any quantity up to a maximum of 950 MT".³⁴⁷ The Implication of the change as stated above meant that MRG had an added advantage in terms of quantities held when it came to pricing. The whole idea was to get as much cobalt metal as possible in order to maximize their profits. The consultants reported that from the correspondence available, other cobalt dealers complained about MRG offloading excess cobalt metal onto the market in order to depress the prices. Therefore, MRG declared lower prices for ZCCM cobalt, which they sold at higher prices thereafter.

The effect of these amendments was that ZCCM did not benefit from the contracts and its liquidity position did not improve to meet some of its obligations.

³⁴⁶ Quantity Amendment No. 3 dated 18 November, 1998

³⁴⁷ Quantity Amendment No. 3 dated 18 November, 1998

With respect to the Agency Contract Agreement³⁴⁸ dated 12th October 1998 which was concluded between ZCCM and MRG for the delivery of 23,000 MT of cobalt annually to MRG on an exclusive agency basis, the consultants observed that although the contract was dated 12 October 1998, ZCCM management indicated that the negotiations with MRG were concluded in December 1998 but the signature was backdated to 12th October 1998. The contract was to last for three years during which period 6,900 MT of cobalt could have been delivered to MRG. There was no evidence that the contract was approved by the Board of Directors of ZCCM. The contract provided MRG exclusive rights to sale ZCCM cobalt worldwide with the exception of Japan, Switzerland and France for three years. It also provided for novation of the contract to the new owners of ZCCM after privatization.

However, management managed to put in an addendum exonerating the company from being liable in the event that the new owners refused to accept novation of the MRG contract after the company had been privatized.³⁴⁹ This meant that if the contract could not be novated to the Successor Company or companies, ZCCM could not be held liable. Some of the terms, which were included in the contract, were as follows: First, concerned Privatization: there was a specific clause, which required ZCCM to procure the novation of the agreement to a buyer of the mines, thus binding the new buyer to continue with the MRG contract. If not, then ZCCM were required to indemnify MRG from any costs and

³⁴⁸ Zambia, Auditor General Report on DCDM Final Report on the Audit Investigations of ZCCM Cobalt sales During 1998/1999 commissioned by the Minister responsible for Finance, 2003

³⁴⁹ Interview with Controller of Internal Audit, MoFNP in July, 2006

losses. Secondly, the Agency Commission: ZCCM were required to pay agency commission on any sales, direct or indirect, within the territory. This meant that ZCCM could not sell any of its material other than in three countries. Thirdly, the Principal-to-Principal: The contract allowed MRG to purchase up to 2,300 tonnes per annum (over 50% of ZCCM's production) with a standard discount of US\$1.5 per lb. It also allowed them not to act as agents. All their duties as agents fell away if they purchased any amount as a principal. And lastly concerning "Pricing:" The pricing clause in the contract was open to some interpretations and MRG appeared to have interpreted the clause to allow them to price the metal based on a single quotation each quarter.

In order to implement the contract, ZCCM delivered 575 MT of cobalt metal on principal-to-principal basis for which a total payment of US \$10,521,548.86 to ZCCM was made. The balance of 1725 MT of cobalt was not delivered under the contract because of a dispute, which arose due to failure by MRG to honour its obligations under the pre-financing contract. Therefore in August 1999, ZCCM management decided to terminate the contract. In response, MRG made a penalty claim for loss of business in excess of US \$30 million. It was however observed as noted earlier in this presentation, that through mediation by the Attorney General of Zambia and other parties, ZCCM and MRG agreed to set off their claims against each other.³⁵⁰

³⁵⁰ Interview with Controller of Internal Audit, MoFNP in July, 2006

According to the DCDM Consultants,³⁵¹ the estimated loss on this contract was USD 14.5 million broken down as follows: US \$7.4 Million arising from the sale of 575 tonnes of cobalt metal at a price other than that which subsisted on the date the invoices were raised and US \$7.1 Million arising from the dispute with MRG. The Attorney General of Zambia agreed a settlement with MRG relating to damages arising from ZCCM's repudiation of the contract.

With regard to the Cobalt Concentrate Contract, According to the Transformation Plan, ZCCM were required to dispose 40,000 MT of cobalt concentrate in order to raise US\$25 Million by September 1998. In this regard ZCCM management invited MRG, OMG and Glencore to submit their bids. On the basis of the bids submitted, MRG and Glencore were each offered 20,000 MT and made an upfront payment of US\$12.5 Million each in September 1998.

According to the DCDM report, OMG, which offered US\$27 Million to buy the total cobalt surplus, were not offered the contract. On inquiry by the consultants, ZCCM management explained to them that OMG offer was received later after the offer had allegedly already been made to MRG and Glencore. A review of the DCDM report revealed that although MRG was offered 20,000 DMT of cobalt, for which they paid US\$12.5 Million, ZCCM actually delivered 55,000 MT of cobalt concentrate. There was no evidence that payment was received for the additional 35,000 DMT of cobalt concentrate. It was further noted that the contract with MRG was amended seven (7)

³⁵¹ Zambia, Auditor General Report on DCDM Final Report on the Audit Investigations of ZCCM Cobalt sales During 1998/1999 commissioned by the Minister responsible for Finance, 2003

times to the disadvantage of ZCCM without the ZCCM Board approval. It was also noted that the estimated loss on this transaction amounted to USD23.3 Million.

After ZCCM had delivered 76,040 DMT of cobalt concentrates to both MRG and Glencore, the price of the metal fell drastically resulting in effecting margin calls by MRG (US \$8.8 Million) and Glencore (US \$5.8 Million). As ZCCM had no money to pay in respect of marginal calls, they opted to deliver refined and scrap copper all valued at US\$11.6 Million and US\$3.0 Million in lieu of MRG debt. This is how ZCCM chose to liquidate the cobalt concentrate contract.

The DCDM consultants also observed that total deductions amounted to US \$54,608,594 representing 78% of the total value of US\$69,726,345 of cobalt concentrate delivered. The deductions were in respect of treatment, refining, handling charges and other costs. As can be noted from the table 38 below, ZCCM made a loss of US \$3,825,463 on 56,040 DMT of cobalt concentrates delivered to MRG and at least realized US \$4,155,848 from 20,000 DMT of cobalt concentrates delivered to Glencore. Therefore, the net amount realized on these contracts was only US\$332,385 in respect of 76,040 DMT of cobalt concentrates valued at UD \$69,726,345.³⁵²

³⁵² Interview with Controller of Internal Audit, MoFNP in July, 2006

Table 40**Actual out-turn of the liquidation of the contracts with MRG**

		GLENCORE	MRG	TOTAL
Details	Planned	Actual		
Dry Metric Tons	76,040	20,000	56,040	76,040
Total Revenue	132,957,737	20,188,297	49,538,048	69,726,345
Total Deduction	55,635,230	13,476,919	40,931,675	54,408,594
Net Revenue	77,322,505	6,711,378	8,606,373	15,317,751
Prepayment	25,000,000	12,500,000	12,500,000	25,000,000
Net Payment/(Repayment)	52,322,505	(5,788,622)	(3,893,627)	(9,682,249)
Margin calls				
Refined Copper		2,800,000	5,800,000	8,600,000
Scrap Copper		3,000,000		3,000,000
Debtor			3,000,000	3,000,000
Total Margin call		5,800,000	8,800,000	14,600,000
Freight charges	6,575,164		4,906,514	4,906,514
Additional payment	45,749,341	11,378	(141)	11,237
Total net revenue from concentrate	70,749,341	6,711,378	3,699,859	10,411,237
Shipping costs incurred by ZCCM	2,555,530	7,523,322	10,078,852	
Net realization from transaction	60,670,489	4,155,848	(3,823,463)	332,385

Source: Zambia, Auditor Generals Report on Cobalt Sales, 2003 Ibid

When ZCCM management realized that the company was not benefiting from the contracts, they liquidated both contracts.³⁵³ According to the DCDM report, the estimated loss by ZCCM on these contracts was in the range of US \$30-40 Million.

In conclusion although government as the principal shareholder of ZCCM directed ZCCM management through the Shareholders Transformation Plan, to keep the company functionally operational, it is apparent from the foregoing paragraphs that no measurable cash flow was generated to sustain the operation of the company. In fact, the company's liquidity position became increasingly depressed to the extent that Parliament³⁵⁴ had to appropriate K430 billion in the year 2000 to enable ZCCM liquidate some trade creditors as pressure was mounting to place the company under liquidation, an action which could have brought untold social and political instability on the Copperbelt Province in particular and Zambia in general. This case attests to a situation where the government becomes liable to contingent liabilities on account of poor management of parastatal companies as it was clearly the case with ZCCM management of the time.

³⁵³ Zambia, Auditor General's Report on Cobalt Sales, 2003 Ibid

³⁵⁴ Zambia, MoFNP, 2000 Budget Address by The Minister of Finance and National Planning Hon Ngandu P Magande, MP, January, 2000

CHAPTER 7

THE IMPACT OF FOREIGN AID ON PUBLIC DEBT MANAGEMENT IN ZAMBIA

INTRODUCTION

This chapter builds a linkage between foreign aid and public debt management and attempts to show the constraints arising from the impact of the flow of foreign aid on effective and efficient public debt management in Zambia. Following this introduction, the second section presents the context in which aid to Africa can best be analyzed. A quantitative overview of aid to Africa is discussed highlighting such issues as aid volumes, requirements, availability and quality. The third section identifies the volume of aid to Zambia between 1991 and 2004 and shows how it impacted on the growth of an aid dependent economy in Zambia. A case study of Japan's aid to Zambia is presented showing the inadequacy that Zambia presented in failing to manage the aid prudently. In spite of Zambia's inadequacies in managing aid prudently, a case is made for the increase in aid to enable the country address the debt management problems. A suggestion for a 100 percent of scaling up of aid is argued which should be complimented by Zambia's internal capabilities to improve its productivity and on that basis start producing and accumulating resources that will enable her to exit the debt problems

AID TO AFRICA

Generally, Africa has been depending more on official borrowing and less on commercial borrowing.³⁵⁵ Official debt dominated the external obligations of most African countries. The World Bank³⁵⁶ reported that 70 percent of outstanding debt at the end of 1995 was owed to official creditors by Sub Sahara African countries. They were also major recipients of inflows, most on concessional terms. In fact, as a region, it received the largest share of development assistance. Indeed in 1994, ODA constituted 12.4 percent of sub-saharan Africa's GNP.³⁵⁷ In spite of the aid, the debt problem never seemed to end.

In recent years, there has evolved more seriousness about aid reform, with a particular focus on the needs of Africa. The change was initiated after the Millennium Summit in September, 1999 in New York which endorsed the Millennium Development Goals (MDGs). There-after, the Financing for Development Summit at Monterrey, Mexico in 2002 resulted in donor nations pledging to increase aid to 0.7 per cent of their Gross National Products (GNPs). The Kananaskis Summit of the G8 countries in June, 2002 endorsed the New Economic Partnership (NEPAD) initiative and agreed on a G8 "Plan of Action" to support it. There-after, three high level meetings (Rome 2003, Marrakesh, 2004 and another one in Paris) agreed to address the issues surrounding aid effectiveness for development. Furthermore, the 14th International Development Association (IDA) Replenishment saw an increase in IDA resources of approximately 25 percent with about

³⁵⁵ George, Susan (1988) *A Fate Worse than Debt* (Penguin Books, London UK)

³⁵⁶ World Bank, 1996 *World Debt Tables: External Finance for Developing Countries*, Washington D.C, USA P170

³⁵⁷ Economic Commission for Africa (2006) *The Emerging Aid Architecture, PRSs and the MDGs* (ECA/AU, Addisababa, Ethiopia)

30 per cent in form of grants. Most low income countries were to receive grants while the less burdened ones would receive IDA's highly concessional long-term loans.³⁵⁸

These support measures were basically useful to countries such as Zambia and all those in Sub Sahara Africa as they provided new sources for development financing which were relatively concessional. They, however, still fell short of comprehensively addressing the development needs, especially the public debt problems of these countries.

In general, Africa's share of total Overseas Development Assistance (ODA) declined in real terms from 50 to 36 per cent from the early 1993 to 2002, but recovered to 46 per cent in 2003.³⁵⁹ The main reasons accounting for the decline were the reduction of Balance of Payments support following the CFA Franc devaluation and change of attitude to stop providing aid to what they considered failed states. The rise in 1999-2003, on the other hand, was mainly accounted for by debt relief and emergency aid initiatives.

The net ODA transfers to Sub-Sahara Africa, excluding debt relief grants, were US\$10.0 Billion in 1999, US\$11.2 billion in 2000, US\$12.3 Billion in 2001, US\$15.2 Billion in 2002 and US\$15 Billion in 2003.³⁶⁰ The increment in aid was not to increase the productivity of Africa. Rather, there had been a major shift away from production and

³⁵⁸ Saasa, Oliver (2005) *Zambia Aid Policy and Strategy* (MoFNP, Lusaka, Zambia) see also Hendrik van der Heijden (2000) *The Ineffectiveness of Economic Policy Reform, Foreign Aid, and External debt Relief in Zambia* (Economic Association of Zambia, Lusaka, Zambia)

³⁵⁹ *Ibid*, Saasa

³⁶⁰ OECD/DAC: Annex to Chapter 111 of the Mutual Review Quoted (in) Liebenthal, R, Wangwe, S. *The Emerging Aid Architecture, PRSs and the MDGs Background paper prepared by the "African Plenary on National Strategies fir Poverty Reduction and the Achievement of the Millenium Development Goals"* March, 26-28, 2006, Cairo, Egypt organized by the Economic Commission for Africa and African Union

infrastructure development to the social sectors and governance. In particular, development aid to Africa fell sharply while emergency aid rose significantly together with debt relief.

With regard to the aid requirements, the joint position of the IMF and World Bank was that at least US\$30 billion annually in additional aid was needed to meet the MDG's³⁶¹.

The United Nations Millennium Project (UNMP) estimated that for all low-income countries, incremental investment needs required to finance the MDG's would be US\$ 104 Billion in 2006, from a base of US\$149 Billion in 2002, rising to US\$380 Billion in 2015. It expected domestic resource mobilisation to meet US\$43 Billion or 41 per cent of the incremental requirement in 2006, rising to US\$ 257 billion (68 per cent) by 2015, leaving a US\$ 61 Billion gap to be filled by ODA in 2006, rising to US\$ 123 Billion or 32 per cent in 2015. In the UNMP estimates, aid had to increase by a factor of six to US\$ 73 Billion by 2106.

With respect to low income Africa, the Commission for Africa Report (CfA)³⁶² estimated that Africa needed an additional US\$37.5 Billion per year in public expenditures up to 2010. A third of the expenditure, that is US\$12.5 Billion was expected to come from domestic resource mobilization and the remaining US\$25 Billion, from aid. This would effectively double the 2003 ODA level of assistance.

³⁶¹ IMF/World Bank, Development Committee: Supporting sound policies with Adequate and Appropriate Financing, September 13, 2003

³⁶² Commission for Africa (2005) Our Common Interest, Report of the Commission for Africa, March

From a recipient country's point of view, more aid was certainly required. But, it had to be such that it did not trigger the "Dutch Disease" effect, where country recipients would become complacent on account of the two main components, "absorptive capacity," and "overall governance" or effective and efficient management of the key institutions. This macro-economic concern could adversely affect public debt management.

AID TO ZAMBIA

Since Zambia's independence in 1964, foreign aid or Official Development Assistance (ODA), as defined by the Organization for Economic Co-operation and Development (OECD), had been part of the revenue measures in the annual budget process. During the second decade after independence, aid to Zambia became relatively large. According to Saasa (2005),³⁶³ aid rose annually from US \$ 312 Million over the period 1977-1989. Between 1990 and 1994, aid to Zambia averaged US \$951 Million annually, rising to US\$ 2,093 Million in 1995, a growth rate of 172 percent over the previous year. Aid declined by 70 percent to US \$ 636 Million in 1996 from the previous year. These figures compare well with the statistics provided by the IMF (2004)³⁶⁴ as shown in Table 41 which presents the central government operations of Zambia. It can be observed from Table 41 that Zambia received a lot of assistance in form of aid. The grant component alone jumped from K275 Billion in 1995 to K597 Billion in 1999 and K1, 424 Billion in 2003. The loan component which was in terms of settlement of arrears and debt relief also substantially rose from K122 Billion in 1995 to K226 Billion in 1999 and K308 Billion in 2003.

³⁶³ Saasa, Oliver(2005) Zambia Aid Policy and Strategy (MoFNP,Lusaka)

³⁶⁴ IMF (2004) Selected Issues and Statistical Appendix (IMF, Washington D.C.)

Table 41

**Zambia: Summary of Central Government Operations, 1995-2003
(In billions of Kwacha)**

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenue and grants	871	1,058	1,283	1,529	1,921	2,528	3,262	4,259	5,104
Revenue	596	817	1,023	1,131	1,324	1,953	2,509	2,909	3,680
Tax revenue	546	751	967	1,094	1,289	1,931	2,449	2,849	3,548
Company income tax	38	49	60	90	483	634	953	276	246
Personal income tax	134	173	236	291	222	278	366	965	1,364
Excise taxes	85	127	168	211	429	575	821	423	482
Sales tax value-added (VAT)	108	137	184	200	248	230	278	342	393
Trade taxes 1/	163	243	288	285	181	345	544	828	1,051
Extraction royalty	18	23	31	17	156	252	285	3	10
Clearance of ZESCO tax arrears	0	0	0	0	0	191	23	0	0
Nontax revenue	50	65	56	38	34	22	60	60	132
Grants	275	242	260	260	398	597	754	1,350	1,424
Total expenditures and net lending	983	1,088	1,341	1,842	2,195	3,122	4,212	5,172	6,338
Current expenditure	710	743	951	1,162	1,254	1,701	2,578	3,161	4,003
Wages and salaries	178	229	324	327	402	538	888	1,301	1,728
Public service retrenchment	1	0	2	77	51	74	19	80	10
Recurrent departmental charges	99	120	184	278	313	392	801	584	648
Transfers and pensions	107	96	127	149	181	219	353	412	361
Domestic interest 2/	244	188	213	203	212	307	331	660	793
Other current expenditure	56	79	98	112	78	78	178	95	456
Agricultural expenditure	26	30	3	15	17	10	0	0	131
Contingency	0	0	0	0	0	82	8	29	6
Capital expenditure	273	345	390	680	789	1,009	1,557	1,925	2,335
Net lending 3/	0	0	0	0	152	413	77	86	0
Change in balances and other	-1	-183	-155	-172	-24	-114	-106	-117	-116
Overall balance (cash)	-114	-212	-213	-485	-298	-708	-1,056	-1,031	-1,349
Financing	114	212	213	485	298	708	1,056	1,031	1,349
Domestic	-8	14	-4	220	72	177	589	337	1,041
Nonbank	-4	1	-14	-3	37	38	106	247	62
Banking system	-4	12	10	224	35	139	483	90	979
Foreign 4/	122	199	217	265	226	531	467	693	308
Memorandum item	-	-	-	25	31	-335	-607	-662	-716
Domestic balance 5/6/									

Sources: IMF. Zambia- Selected Issues and Statistical Appendix, Report No. 06/118, March 2006

1) including sales tax/VAT on imported goods, 2) Amount paid, 3) Figure for 1999 was foreign financed and thus was not counted toward the domestic balance, 4) Including interest arrears and debt relief, 5) Fiscal balance excluding grants, interest payments on foreign debt and foreign-financed capital expenditures, 6) To approximate a cash-based presentation, an adjustment is made for line ministries payments of arrears and changes in balances.

At the same time, Zambia borrowed heavily, with the total borrowing jumping from K114 Billion in 1995 to K708 Billion in 2000 and reaching K1, 349 Billion in 2003. The foreign component of the borrowing, which included interest arrears and debt relief, moved from K122 Billion in 1995 to K693 Billion in 2002.

Table 42 presents statistics on the performance of the external sector in Zambia between 1990 and 2004.

Table 42

Zambia: Performance of external sector in Zambia (in US \$ million)

	1990	91	92	93	94	95	96	97	98	99	2000	01	02	03	04
Exports	1263	1085	1133	994	1066	1186	993	1191	858	753	746	884	916	1052	1779
Metal exports	1150	998	1033	870	910	984	754	895	562	481	497	590	560	669	1322
Other	113	88	100	124	157	202	239	296	296	272	249	295	357	383	457
External aid	351	926	928	623	556	559	445	422	322	445	217	170	171	154	245
Foreign Investment	0	o	o	3	40	91	117	207	216	200	278	301	178	233	299
Total forex	1614	2011	2061	1620	1662	1836	1555	1820	1396	1398					
Net External debt service	-78	-425	-127	-163	-281	-356	-143	-217	-193	-154					
Imports	1536	1586	1934	1457	1381	1480	1412	1603	1203	1244	-978	1253	-1204	-1393	1727

Source: IMF: Zambia- Selected Issues and Statistical Appendix, Report No. 06/118, March 2006

Table 42 shows that Zambia's external sector financial position worsened in the 1990's.

Exports declined from US \$1263 Million in 1990 to US \$ 753Mmillion in 1999.

With respect to external aid, Heijden (2000)³⁶⁵ correctly observed that rather than supplementing Zambia's own foreign exchange earnings, external aid simply substituted for part of the decline in Zambia's own foreign exchange earnings and thus, did not relieve Zambia's foreign exchange constraint to support the growth of the economy. Although the aid did relieve the country in terms of reduced public debt service pressure, in relation to public debt management, Zambia needed more aid to support the development projects or to create a situation where it earned more foreign exchange from its exports.

Between 1980 and 1999, the share of external assistance in total foreign exchange resources for Zambia showed a progressive increment. From about 30 percent of foreign exchange earnings comprising as aid in 1980, Zambia's dependence on foreign aid to support its budget had increased to about 35 percent by 1999.

Whereas it is true that Zambia failed to access as much debt relief as it should have had on account of breaking relations with the IMF in 1987 and sometimes renegeing on its agreements with the donor community, it is also true that Zambia's recovery program was compromised by inadequacies in the volume, composition and delivery of foreign assistance.³⁶⁶

³⁶⁵ Heijden, Hendrick (June, 2000) The in effectiveness of Economic Policy Reform, foreign Aid and External Debt relief in Zambia. (MoFNP, Lusaka)

³⁶⁶ The background to explain the inadequacies in the volume, composition and delivery of foreign aid to Zambia has been discussed in Chapter Three.

Table 43 shows that in 1999, public sector investment was principally from external sources. Public savings had dropped from 5.5 percent of GDP in 1990 to 0.4 percent of GDP in 1999, clearly showing a growing dependency on external sources of funds.

Table 43

Zambia: Financing of Public Investment 1990-1999 (% of GDP)

	1990	91	92	93	94	95	96	97	98	99
Public Investment (PI)	6.8	5.8	4.0	3.4	1.8	6.6	6.0	5.4	7.7	7.9
Public Savings	5.5	2.5	0.4	2.9	6.1	3.6	2.6	3.6	2.4	0.4
Public savings as% of PI	81	43	10	85	100	55	43	59	31	5

Source: MoFNP, Economic Report, (Various Years)

This situation of external dependence deepened in later years. In 1999 for instance, 33 percent of the total budgeted expenditure of the government was donor funded. Furthermore, more than 70% of the government's capital expenditure was foreign funded. In other words, as public savings fell, the donors filled the gap. This situation is captured in Table 42 where it is shown that from 1991 onwards, Zambia received high levels of foreign assistance. External grants had peaked at 14.7 percent of GDP in 1992 and there after averaged around 8 percent. This high level of dependence had an effect on Zambia's public debt management in that whenever the aid was frozen, the funding of Zambia's annual budget was also adversely affected.

Table 43 clearly attests to the decline in capital expenditure. The unilateral suspension of economic programs as occurred in 1982, 1985 and 1991 was devastating to Zambia as many economic programmes were adversely affected. Zambia's dependency on donor support was such that it undermined capacity for national policy making. In order to continue uninterrupted on its budget expenditure plans, the country was compelled to

resort to deficit financing, which tended to exacerbate the public debt problems as it worsened the economic fundamentals such as inflation and interest rates.

Table 44

Zambia: Government Revenue and External Grants (% of GDP)

	1980	1985	1990	91	92	93	94	95	96	97	98	99	2000
GOVT Revenue	26	22.4	20.3	18.3	18.7	18.3	15.8	20.1	19.9	20.7	19.8	18.1	12.5
External Grants	3.5	3.2	4.3	14.2	14.7	10.5	10.1	9.2	6.1	5.0	6.4	9.1	8.2
Total R & G	29.0	25.6	24.6	32.9	33.0	26.3	30.2	29.1	26.8	24.8	24.5	26.6	25.4
Capital Exp (CE)			6.2	10.9	10.0	9.5	10.3	9.4	8.7	7.5	10.9	10.8	9.1
Grants as % of CE			69	100	100	100	98	98	62	67	59	79	90

Source: Ministry of Finance National Planning, Economic Report, (Various Years)

Data provided by the Ministry of Finance and National Planning³⁶⁷ showed that the investment rate which fell from an average of 16 percent of GDP in the 1980's to a low of 110 to 113 percent of GDP in the 1990's, meant that for Zambia to service its public debt, it had to seek external assistance. This is in comparison to a situation where in the 1970's, Zambia's investment efforts were very high and had reached a peak of 40 percent of GDP. The goodwill of the donor community was therefore a historical necessity in the 1990's as Table 44, showing the extent that Zambia depended on external aid, attests. In terms of debt distress, between 1990 and 1999, the four indicators presented in the Table show a very severe situation. For instance, without foreign aid, Zambia could have paid 47 percent and 63 percent of the value of its exports in 1990 and 1999, respectively. It received 4 percent and 66 percent of foreign exchange from donors in the two years, respectively

³⁶⁷ Ministry of Finance National Planning, Economic Report, (Various Years)

Table 45**Zambia: Indicators of Debt Distress and External Dependence**

	1990	1995	1999
DEBT DISTRESS			
External Debt as % of exports of Goods and Services	506	550	691
Scheduled Debt Service as % of Exports of goods and services	47	46	63
Net Debt Services as % of Exports	6	30	20
Net Debt Services as % of GDP	2	10	5
EXTERNAL RESOURCE DEPENDANCY			
External Resource Gap as % of GDP	1	6	9
External Assistance as % of Forex earnings	4	44	66
AID DEPENDENCY			
Net External Assistance as % of GDP	12	3	16
External Assistance as % of Forex earnings	22	32	37
Net External Assistance as % of GDI	35	60	62
FISCAL DEPENDANCE			
External Assistance as % of Total Govt Expenditures	32	40	34
External Assistance as % of capital Expenditures	69	98	90
External Grants as % total Govt Revenue	18	32	34

Source: Calculated from data provided by IDM, Ministry of Finance and national Planning

Table 45 further provide an insight into the degree of Zambia's dependence on aid over several years. From 1970 to 1983, aid/investment ratio stood at 52.2 percent. Thereafter, the ratios accelerated upwards as a result of increased aid which averaged US \$57.2 per capita as compared to US \$53 per capita in other sub-saharan African countries.

Table 46
Zambia's Aid Intensity

Year	GDP	Investment	Govt Spending	Exports	Imports	Per Capital Aid (US \$)
1970	1.2	4.3	7.9	2.3	3.3	5.2
1971	1.3	5.8	3.1	3.1	3.0	5.1
1972	2.4	6.8	10.7	5.5	5.8	10.3
1973	2.4	8.2	11.4	54.8	7.1	12.3
1974	3.0	8.1	16.3	5.9	7.3	18.5
1975	2.5	6.2	9.5	7.0	4.5	12.8
1976	4.1	12.9	16.2	9.4	10.6	21.9
1977	7.4	29.8	27.8	18.7	17.5	36.1
1978	9.9	41.5	41.4	29.5	26.8	52.3
1979	9.5	67.2	39.9	20.9	26.1	57.6
1980	6.0	25.6	23.4	14.4	13.1	40.4
1981	7.9	41.0	28.0	27.6	19.2	53.2
1982	5.6	33.4	20.0	20.2	15.4	35.0
1983	7.2	52.2	29.8	21.8	22.8	37.0
1984	11.8	80.7	47.1	33.8	35.7	48.2
1985	20.2	135.5	84.6	55.4	54.2	45.8
1986	25.6	107.5	95.3	60.7	58.3	60.2
1987	21.1	166.0	103.5	53.5	59.2	66.0
1988	10.0	90.6	67.5	30.1	38.4	50.4
1999	12.0	11.4	87.7	44.9	35.6	63.3
1990	26.9	155.5	141.2	72.0	73.0	113.5
1991	30.7	278.5	96.4	89.3	99.5	129.3
1992	27.4	230.3	182.5	106.1	87.4	105.8
1993	20.2	193.3	210.0	77.3	72.2	84.7
1994	54.9	798.5	561.1	173.9	154.8	233.2
1995	15.1	128.5	170.0	47.9	37.9	68.4

Source: Calculated from data provided by IDM, Ministry of Finance and National Planning

Table 47
External Assistance and Debt Relief to Zambia 1990-2004

Year	Total Ext Finance (In \$m)	Ext Aid (In \$m)	Debt Relief (In \$m)	Debt Service (In \$m)	Sched debt Serv (In \$m)	Net Transfer (In \$m)
1990	1076	351	725	78	647	429
1991	1219	926	293	425	718	501
1992	1479	623	551	127	678	801
1993	982	556	359	163	522	460
1994	816	559	280	281	541	-275
1995	793	445	234	356	590	203
1996	755	422	310	143	453	302
1997	581	322	159	217	399	205
1998	398	445	122	193	328	129
1999	597	226	443	154	318	291
2000	575	531	217	167	388	-
2001	754	467	436	124	590	-
2002	1,350	693	437	210	593	-
2003	1,424	308	389	229	616	-
2004	1,433	230	264	152	710	-

Source: MoFNP, IMF, Zambia : Selected Issues and Statistica Appendix 2004, 2006

* Hendrick van der Heijden (2000) The Ineffevtiness of Economic Policy Reform, Foreign Aid and External Debt Relief

It is worth noting that Zambia was greatly dependent on aid as seen by the contribution of aid to its Annual Budgets. Tables 47 and 48 show that between 2000 and 2004, aid alone on average accounted for more than 43% per annum of the total budget. Between 1980 and 1999, total aid to Zambia was US \$ 9.677 Billion with three quarters of that aid, that is US \$ 7.2 Billion, being provided under bilateral assistance programmess. In the 1990's, support to Zambia increased, particularly from the multilateral institutions like the World Bank as Tale 48.

Table 48
Segregated External Assistance to Zambia 1990-1999
US \$ Million

	1990	1991	92	93	94	95	96	97	98	99	Total
External Total Assistance	351	926	928	623	556	559	445	422	322	445	5577
BOP Support	117	586	491	299	278	304	142	120	0	176	2513
IBRD	0	202	165	144	148	160	121	111	0	107	1158
Other	117	384	326	155	130	144	21	9	0	69	1355
Commodity Aid	80	74	246	90	25	40	34	0	3	0	593
Brought maize	0	16	146	40	0	40	0	0	2	0	244
Other	80	58	100	50	26	0	34	0	1	0	349
Project Financing	162	266	191	234	252	215	269	302	330	269	90
Debt Relief	725	293	551	359	260	234	310	159	122	443	3456
Total External Financing	1,076	1,219	1,479	982	816	793	755	581	444	888	9,033
Scheduled debt Service	-647	-718	-678	-522	-541	-590	-453	-376	-315	-597	-5437
Net Transfer	429	501	801	460	275	203	302	205	129	291	3596
Of which IMF and World Bank Arrears Brought		368 16	203	40	-	50					309
For Economic Development	429	117	598	420	275	153	302	205	129	291	2919

Source: Bank of Zambia, Economic Indicators (Compiled from various years)

As Table 48 shows, during the early 1990's, aid to Zambia was over US\$50 per capita as compared to US\$30 per capita which was the average for Sub-Saharan countries.³⁶⁸ This was essentially a reward on account of Zambia becoming a liberal democracy. This was essentially a democracy dividend.

Table 49
Zambia: Composition and Utilization of AID (1990-1999)(US \$ Million)

	1990-95	% of Total	1996-99	% of Total	1990-1999	% of total
Aid Received	3,933	100	1,645	100	5,577	100
BOB Support	2,075	53	438	22	2,513	45
Commodity Aid	556	14	937	3	953	11
Project Financing	1,320	33	1,170	75	2490	45
USE OF AID	3 933	100	1,645	100	5,557	100
Net and Debt Service	1,274	32	707	43	1981	36
WB, IMF Arrears	368	9	-		368	7
Drought relief	309	8	-		309	6
Sub Total	1951	49	707	43	2658	49
Net Aid for Economic Development	1992	51	938	57	2,919	51

Source: Ministry of Finance and National Planning, Economic Reports, (Various years)

In the later half of the 1990's, the assistance to Zambia dropped as a result of non-adherence to agreements by Zambia and regressing on the democracy index. For instance in 1996, Zambia held a controversial election in which it's first President was

³⁶⁸ McPherson M.F. 2004 Ending Aid Dependence in Zambia (in) Hill, C.C. and McPerson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass,)

unjustifiably excluded. Furthermore, the elections were marred by corruption and human rights violations which the donors considered unacceptable. As a consequence, in 1998, aid to Zambia net per capita reduced to a paltry US \$ 12, which compared very badly to the Sub Saharan average of US \$25 at that time.

However, as soon as the government recommitted itself to the Economic Recovery Programme as agreed with the IMF/World Bank and completed the privatization of ZCCM, aid began to flow and more than doubled in 1999 over the 1998 figure.³⁶⁹

The situation for Zambia is that even when donors reduced on their support to the country, as happened after 1987 and 1996, the Zambian policy makers did not strive to seek alternatives to support the resultant budget gaps. Zambia's own savings effort declined and the country did not undertake compensatory measures. The dependency syndrome coupled with lack of capacity or willingness to assume new strategies by the Zambian managers became a big constraint on public debt management,. Whereas the donor community realized that Zambia needed extraordinary support, particularly in managing its debt burden, Zambia continued to display poor performance in its economic and political governance. The dependency syndrome on donor aid meant that Zambia could not initiate a development project to exit from aid and debt. As a result, Zambia continued to be vulnerable to donor influence and manipulation. Whenever it suited them, donors would use the debt/aid bait to put Zambia in line as happened in 1987 when the donor aid freeze led to rioting and the overthrow of the UNIP government.

³⁶⁹ McPherson M.F. 2004 *Ending Aid Dependence in Zambia* (in) Hill, C.C. and McPerson, M.F., (Ed) *Promoting and Sustaining Economic Reforms in Zambia*. (Harvard University Press, Boston, Mass.) p 446

Table 49 presents the disbursements by donors to Zambia in terms of ODA by source. The net aid received increased from US\$349.14 in 2001 to US\$560.14 in 2003. This rise in aid, however, hides the fact that the bulk of the aid was used in balance of payments support instead of the real economic development of Zambia. In 2003, for instance, as Table 15 in Chapter Two of this study shows, Zambia's scheduled external debt service was US\$609 Million which was 47.5 percent of exports of goods and services. Out of this, US\$236 Million was debt service to the IMF alone which money came largely from ODA support.

Table 50
ODA Disbursements to Zambia (US \$ Million)

DONOR	2000	2001	2002	2003
All donors	795.11	349.14	640.64	560.14
Non-DAC donors	0.28	0.92	2.25	0.51
UNICEF	4.48	3.39	3.74	3.63
Multilateral	308.59	74.11	278.87	-32.08
EU members	373.42	166.43	199.61	444.62
Canada	8.41	8.94	12.21	17.53
US	46.08	29.04	48.29	63.6
Japan	31.93	47.04	68.88	28.32
UK	111.41	55.76	28.13	65.89
Finland	3.35	4	5.32	4.67
Ireland	7.77	11.86	20.5	20.51
Netherlands	51.19	29.64	33.45	34.84
Norway	24.79	20.81	29.05	35.6
Sweden	19.11	17.49	19.4	20.04
Denmark	23.07	22.6	32.19	30.21
France	13	7.67	10.13	2.11
Germany	112.25	13.81	44.22	233.16

Source: OECD Database, Internet

In order to examine how external assistance or aid had impacted on Zambia's public debt management, there is need to recognize that Overseas Development Assistance (ODA)

financial support is not entirely grant support. The bulk of the support for Zambia was soft loans with a grant element of about 25 percent. It is therefore important to disaggregate the debt component to appreciate the role of foreign aid in public debt management. For Zambia, as already shown in Table 41, over 44 percent of external resource flows between 1990 and 1999 which went towards debt service as part of balance of payments support, was very substantial. Appendix 13 provides data on Zambia's annual balance of payments between 1995 and 2003. It is observed that debt relief had been quite high. In 1999, debt relief for Zambia was US \$ 443 Million which rose in 2002 to US \$ 458 Million.

The purported aim of aid was to maximize the social welfare of Zambians, in general, and help Zambia manage its public debt efficiently and effectively. However, in real terms, it was used as a tool to leverage Zambia and ensure that it performed on its structural adjustment programmes, which in turn, would further incorporate it in the world economy as a place for profitable investment for global capitalism.

There was a strong relationship between total government expenditure and foreign aid. Any increase in aid impacted positively on both government spending and public debt management. Aid freeze on the other hand, as occurred in 1987, negatively affected government expenditure and worsened the country's debt burden. As occurred after the 1987 donor freeze, the government was forced to review budget estimates and published supplementary estimates to counteract the fiscal difficulties that ensued.³⁷⁰ As can be noted in Appendix 13, the overall balance of payments were significantly high. In 1998,

³⁷⁰ Zambia. MoFNP 1987 *Supplementary Budget Estimates for the year ending December, 1987*, Lusaka, Zambia

the overall balance was negative US \$453 Million and in 2004, the overall balance was negative US \$332 Million.

The reduction of aid to Zambia after the country unilaterally cancelled the programme with the IMF in 1987, as presented above, put pressure on the country budget. Without aid and with the reduction in its export earnings, Zambia experienced liquidity difficulties to service its public debt. The reduction in the balance of payments support in the later half of the 1990's resulted in Zambian policy makers realizing that renegeing on agreed terms with the donors was not helpful to the development project. Zambia was finally brought to its knees and agreed to have a Poverty Reduction and Growth Facility (PRGF) programme with the IMF, which was supported by the World Bank in 1999. With this new programme, the country committed itself to administering several structural and financial reforms.

As a result of getting back on track with the IMF/World Bank programmes and prescriptions, the country resumed benefiting from support from many other donors who also had stopped assisting Zambia as soon as it fell out with the IMF. As noted in Table 43, between 1991 and 1995, for instance, Zambia received aid from the foreign sources amounting to 30.7% of GDP in 1991, 20.2% of GDP in 1993, and to a mammoth high of 54.9% of GDP in 1994. This high range of donor support to Zambia's budget signified extreme dependence on foreign aid by Zambia. This over reliance continued up to 2004.

In Zambia, the donors decided how they disbursed their aid to Zambia. As regards the aid targeted to the central government, the donor aid entered the government budget process through the Annual Estimates announced by the Minister of Finance in the first quarter of every year. Donor aid came in two forms: grants, which were recorded in the estimates as revenue and loans, which were recorded as expenditure.

In the Zambian case, donors had two broad ways of disbursing their funds. They had the options of disbursing their funds as appropriations in aid or as revenue. Under the appropriation in aid option, the donors would provide the funds to a Ministry or department of government directly without going through the Treasury. The donors in this format, had direct contact with the spending agencies and often influenced the manner in which the money was spent. The officials in the IDM department of the Ministry of Finance and National Planning when interviewed for this study complained that the donors sometimes gave more money to projects without the knowledge of the Ministry of Finance and National Planning. In the end, it was generally difficult for the Ministry of Finance and National Planning to monitor the aid expenditure, particularly if the expenditure had a political element. This situation meant that the debt managers at the Ministry of Finance and National Planning could not provide, with exactitude, the amount of donor inflows which in turn tended to compromise public debt data statistics and the general economic planning of the country.

The revenue disbursement system entailed donors disbursing funds directly to the Treasury through special accounts at the Bank of Zambia. During the period of study, the

system was open to abuse because of weak accounting systems. The Director of Economics at the Bank of Zambia and the Director of the IDM Department at the Ministry of Finance and National Planning reported many corrupt practices and blatant abuse of office that occurred between 1996 and 2004 in which donor assistance and other revenues of Zambia were stolen or misappropriated on account of weak accounting system. The case study on callable guarantees discussed in Chapter Six of this study affirms this position.

Because of the prevalence of corrupt practices, the donors after 2001 started demanding detailed documentation and accounting systems before any disbursement or reimbursement could be effected. The result of this was the accumulation of donor funds at the Bank of Zambia. The Deputy Governor at the Bank of Zambia confirmed that large portions of aid used to lapse before they were fully drawn. The same was true for project aid where projects stalled because the government failed to release counterpart funds or to meet conditionalities by the donors. This constraint impacted adversely on public debt management.

One direct consequence of the donor freeze or shortfall in 1987 and 1996 was the tendency for Zambia to use domestic resources via deficit financing to fill the budget gap for both development and debt repayments. This result of this policy perspective, as shown in Table 51, was to worsen the public domestic debt overhang which accumulated from K238, 116 Million in 1995 to K4, 239.003 Million in 2004.

Table 51
Zambia Government Securities, 1995-2004
(In millions of Kwacha, end-of-period stock)

	1985	1986	1987	1998	1999	2000	2001	2002	2003	2004
Treasury bills	221,547	225,318	248,033	217,360	263,413	344,654	684,461	817,613	1,325,561	1,340,744
Commercial banks	141,876	164,057	195,342	154,859	176,356	218,889	516,252	516,252	1,091,252	886,980
Bank of Zambia	15,189	12,850	6,863	17,248	23,672	47,695	52,539	52,539	5,181	62,581
Nonbank holdings	44,865	58,410	45,825	45,252	63,381	78,069	129,522	248,823	229,128	391,183
GRZ bonds	16,569	30,436	55,129	25,294	63,925	203,925	402,585	2,268,351	2,780,850	2,898,259
Total bonds and treasury bills	238,116	255,754	303,162	242,654	327,338	548,579	1,087,046	3,085,963	4,064,411	4,239,003

Source: Bank of Zambia, Economic Indicators; IMF, Zambia Selected Issues and Statistical Appendix, March 2006.

The implications of the scenario where Zambia resorted to borrowing from the public to support the budget have been discussed in Chapter Three. The country suffered greatly in terms of the balance of payments constraint, the “crowding out” constraint and the interest burden constraint.

To underpin the impact of external assistance, which could have been helpful to Zambia’s development initiatives but was aborted because of poor public debt management by Zambians, a case study of Japan’ aid to Zambia was conducted.

A CASE STUDY OF JAPAN'S AID TO ZAMBIA

Debt Relief

Up until December 2002, it was the policy of the Government of Japan not to cancel debt owed to it. As a result, the main form of debt relief offered by the Government of Japan was Debt rescheduling. However, following resolution 165 of the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) of 11 March 1978, which recommended debt relief to Heavily Indebted Poor Countries (HIPC)s, the Government of Japan introduced the Debt Relief Grant Aid Assistance Scheme. Under this Scheme the Government of Japan converted debt service payments made by a debtor country into an 'untied cash grant'. In this way, a debtor country was able to import goods from third countries. This type of assistance contributed to the mitigation of Balance of Payments problems faced by the recipient countries.

With respect to the experience of Zambia, as at June 30th 2002, Zambia's debt to the Japanese Government and the Japan Bank for International Cooperation stood at US\$603,361,113.52. This amount was inclusive of arrears. Zambia signed Debt Rescheduling Agreements with Japan on 26th February 2002 as summarized in Table 51. The Table shows a summary of the debt relief grant aid that had been disbursed by 2003. The first Debt Relief Grant aid was given in the last quarter of the fiscal year 1999³⁷¹ amounting to Japanese Yen 482,676,000, approximately US\$4.5Million. The institutions that benefited from this aid by procuring goods included, Local Authorities (Earth

³⁷¹ Exchange of notes between Zambia and Japan were signed on 3rd February 2000

Moving and fire-fighting equipment), National Airports Corporation (Fire fighting and navigation equipment), Civil Aviation Department (aeronautical and fire fighting equipment), Maina Soko Military Hospital (Medical Equipment) and Ministry of Works and Supply (Bailey Bridges).

Table 52
Japan Debt Relief and Grant AID to Zambia

4 th Quarter FY1999 3 Feb. 2000 Yen 482,676,000 US\$4.5million
1 st Quarter FY2000 11 Sep. 2000 Yen 116,103,000 US\$1.10million
3 rd Quarter FY2000 8 Feb. 2001 Yen 129,650,000 US\$1.2million
1 st Quarter FY2001 12 Oct. 2001 Yen 1,170,007,000 US\$9.4million
5 4 th Quarter FY2001 26 Feb. 2002 Yen 301,227,000 US\$2.5million
6 th in FY2001 14 th Mar. 2002 Yen 95,748,000 US\$0.8million
7 th disbursement 2003 Yen 336,298,000 US\$2.8million
Total Yen 2,631,709,000

Source: MoFNP, IDM Internal File on Japanese Aid to Zambia, 2004

The second Debt Relief Aid was meant for the first quarter of 2000 amounting to Yen 116,103,000 (\$1.05 Million). These funds were allocated to the following institutions: Livingstone Municipal Council (Earth Moving/garbage collection Equipment), Tropical Diseases Research Centre (TDRC) (Medical equipment) and National AIDS Secretariat (Printed materials and publications).

The other big grant given to Zambia was for the first quarter of 2001 amounting to Japanese Yen 1,170,007,000 (approximately \$9.4 Million). The US\$9.4 Million given to Zambia was used to procure various eligible products/goods for: UTH and rural hospitals/health centres-Medical equipment, Meteorological Department-Meteorological equipment and Department of Water Affairs (Water drilling equipment).

The seventh offer of debt relief was of Yen 336,298,000 (approx. US\$2.8 Million). These funds were used to purchase equipment for Ministry of Education and Ndola City Council.

The Total Debt Relief Grant provided by the Government of Japan to Zambia was approximately JY 2,631,709,000 (approximately US\$22.3 Million). Table 53 shows the progress of Japan's debt relief assistance as at 2004.

Table 53
Progress on Japan's Debt Relief Equipment to Zambia as at 2004

Beneficiary	Equipment	Status
Ministry of Local Government and Housing	Earth-moving and fire fighting equipment	Delivered
National Airports Corporation	Fire fighting equipment and navigation equipment	Delivered
Civil Aviation Department	Aeronautical and fire fighting equipment	Delivered
Maina Soko Military Hospital	Medical Equipment	Delivered
Ministry of Works and Supply	Bailey Bridges	Delivered
Livingstone Municipal Council	Earth moving/garbage collection equipment	Awaiting delivery
Tropical Diseases research Centre	Medical equipment	Delivered
National AIDS Secretariat	Medicines and drugs	Delivered
UTH and rural hospitals/health centres	Medical equipment	Under tender
Meteorological Department	Meteorological equipment	Under tender
Department of Water Affairs	Water drilling equipment	Under tender
Ministry of Education	Laboratory equipment and special education Aids	Request being processed
Ndola City Council	Earth moving equipment	Request being processed

Source: MoFNP, IDM Internal File, 2004

The Japanese debt relief to Zambia helped public institutions to procure essential goods, and in general, alleviated to some extent, the otherwise debt repayment that Japan could have demanded if it had not chosen the path of debt forgiveness. In this way, one can reasonably state that Japan's aid assisted in the management of Zambia's public debt.

Non-Project Grant Aid

The second form of Japanese aid to Zambia was that known as the Japanese Non-Project Grant Aid.³⁷² Japan had been extending this non-project aid to a few selected developing nations which included Zambia for many years. The purpose of this aid was to contribute towards the promotion of economic development and also as a way of supporting balance of payments difficulties. The focus of this aid had been to enable Zambia import equipment and machinery for both the private and Public Sectors in the various areas of the economy. In other words, Japan in the case of Zambia offered a certain amount of money in grant form. The government was then required to on lend this grant aid to the private sector or to its essential projects. What ever the case, the private sector were required to pay back the loan in local currency, and if it was the government, to provide the Kwacha equivalent to settle the loans. The local currency would then be pooled into a fund controlled by Japan and be used for other development projects within the country.

This programme began in 1987, otherwise called Year One (1). Japan gave this assistance every year to a number of countries. Officials in the IDM Department of the Ministry of Finance and National Planning informed this study that out of the 16 times that this aid had been extended to other countries, Zambia benefited eight times and missed on eight other occasions due to a number of problems. The problems included lack of capacity by Zambia to absorb the aid within a stipulated timeframe due to the cumbersomeness of import procedures which made the procurement too long and costly. The other reason was related to the failure by the government to collect Counter Value Funds (CVF)

³⁷² Project grant aid is the normal aid through Budget support and to line Ministries and Non Governmental Organizations. Non-Project Grant Aid was a special programme that targeted the private sector.

within the timeframe.³⁷³ This resulted in the Government of Japan stopping extending this type of aid to Zambia. In 1995, the facility was suspended for what an official at the Japanese Embassy in Lusaka informed this study that it was on account of lack of transparency due to political involvement in the selection of beneficiaries.

However, in 1999, after protracted negotiations, the facility was re-introduced on the understanding that Zambia would improve its poor performance in so far as the low rate of absorption was concerned and debt recovery. The Zambian Government assured Japan that the poor record would be corrected by addressing the issues raised. The government introduced a new method for managing JNPGA. Beneficiaries were asked to enter into contract with government and agreed on how the loan was going to be repaid to the government. All loans had to be fully secured with 100 percent collateral to avoid loss of money. A soft interest rate was also introduced.³⁷⁴

When the aid was resumed, it still met with many problems of administration. The execution of FY 1999 (Year 13) was slow again due to tax and other import duty requirements. This bureaucratic inertia again affected Zambia's ability to receive the aid. It also affected the ability of the beneficiaries to repay the relatively cheap loans within two years as was the condition. Since 1987, Zambia had received a total of Y21.5 billion (K119.6 Billion) out of which only K12.3 Billion had been recovered leaving a balance of K111.1 Billion.³⁷⁵

³⁷³ Interview with staff of IDM, MoFNP in July, 2006

³⁷⁴ Interview with staff of IDM, MoFNP in July, 2006

³⁷⁵ Interview with staff of IDM, MoFNP in July, 2006

A Grant Schedule in Table 54 shows how Zambia benefited from the Japan Non Project Grant Aid (JNPGA). Table 54 shows that in 1987 an equivalent of Yen 3.5 Billion (ZMK220 Million) was allocated to 12 parastatals. In 1989, Yen 3.5 Billion (ZMK527 Million) was allocated to 9 parastatals. In 1990, Yen 3.5 billion (ZMK1.4 Billion) was allocated to 16 companies. In 1991, Yen 3.5 million (ZMK3.4 billion) was allocated to 47 companies. In 1993, ZMK22, 578,190,093 was provided. A total of 63 companies accessed this loan. Unfortunately, whereas the loan should have been repaid by December 1997, as at December 2002, only K4, 966,128,030.00 had been repaid with K17.612, 062,063.00 remaining as outstanding balance. In other words, Zambia had reneged on the agreement.

In spite of the problems encountered in the management of previous grants in this scheme, in 1995, Japan provided another facility amounting to ZMK9,189,489,167.58³⁷⁶. This was a two year grant aid and the loans to Zambian recipients were disbursed between December 1996 and June 1999. A total of 40 customers accessed the loan. However, Zambia again defaulted on the agreement with Japan with respect to the management of the aid.

³⁷⁶ Interview with Director of IDM, MoFNP in July, 2006

Table 54
Japan's Grants to Zambia under the JNPGA Scheme

JFY	Grand Year	Grant Value (Yen)	Exchange Rate	Grant Value (Kwacha)	Number & category Beneficiary	Amount Recovered	Outstanding Debt
1987	Y 1	3.5 bill.	0.06629	220mill.	12 Public/Parastatals	(Figures Being Reconciled)	(Figures Being Reconciled)
1988	Y 2	(missed)					
1989	Y 3	3.5 bill.	0.1507	527 mill.	Public/Parastatals	(Figures Being reconciled)	(Figures Being Reconciled)
1990	Y 4	3.5 bill.	0.3985	1.4 bill.	16 Public/Parastatals	(Figures Being reconciled)	(Figures Being Reconciled)
1991	Y 5	3.5 bill.	0.9674	3.4 bill.	47 Public/Parastatals	(Figures Being reconciled)	(Figures Being Reconciled)
1992	Y 6	Missed					
1993	7	3.5 bill.	6.4942	22.6bill.	63 Private	5.0bill.	17.6 bill.
1994	Y 8	(Missed)					
1995	Y 9	1.0 bill.	10.6648	9.2 bill.	40 Private	3.0 bill.	6.2 bill.
1996	Y 10	(Missed)					
1997	Y 11	(Missed)					
1998	Y 12	(Missed)					
1999	Y 13	1.5 bill.	20.00	27.3 bill.	MoWS (OVP)/ 61 Private	4.3 bill.	32.1 bill.
2000	Y 14	1.5 bill.	36.69	55.0 bill.	52 Private		55.2 bill.
2001	Y 15	(Missed)					
2002	Y 16	(Missed)					
Total		21.5 bill.		119.6bill.		12.3bill.	111.1bill.

Source: MoFNP, IDM Internal File, 2004

As at December 31st 2002, only K2, 970,099,911.02 had been repaid by the beneficiaries leaving an outstanding balance of K6, 219,389,256.56. Because of this, Japan did not provide additional grants to Zambia in 1996, 1997 and 1998. However, in 1998, Japan resumed the grant support and provided a total of K27, 274,979,530.00 which was given to sixty one recipients. As at 2004, the amount outstanding was K32, 074,392,668.96. In 2000, a total amount of K55, 020,000,000.00 was disbursed. Finally, because of

repayment problems for counter value funds derived from 1999 and 2000 the two governments agreed that the funds be given to social sectors to improve social service delivery.³⁷⁷

In terms of utilization of the above Japanese aid, the Zambian Government was obliged to consult the Embassy of Japan on the utilization of counter value funds. Some of the counter value funds from the first six facilities were used for, among others, support to the 2000 census; Institutional capacity building at CSO; and Capital Loans to small scale farmers and entrepreneurs. With respect to the last item, in 1998 the government introduced a programme to assist small scale farmers and entrepreneurs with small capital loans for a duration of two years. The loan repayment period was from 28th January 1999 to 28th July 2001 in four (4) half yearly instalments, the first of which fell due on 28th January 1998. These loans were awarded to a total of 16 companies. A total of K1, 038,733,857.00 was disbursed under this arrangement. Of the total amount disbursed, K1, 181,374,043.37 was still outstanding during the period of our study.

As a concluding observation, it is apparent that the JPNGA Scheme was aimed at improving productivity of Zambia's economy. However, the Japanese government was forced to suspend the scheme because the Zambian government was unable to account for the use of counter value funds.³⁷⁸

³⁷⁷ Interview with Director of IDM, MoFNP in July, 2006

³⁷⁸ Interview with Director of IDM, MoFNP in July, 2006

Kennedy Rounds

The third form of grant aid to Zambia by Japan was the one known as the Kennedy Round (KRI & KRII). The first programme (KRI) was a Food Aid Programme for Zambia which commenced in 1980 in accordance with the Food Aid Agreement of the International Grain Treaty that was established as a part of the negotiated settlement of GATT Kennedy Round. The second programme (RII) was a grant aid to enable Zambia increase food production. This was introduced into Zambia in 1980 and was a continuation of KRI. KRII supported self-help efforts in food problems by purchasing agricultural commodities including fertilizers, agro-chemicals and agricultural machineries. KRI and KRII were designed to give international balance of payments support to Zambia and were expected to have prompt short-term effects.

The Republic of Zambia benefited nine (9) times from KR assistance amounting to Yen 3.386 Billion (equivalent to US\$31 million, as of \$1.0=110Yen) from 1980 to 1992, and 18 times from KRII between 1980 and 1996 amounting to 13,307 Billion Yen (equivalent to US\$121 Million). The total amount of the KR Programme to Zambia from 1980 to 1996 was Y16.7 Billion. During the study, it was found that ZMK12.5 billion was still outstanding and was due to be repaid by Zambia as counter value fund. ZMK9.7 Billion had been recovered. Tables 55 and 56 show the KRI and KRII assistance received by the Zambian government, respectively. For commodities purchased under KRII,

machinery consisted of tractors, spares and accessories, and fertilizers which were mostly urea and D-Compound.

Table 55
Zambia: Japan's Food Aid Programme (KRI)

No	J.F.Y.	Amount Granted (mill. Y)	FOB (mill. Y)1)	Exchange Rate (Y=xK)	Amount due to CVF(K)
1	1980	250	128	0.0042	536.025
2	1981	287	147	0.0042	615.357
3	1982	473	241	0.004	965,866
4	1983	476	243	0.0031	753,294
5	1984	400	204	0.0025	5,105,000
6	1986	500	255	0.0059	15,059,750
7	1987	400	204	0.066	13,477,200
8	1991	400	204	0.49	100,058,000
9	1992	200	102	1.28	130,688,000
Total		3,386	1,729		267,258,492

Source: MoFNP, IDM Internal File, 2004

KRI was terminated after 1992 the Japanese Fiscal Year (JFY). Henceforth, Japan food aid was channelled through the World Food Program (WFP). For instance in 2002 JFY, Japan channeled US\$8.74 Million through WFP.

On the other hand, KRII was suspended after 1996 JFY because of difficulties in the collection of Counter Value Funds (CVF) and management problems. The balance of Counter Value Funds un (CVF) uncollected from KRI and KRII in the Ministry of Finance and National Planning accounts as shown in Tables 55 and 56 was a massive ZMK9,650,365,999.27 as of June 2002 comprising of ZMK 291,223,367.70 and 9,359,142,631.57 from KRI and KRII respectively. This money was held by the various recipients who had defaulted on paying back to the Treasury.

Table 56
Zambia: Purchases under KRII

No.	J.F.Y.	Date of E/N	Amount Granted (Y)	Commodity Purchased	FOB Price (Y)	Exchange Rate (Y=xK)	Amount Due to CVF
1	1981	1981.11.13	300,000,000	Machinery	254,097,000	0.0042	1,067,207
2	1982	1982.12.20	300,000,000	Agro- chemical	183,219,000	0.004	732,876
3	1983	1983.12.16	400,000	Fertilizer	263,112,871	0.0031	815,650
4	1984	1984.06.28	400,000	Fertilizer Machinery	203,884,735	0.0025	509,712
5	1985	1985.10.08	800,000,000	Machinery, chemical	148,202,491	0.03	4,446,075
6	1986	1987.04.30	200,000,000	Agro- chemical	98,407,172	0.061	6,002,837
7	1987	1987.01.15	800,000,000	Fertilizer	367,750,630	0.057	20,961,786
8	1987	1988.02.05	900,000,000	Fertilizer	441,401,268	0.066	29,132,484
9	1988	1988.12.23	1,207,000,000	Fertilizer	574,659,000	0.08	45,972,720
10	1989	1989.11.22	1,200,000,000	Fertilizer	577,450,888	0.129	74,491,165
11	1990	1990.12.10	900,000,000	Fertilizer, Machinery,	461,660,000	0.31	143,114,600
12	1991	1991.07.08	900,000,000	Fertilizer	466,504,800	0.49	152,391,568
13	1992	1992.06.04	900,000,000	Fertilizer	456,815,250	1.28	389,815,680
14	1993	1993.03.18	300,000,000	Fertilizer	153,624,000	4.03	412,736,480
15	1993	1993.05.26	1,200,000,000	Fertilizer	614,525,600	4.77	1,954,191,408
16	1994	1994.09.27	1,000,000,000	Fertilizer	594,415,994	6.75	2,674,871,973
17	1995	1995.08.15	800,000,000	Fertilizer, Machinery	535,580,123	9.89	3,531,258,278
18	1996	1997.03.25	800,000,000	Fertilizer	400,576,800	10.56	2,820,060,672
	Total		13,307,000,000		6,334,227,622		12,262,573,170

Source: MoFNP, IDM Internal File, 2004

In terms of the status of the programme, the KRII facility which was suspended in 1996 was still under suspension in 2004 because the Government of Japan felt that the Zambian government had failed to account for the facility. In addition, the Japanese government also cited failure by the Zambian government to collect counter value funds as one of the reasons for suspending the facility.

In addition, there was poor coordination between the Ministry of Finance and National Planning and Ministry of Agriculture, Food and Fisheries on the operations of the programme. This is because the roles of the two Ministries were not clear. This was particularly apparent when the KRII was transferred from the Ministry of Agriculture to the Ministry of Finance and National Planning without reconciling the transferred bank accounts and information on the debtors.³⁷⁹

CONCLUSION

Japan's aid to Zambia comprising of the debt relief, the Non-Project Grant Aid and the Kennedy Round Programmes were in general good programmes with potential to develop and strengthen both public and private sector development through the acquisition of necessary equipment or major inputs for production in various areas of the economy, particularly in export related industries. This case study on Japanese aid shows that aid could assist a poor country such as Zambia improve its public debt management by not only enjoying debt relief but also by the creditors channelling their aid and the local currency of the debt savings to the production of goods and services. This in turn, if well

³⁷⁹ Interview with Director of IDM, MoFNP in July, 2006.

managed and directed towards investment in export oriented industries, may increase a country's productivity, particularly with respect to increased foreign exchange earnings which in turn may assist a country in its public debt management as the increased foreign exchange earnings, will assist a country in meeting its public debt obligations.

There is a good case for the donor and creditor community to consider the Japanese form of aid as presented in the above case studies to countries such as Zambia to enable them overcome permanently the problems of the external public debt overhang. It is important also that the recipient country builds capacity to manage the aid. The case where Zambia abrogated the assistance by failing to collect counter value funds justifies the need for Zambia to improve its performance capacity.

The government of Zambia generally benefited from direct donor and creditor support in from reducing its external debt service. One most constraining factor to public debt management was the inadequacies of the Zambian government's administrative system to manage effectively and efficiently the aid and general economic programmes. This led to donors reducing on their support to Zambia particularly with respect to balance of payments support. Secondly, the aid was insufficient. This later constraint of the aid being inadequate, meant that public debt management continued to be a problem in Zambia as the aid did not create sufficient conditions for the country to exit from the aid and debt overhang.

A fact that was established by the study in Zambia was that the links between the donors and the government over the period under study undermined the prospects for Zambia's

capacity to manage its public debt efficiently and effectively as well as allow the economy to grow sustainably because of conditionalities placed on aid in general and balance of payments support in particular. A further factual realisation was that Zambia could not exit from aid unless it also exited from debt. The two aspects were inter-related.

CHAPTER 8

CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION

This chapter knits together the various themes which the study identified, summarises the lessons to outstanding problems, and offers recommendations for the possibilities of improving public debt management in Zambia. The chapter is presented in five sections, namely, the evolution of public debt, policy constraints, management capacity, the legal and institutional framework, the impact of foreign aid on public debt management, and the need for Zambia to devise a national debt management strategy.

EVOLUTION OF ZAMBIA'S PUBLIC DEBT

It is clear from the discussion in this study that there were many factors that constrained Zambia's public debt management between 1991 and 2004. With respect to the evolution of the public debt, the analysis showed that Zambia had an excessively high stock of both domestic and external public debt which tended to adversely impact on national and economic development in general and public debt management in particular.

Domestic Public Debt

With respect to the public domestic debt, the study showed that the huge domestic debt that the country accumulated yearly between 1991 and 2004 negatively impacted on effective and efficient management of the public debt. As at the end of 2001, the country's domestic debt to local creditors stood at ZMK3, 942 Billion against the stock of

ZMK3, 220 Billion that was recorded in 2000 showing an increase of 15.8 percent over the period.³⁸⁰ The public domestic debt rose rapidly reaching ZMK5, 187 Billion in 2004. One disturbing feature of that rise in domestic debt was that most of the domestic debt was on account of excessive government borrowing from the public in form treasury bills and government bonds. In 2004 for instance, ZMK4, 239 Billion or about 80 percent of the total domestic debt of ZMK5, 187 Billion represented government borrowing. The negative impact on the economy included the distortions it had on interest rates which were too high and the crowding out effect on the private sector as well as inflationary effects.

As regards the analysis of the evolution of Zambia's domestic debt, the study showed that it too had progressively evolved to huge unsustainable levels which tended to impact negatively on interest rates and the financial sector. The study showed how Zambia's fiscal policies were constrained by the need to service the domestic public debt.

In suggesting recommendations on Public Domestic Debt Management, it is noteworthy to acknowledge that between 1991 and 2004, Zambia had no medium or long term plans for managing its domestic public debt.³⁸¹ However, by the end of 2004, it had become apparent that government had no option but to address the problem of the huge unsustainable domestic debt as the government was unable to redeem the debt and tended to accumulate expenditure arrears. The study has recognized that determination of the domestic debt management and reduction strategies were important and had to be

³⁸⁰Zambia, MoFNP 2003 Zambia Domestic Debt Policy and Reduction Strategy, Lusaka, Zambia p4

³⁸¹ Zambia, MoFNP, 2004 Zambia Debt Sustainability Analysis Report, Livingstone, Zambia. November

addressed in order to make the domestic debt sustainable. Several options were identified which the government did not use to make domestic public debt management effective and efficient. These were as follows;

1. Domestic Arrears were not dealt with by the government because of the failure to ensure that the Commitment Control System (discussed as a case study and presented as an addendum to Chapter Six of this study)³⁸² was observed by all spending agencies. The strict observance of the Commitment System would have prevented the accumulation of arrears. Specifically, all arrears should have been categorized on the basis of interest rate profile. The fixed, variable and compound interest rates bearing arrears should have been liquidated. It was also advised that the government should have introduced an interest, an anchor in public works contracts to insure uniformity.

2. The government could have re negotiated terms of all outstanding debts with creditors with a view among others, to reduce outstanding interest amounts payable, increase the grace periods before starting charging interest and reduce commercial interest rates on any outstanding debts and lastly, persuade creditors to use these negotiated interest rates.

3. As regards the methods of payment to liquidate the arrears, the government could have securitized domestic arrears through instruments designed to reduce various types of risks on the government balance sheet.

³⁸² Zambia, MoFNP 2003 *Inspection Reports on the Functioning of the Commitment Control System (CCS) in Line Ministries* (Produced by Subh Ram Shivrain, IMF Resident PEM Advisor), Lusaka, Zambia, 5 September

4. As concerns line ministry arrears, controlling officers could have been compelled to ensure that arrears did not accumulate beyond what was budgeted for and that the Ministry of Finance and National Planning monitored the way all line spending agencies administered their funds.

5. The government debt to the Bank of Zambia could have been addressed by ensuring that in each budget year, a provision was made to cater for the payment of the Principal amounts of the bridge loans so that the burden on interest was reduced. Alternatively, money to settle the Kwacha bridge loans should have been sourced from co-operating partners or negotiate to convert the debt owed to the Central Bank into long term security at favourable interest rates.

6. With respect to government securities, it was important to separate fiscal and monetary issuance of government securities could have been separated. This state of affairs was important as it insured that government paid interest only on the securities issued for government financing. This strategy would also have brought interest costs and interest on the budget down.

7. As concerns parastatal debt and other contingency liabilities, debt swaps and debt restructuring were good strategies to ensure that this type of public debt did not distort the annual budget of government.

8. In addressing arrears on statutory contributions such as those involving arrears to Pension Funds, a provision in the budget should have been made without fail to clear all arrears and be current with all liabilities. It was morally unacceptable, in fact a violation of retirees rights for government to fail to honour its obligations to its pensioners and other statutory contributions.

9. With respect to compensation and awards, in order to eradicate the problem of continuous accumulation of arrears as a result of litigation against government, it was important to pay all principal sums in full after judgement. It was important to negotiate with claimants on discounts and payment schedules to avoid unnecessary interest accumulations.

10. As regards the issue of domestic debt reduction strategies, the government should have devised strategies to reduce domestic debt pressure on the national budget and prevent domestic debt related macro economic distortions to arise such as rising interest rates that in turn tended to deter investments and fuel inflation, and limited the government social expenditure as well as crowding out of the private sector. One strategy of eliminating the domestic debt overhang was to set up a Domestic Debt Fund. The government could have solicited the assistance of co operating partners to establish such a fund. When established, the fund could have been used to reduce the debt by enabling the buy back of public debt at agreed discounts. The other strategy could have been to ring fence privatization receipts or securitize the debts.

11. With respect to the sustainability of the public debt in Zambia during the period of study, Zambia's external public debt sustainability, as defined by the Breton-Woods institutions was clearly inadequate to explain public debt management in Zambia³⁸³. Debt Service drained from Zambia the much needed resources from social priorities and in such an environment, it was morally unacceptable from the point of view of human rights to continue servicing any foreign debt at the expense of spending on education, health and water and sanitation. For an individual, debt is financially unsustainable when it is impossible to keep up with the payments. For Zambia, as is for other HIPC countries, the study argued that debt was morally unsustainable if instead of addressing human rights obligations, the income of a country such as Zambia is used to service external debts. The study argued that without unequivocal external debt cancellation coupled with home grown development policies geared towards expanding the productive sector of Zambia's economy, the debt crisis would never be sufficiently addressed.³⁸⁴

12. As regards domestic public debt sustainability, this study investigated whether Zambia's domestic debt over the study period was consistent with a sustainable fiscal policy. The study showed that the debt was unsustainable. The study suggested some solutions to the domestic debt stock. First it was important that Zambia reduced its rate of inflation. The high inflation rates in Zambia tended to push and keep interest rates up which in turn worsened the magnitude of the debt stock. Secondly, the country could establish buy-back schemes to reduce the stock. This could be established by creating a domestic debt fund, ideally funded by the EU or any other donor, Thirdly, the Bank of

³⁸³ Zambia, MoFNP, *2004 Zambia Debt Sustainability Analysis Report*, Lusaka, Zambia

³⁸⁴ Chipika et al 2000 *Structural Adjustment in Southern Africa* (SARIPS of SAPES, Harare, Zimbabwe)

Zambia could change the maturity profiles of the debt instruments. Fourthly, there was also a possibility of externalizing the debt. This measure would transfer the debt and its distortion implications to external debt.

External Public Debt

The country's external debt burden grew at a high rate during the study period. This study has shown that from US\$ 3.7 million in 1992, the debt reached US\$ 7.2 billion in 2004.³⁸⁵ Between 1995 and 2004, the external public debt fluctuated between 7 and 7.2 billion United States Dollars annually. While the absolute size of Zambia's debt was important, more relevant was the weight that the debt imposed on the Zambian economy. The study showed that the burden became heavier and heavier, even as the stock of outstanding debt remained more or less constant. Annual repayments of loans and interest as a percentage of current receipts or the debt service ratio remained high at 55.9 percent in 2001, 54.9 percent in 2002 and 49.4 percent in 2003. The study also showed that Zambia's Debt /GDP ratio which showed the magnitude of external debt to domestic output over the period under study was very high showing that, the country's debt was unsustainable.

The study recommended that, Zambia should have devised and implemented creative strategies to bring about external public debt reduction so that the high debt stock and rising debt service burden would not have such negative impact on economic growth. The study recognized that the HIPC and other traditional relief mechanisms such as debt restructuring, debt rescheduling, debt buy-backs, interest options and various debt

³⁸⁵ IMF, Zambia : Selected Issues and Statistica Appendix 2004, 2006

conversion schemes like debt-equity swaps, were useful initiatives in helping to reduce debt servicing but were rather limited in providing long lasting solutions that would address the problem of Zambia's external debt overhang. It is clear from the study that the debt overhang in Zambia during the study period was a major constraining factor for economic growth. Full debt cancellation could have increased Zambia's potential fiscal space for growth-enhancing and poverty eradication programmes.

Clearly, Zambia's external debt needed to be outrightly cancelled while its domestic debt needed to be reduced. The study recommended that Zambia needed to have a debt policy whose objectives should have been to reduce the debt overhang and to prevent the renewed build up of debt beyond prudent levels and maintain credit worthiness.

POLICY CONSTRAINTS

With respect to policies on public debt management, the study observed that debt reduction was a necessary but not a sufficient initiative to address the public debt overhang of Zambia. It was shown that even if under ESAF, HIPC and other initiatives, Zambia was able to achieve write off of its debt stock, while the underlying economic policies and management practices remained unaltered, the reduction of debt alone was unlikely to benefit the country's debt management capacity as well as Zambia's economic prospects. Sooner or later, the country would find itself in the midst of another debt crisis.

The study contended that debt was only a symptom of larger economic problems. Lack of diversification and competitiveness of the economy was a major constraint to creating a sustainable debt strategy let alone a sustainable poverty eradication strategy. As shown in the study, Zambia spent about seven percent of its GDP as debt service annually. This expenditure from its meagre resources robbed Zambia of its potential investable surpluses which should have best been used to address the human suffering from poverty and disease of the more than seventy percent of Zambians who lived below two dollars a day. It was imperative that the country's external debt was out rightly cancelled.

Between 1991 and 2004, it was shown in chapter three of this study that domestic debt increased its share in the total public debt as the shortages of foreign exchange forced government to borrow from the local market. The country suffered greatly by way of the so called "crowding out effect", high interest rate burden and balance of payments constraints.

It is important in a country that wants to effectively address the public debt crisis to have a comprehensive economic growth policy and strategy. The macroeconomic frameworks that can help an economy take off are well known. The starting point of economic and social progress is the systematic accumulation of capital and its productive investment. To achieve growth, not only are capital formation (including investment in both physical and human capital) and technological process needed, but also certain changes in the social and institutional settings are required. However, capital formation is the central

objective. And this is best done from domestic savings rather than from debt contracting. Savings will mean a country generating investable surpluses, that is, to consume less than one produces or earns. Capital formation through the investment and re-investment of profits will result in the enhancement of these savings.

One universal and inescapable assumption which many policy makers agree with is that progress begins when a society consumes less than it produces and uses its surpluses to make or acquire tools and uses tools in productive investment. Arthur Lewis (1954)³⁸⁶ in his famous article published in 1952 explained the importance of domestic savings in development in this way; ‘The central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 percent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 percent of national income or more. This is the central problem because the central fact of economic development is rapid accumulation (including knowledge and skills with capital). We cannot explain any industrial revolution (as the economic historians pretend to do) until we explain why savings increased relative to rational income. Rostow (1960)³⁸⁷ took up the same point and also set at 12 percent the capitalisation rate necessary for starting up under developed economies.

³⁸⁶ Lewis, A. W. (1954) Economic Development with Unlimited Supplies of Labour (in) Manchester School of Economic and Social Studies, XX11, Number 2, May

³⁸⁷ Rosrow W.W. (1960) **The Stages of Economic Growth: A Non Communist Manifesto** (Cambridge University Press, Cambridge)

The example of Japan provides a good case to amplify the historical necessity of savings to jump-start an economy. After the Second World War, Japan was by and large worse than Zambia. Its cities had been levelled, its factories destroyed, its human resources demoted and its financial institutions decapitalised. Japan, though a deliberate policy of encouraging savings and utilizing these savings in productive investment was able to accumulate investable surpluses that allowed it in due course of time to become a developed industrial state. Japan was neither provided with a Marshall plan as was the case with European countries after the 1945 war nor was it provided with any aid program. There was also nowhere that Japan could borrow from abroad.

Drunker (1994)³⁸⁸ noted that Japan believed that domestic savings were the sole source of capital for the recovery of the Japanese economy. Japan chose to use taxation and also a tax-exempt voluntary savings plan to assist in the task of capital accumulation. Drunker observed as follows: “Interest generated by deposits at savings banks be tax free up to limit of 3 million yen per program. In Japan of that era (1950s), this was an astronomical sum that only the richest 2 percent could earn: 25 times the average annual income (.....) Inflation disappeared within a few weeks. Six months later, the rate of savings turned positive and has remained so ever since. At the same time, tax revenues also began to rise. When these tax-free savings accounts were eliminated in 1988, almost all Japanese, rich or poor, had at least one (some had as many as 20, since the limit of one account person had never been enforced). These savings made it possible to finance the

³⁸⁸ Drunker P, **The Secret of Japanese Success** Quoted by Gelinias, Jacques (1998) *Freedom from Debt* (Zed Books, London) pp 88-90

Japanese economy's growth and its appetite for export. It also explains why, a fact without precedent in modern history Japan was able to develop without borrowing abroad." It is because of this success that Japanese saving habits let them to consider indebtedness to foreigners as a form of slavery.

Zambia can and should learn from this experience. The need to use local savings and direct them into productive uses is an unavoidable historical necessity. The idea of obtaining needed investment resources from abroad in form of loans for unproductive use without value addition simply drives countries in unsustainable debts and poverty. For Zambia, it is important that this issue of deciding on how to raise investable surpluses is important and once decided must be given full political support from the highest political levels to the success of any efforts to strengthen debt management capacity.

In general terms, in order to improve Zambia's public debt management, the country needed an integrated growth strategy to tackle not only the broad problem of poverty and underdevelopment, but also the need for the country to earn sufficient foreign exchange and widen the tax base of the country. Aspects of such a strategy must involve the rejuvenation of the mining industry, the expansion of agriculture and the development of services. However, all these must be anchored on a rejuvenated manufacturing sector. This is the major policy challenge for Zambia. The details for this policy recommendation are a subject for further study.

With respect to borrowing policy between 1991 and 2004, the country did not have a sound policy framework for new borrowing that could have helped Zambia avoid accumulation of unsustainable debt. The country had no explicit restrictions on new borrowing apart from the limits which was established in the context of SAP programs. During the period of study, Zambia contracted extra debt to finance its balance of payments gaps on its current balance or on its capital balance. It also borrowed domestically. As regards external borrowing, the dangers and disadvantages of Zambia's external debt were discussed in Chapter three of this thesis. The external debt became very expensive for Zambia especially as the local currency, the Kwacha, was devalued. Zambia failed to hedge against exchange rate risk and this was worsened by the fact that Zambia did not possess expertise and skills to assist in debt management. As noted in Chapter three of this thesis, Zambia's external indebtedness was very high averaging above 50 percent of GDP – equivalent to two and half times of exports.

This study recommended that the Zambian government should consider borrowing more from the domestic money market than from external sources. Whatever arguments against borrowing domestically such as limited pool of funds and risks of crowding out the private sector and confidence issues, domestic borrowing was still far better than external borrowing. In domestic borrowing from internal savings, there are no exchange risks. One can implement measures to attract local investors and more importantly, a country would build its own national money and capital market. It is highly recommended that a country such as Zambia must develop its domestic market in government securities with which the public sector can fund its borrowing cost-

effectively. Government domestic borrowing together with tight budgetary policy appears to be the best option to free resources for capital investment. However, even domestic borrowing must be in sustainable levels so that it is repaid when it falls due without rescheduling.

MANAGEMENT CAPACITY

With respect to management, the study identified as a major shortfall, Zambia's debt management capacity and argued that effective debt management required a capacity to monitor and manage a country's debt comprehensively and efficiently. In addition to a well-defined legal and institutional framework to monitor the contracting of loans, their utilization and repayment, the country needed to have in place other requirements such as effective and efficient administrative arrangements for the compilation of data required for debt monitoring and management; facilities for the storage, retrieval and analysis of debt data; the organizational arrangements for debt management which involves the creation a staffing of a Debt Management office in an appropriate location outside the Ministry of Finance and National Planning and the Bank of Zambia; Training in aspects of debt management that are relevant to the needs of the country.

The study observed that both the Ministry of Finance and Bank of Zambia had full staff levels. However, the respective public debt management departments at the two institutions lacked skills in public debt management such as debt recording, loan disbursement and servicing procedures, and financial and statistical skills in debt analysis. The two institutions had no policy on training and retention of staff in their

respective debt departments. At the Ministry of Finance and National Planning, unlike the Bank of Zambia, the debt department also lacked adequate equipment and materials including financial resources. The conditions of service were relatively poor and this accounted for the high labour turnover.

The study recommended the need for Zambian public debt authorities to emphasize training of human resources and providing adequate incentives to staff involved in public debt management. Furthermore, clear responsibilities needed to be assigned to officers. It was important to conduct in house training both in computers and the internet and equip staff with adequate computers. As it is appreciated, easier access to loan data facilitates processing and control of claims and may result in savings. The computerized system would provide tools for greater transparency and better accountability in the case of borrowed funds. In an effective and efficient system, data was supplied in a steady stream, loan documents were handled and stored for easy access by central data units, the units themselves had legal authority to collect the data, and administrative routines were established and vigorously observed. Above all, members of staff with right qualifications were available in sufficient numbers to register and report on debt data. All these innovations would assist improve Zambia's public debt management.

The study also recommended that the government should establish policies to manage these risks. Policies in such areas as borrowing, management of foreign currency and short-term debt and cash management should be written and be implemented.

With respect to risk management, the study recommended that Zambian authorities develop a framework to ensure that staff of the public debt office/s were able to identify and manage the trade offs between expected costs and risk in government debt portfolio. It was also important that public debt managers regularly conducted stress tests of the debt portfolio.

With respect to staffing matters, the study identified human resource constraints in public debt management as being central in adversely affecting efficient and effective public debt management in Zambia. During the period of study, the country had insufficient and inadequately trained staff particularly at the Ministry of Finance and national Planning where staff in the Investment and Debt Management (IDM) department was very lowly motivated. Because of this, the department suffered high labour turnover. To improve public debt management in Zambia, it was evident in the study that the country had an obligation to increase staff numbers in the IDM department and enhance staff motivation through a combination of training and improved working conditions.

Organisationally, this study recommended that Zambia considered establishing a Public Debt Management Office as a statutory body with clear mandate embodied in legislation. The division of functions that were identified by the study between several centres such as the Investment and Debt Management offices, the Accountant General's office, the Bank of Zambia and so on did not lend themselves to efficient co-ordination.

It was further recommended that the Zambian government consider setting up a public debt policy committee to have the mandate and power of setting up annual borrowing plans and public debt management strategies. Such a committee should be able to monitor debt indicators and ensure that they were being complied with.

It was also important that the staff of the public debt management office had knowledge and experience in loan operations and accounts, computing skills, familiarity and knowledge of the work of money markets, capacity to undertake debt analysis and capacity to analyse the debt profiles of Zambia with a view of improving public debt management. For all this to be put into practice, the policy makers had to ensure that the debt management personnel were highly trained with good conditions of service.

LEGAL AND INSTITUTIONAL FRAMEWORK

With respect to the legal and institutional framework, the study provided evidence that showed that the legal and institutional framework for public debt management in Zambia was weak and was susceptible to manipulation by a few government officials. Parliament was marginally involved while the Attorney General and the Auditor general could not offer effective checks and balances as they were part of the executive arm of government.

The study showed that although Zambia had a legal and administrative framework for the management of its public debt, it had several weaknesses. First, external private sector data was not being recorded after the suspension of exchange controls in 1994 and lacking this information impeded planning as Zambia did not have complete records of

the private external debt. Secondly, Zambia had no central depository of original loan agreements and this hindered access to debt records. Thirdly, Zambia had no national policy on public debt contraction and management.

The study made the following recommendations to improve the legal and institutional framework. First, it was recommended for Zambia to provide in its constitution the need to set up a Public Debt Commission to oversight public debt contraction and management and also to establish a Debt Management office outside the Ministry of Finance and Bank of Zambia.

During the period of research, debt management arrangements in Zambia were scattered in many departments. Responsibilities for debt servicing were split across such units as the Investment and Debt Management Department of Ministry of Finance and National Planning and the Economic and Technical Co-operation department of the same ministry which dealt with multi-lateral institutions, the Budget Office of the same ministry that also conducted payments, the Accountant General's office that dealt with some aspects of the domestic debt and the Debt Management Department of the Bank of Zambia and so on. Co-operation and collaboration among these different agencies was weak and information flow poor.

The study also found that debt data recording systems in all the departments was also inadequate. Loan records were incomplete making it difficult to reconcile statements

with creditors. Other deficiencies included low quality human resources and lack of debt management strategies among others.

The study recommended the creation of a Debt Management Office (DMO) to consolidate all debt management functions in one agency, and ensure consolidation in terms of debt recording and management activities, including debt service forecasts, debt service payments and advising on debt negotiations as well as new borrowings.

The study argued that public debt management and monetary policy must be separated in recognition of the complexity of active debt management and the need to professionalize debt management and accountability. A relatively autonomous public debt office would be charged with the responsibility of proposing for budget purposes, an annual public debt strategy, public debt statement, and a funding plan.

Furthermore, the study argued that it was important to ensure that Parliament was given constitutional powers to approve all loans prior to actualization. This was important to ensure transparency and openness. It was also recommended that there was need to streamline the law to ensure that all legislation relating to the public debt is reflected in one Act of parliament and authorized by the Constitution.

With respect to the legal framework of domestic debt management, the following measures could be introduced to improve the legal framework. First, the broad target of K5 trillion set up by CAP 366 of the laws of Zambia that was allowable for the Minister

of Finance to borrow domestically was too high and unrealistic. It was better that borrowing authorization was limited to purpose as reflected in budget estimates and not to amounts.

Secondly, the study recommended that the law on public debt management needed to clearly indicate that the Minister of Finance alone was responsible for contracting public debt and that as part of the budget submission, the Minister of Finance was obligated to ensure that a Public Domestic Debt Statement and the Public Domestic Debt strategy statement were published as well as the Gross Funding Plan for the government.

In conclusion, it is important that in seeking to improve the legal and institutional framework for debt management in Zambia, it is advisable to address the defects in both the law as well as the structural/institutional framework. Firstly, the law on public debt management must be consolidated into one set to provide among others, criteria and conditions under which debt can be contracted, limit on sources of loans, and interest rates applicable, a time limit on the life of loans, ceilings on government borrowing, debt service strategy, gazetting of loans and their terms, punishment terms to defaulters and so on. Such a comprehensive law should centralise the ability to borrow in the name of the Republic in only one institution, namely, the Ministry of finance. Furthermore, the law should specify that the Minister of Finance could be accountable to the National Assembly and the general public.

Secondly there was need to have standing rules, guidelines and producers for contracting, monitoring, evaluating, debt negotiation, and reporting the performance of government investment and public debt portfolio.

Thirdly, the public debt office or a Debt Management Commission must be established as a statutory institution to be composed of well trained and motivated debt negotiators and managers. The Commission should have power to approve loans before a Minister signs a contract. Taking into account all issues related to the legal regime and accountability.

And fourthly, the whole public debt management process must be over sighted by both cabinet and Parliament. This requirement must be reflected in the public debt management Law which is recommended for enactment.

Whereas, the institutional framework was provided for in the statutes of the Republic, the application of the law and regulations was the major problem for public debt management in Zambia. Many times, these institutional provisions were not followed during the period 1991- 2004. Public debt, particularly domestic debt, was contracted without the Attorney General giving a legal opinion. Controlling officers often procured goods, undertook works and services thus incurring public debt without a legal opinion of the Attorney General.

Ordinarily, the Attorney General as Principal Legal Advisor to the government was supposed to give unbiased legal opinion on all contracts of government. However, it was

not so in Zambia between 1996 and 2001. The example of callable guarantees presented above is a good example where the Attorney General gave favourable legal opinions to loan contracts that were in all respects faulty.

Even if granted that a loan to be contracted needed the opinion of the Attorney General, it could be questioned whether the Attorney General was the best person to give a legal opinion on government debt contracting. Since the Attorney General was a Civil Servant, that is, the office was part of the Executive; the Attorney General may not be well placed to give an independent legal opinion. His or her independence was compromised by the fact that he was an appointee of the President and therefore political expedient considerations may outweigh professional considerations if the President and his Minister of Finance needed to secure a loan however onerous the loan could be. This was why in many democracies; the office of Attorney General was a constitutional office and independent of political compromise by the executive of the day.

ZAMBIA'S DEPENDENCY ON FOREIGN AID

As concerning foreign aid, the study showed that direct donor and creditor support to Zambia to reduce its external debt service was high and resulted in the improvement of Zambia's reputation as a creditor nation. It helped in reducing Zambia's external debt service obligations to a more feasible level. Any debt freeze as happened in 1997 and 1999 created serious balance of payments pressure and external debt service difficulties on Zambia.

The empirical results in the study indicate that the flow of aid into Zambia did impact positively on public debt management in as far as it influenced the government's spending plans. It stimulated development spending. A Kwacha increase of aid led to many Kwacha in additional government spending. It was on this basis that the study proposed a 100 per cent scaling up of aid and the cancellation of all external debt to support Zambia's development efforts. The objective for scaling up aid would be to enable a country such as Zambia that is highly impoverished and indebted to improve on its capacity to develop export industries that will enable it earn sufficient foreign exchange which in turn will enable the country improve on its public debt management and exit the debt trap. In agreement with this perspective, a UNDP study³⁸⁹ noted that such a proposal would create an economic system in Zambia which would enable both the public and private sectors to be sustained by the country's resource base and perform in such a way that would raise economic output to enhance the welfare of all Zambians and more importantly to increase the quantum of export earnings to address the debt overhang.

The study recognized that Zambia could never escape from debt and aid unless it stopped borrowing. This study viewed that debt relief of all types including that provided under the HIPC initiative was a positive measure that would remove a major part of Zambia's foreign debt. However, in the long term, Zambia needed to adopt a strategy of self-help and to take full responsibility for its own development.

³⁸⁹ UNDP (2006) Economic Policies for Growth, Employment and Poverty Reduction: Case Study for Zambia Volume 2 , Main Report (UNDP, Lusaka, Zambia)

The study noted that a major constraint that constrained Zambia's public debt management was the persistence of donorship³⁹⁰ which placed conditionalities upon lending from external agencies. These conditionalities limited Zambia's policy space in which it could make discretionary decisions to affect economic management. The country suffered from aid dependency and its national policy making was undermined. As shown in Chapter Seven of this study, between 1991 and 2004, for instance, direct fiscal conditionalities included a) deficit limits, b) a cap on amount of public sector wages in GDP, and c) "cash budgeting." The last which limited expenditure to Ministries and Spending Agencies was particularly distorting for policy implementation. The UNDP³⁹¹ reported that "The Cash limit was particularly dysfunctional and irrational for capital projects, whose expenditure requirements were often 'front loaded', leading to interruptions in the construction process. These interruptions resulted in abandoning projects in process." It is, however, correct that the HIPC initiative brought to Zambia a debt relief dividend in that the external debt was reduced together with the debt servicing associated with it. This study's argument is that full debt cancellation would have increased the potential for fiscal space.

To create fiscal space to facilitate sustainable public debt management, it is necessary to abolish the doctrine of conditionality by the cooperating partners and allow for discretion for policy implementation by recipient countries like Zambia. As noted earlier in this

³⁹⁰ Weeks, John 2006 Conditionality, Development Assistance and Poverty (in) Alberto Paloni and Maurizio Zanardi (eds) The IMF, World Bank and Policy Reform. Abington, UK: Routledge

³⁹¹ UNDP (2006) Economic Policies for Growth, Employment and Poverty Reduction: Case Study for Zambia Volume 2 , Main Report (UNDP, Lusaka, Zambia)p 130

study, it is also important to scale up aid. Domestically, it is recommended that Zambia should have increased its tax revenue by expanding the tax base. Furthermore, there was no harm in borrowing domestically from the public as long as the debt could be paid when it fell due.

THE NEED FOR A NATIONAL DEBT MANAGEMENT STRATEGY

In general, the study can conclude that Zambia's public debt management constraints during the period 1991-2004 showed that the country had not given due attention to the need to have effective and efficient system of public debt management. The establishment of an effective and efficient public debt management system is a major element in sound economic management strategy, because of the crucial link with both fiscal and monetary policies as well as overall macroeconomic management.

The experience of many countries underlines the need for sound macroeconomic policies, fiscal discipline, and a prudent and consistent debt management strategy and policy.³⁹²

Some major issues raised in this study but not investigated will need to be done to have a comprehensive view of the constraints of public debt management in Zambia. Additional work is required with appropriate models to show the impact of both external and domestic debt on economic performance, the relationship of external debt and capital flight and the challenges that a country such as Zambia faces in insuring that it has a public debt that is sustainable.

³⁹² IMF, World Bank 2003 Guidelines for Public Debt Management: Accompanying Document and Selected Case Studies, Washington D.C. USA

The study recognized that there were many factors that could impact on the debt management strategy and which had to be considered before hand such as the political will of the government and the need to conduct an assessment of the political economy of Zambia in order to appreciate Zambia's capacities in terms of technical, administrative and financial resources necessary to promote a sustainable development project in Zambia.

In the light of issues identified in this study, it was recommended that the debt management strategy for Zambia should have included the following:

1. Zambia should have pursued vigorously all options for debt relief, including outright cancellation and increasing ODA support.
2. The country should have continued pursuing economic policy reforms in many areas such as addressing issues of the prohibitive cost of doing business, transparency and accountability, macroeconomic stability, infrastructure development, good governance as these reforms could ensure sustainable growth of the economy and constitute a sustainable exit strategy from debt and poverty. These reforms would also encourage the return of the flight of capital and the transfer of domestic savings abroad.
3. The country should reform the legal, institutional and administrative framework to ensure effective and efficient utilization of resources so as to prevent waste and inefficiencies.
4. The country should have put appropriate mechanisms to check the rise of domestic debt. Enforcement mechanisms for the Commitment Control System should have been designed.

5. The government should have audited all the debt and some of it was odious and therefore needed not to be paid.
6. The country needed to place a moratorium on all external borrowings until it developed a National Debt Policy.
7. The country should have domesticated technical assistance to stop capital flight as this merely funded expatriate consultants.
8. The country could have adopted relevant best practices such as political commitment to sound debt management, a clear legal framework, efficient and effective coordination among government agencies, participation of civil society, sound and effective management information system, sufficient numbers of well trained and motivated staff, capacity building plans, and keeping up with developments in international best practices.
9. The country should have developed a National debt Strategy anchored on a debt sustainability analysis which should have been validated through consultation with civil society.

The study further recommended that the country consider coming up with a 5 year, 10 year and 20 year national development plans to promote growth and development that would achieve reductions in the flow of foreign aid from the levels of about 20 percent of GDP to about 2 percent of GDP which was the universally recognized and accepted level. For this to work well, the government had to explore the issue of domestic savings. Basically, the exit strategy called for the government to cut and simplify its development agenda. This entailed a major reduction in the size of government as measured by

revenue and expenditure. The government would need to concentrate on the main factors that promoted growth and development.

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APPENDICES

Appendix 1

IMF and World Bank Operations in Zambia 1973 –2004

Date	IMF	World Bank
1973	One year standby agreement	Programme loan for 1973 oil price shock
1976	One year standby agreement	Programme loan as copper prices fell
1978	Two year standby agreement	First IDA credit
1981	Three year Extended Facility	
1982	Extended Facility cancelled	
1983	One year standby	Disbursements suspended because of arrears
1984	21 month standby agreement	Project loan for copper sector
1985	Standby suspended	First SAP loan
1987	Zambia cancels programme	Zambia cancels programme
1991	IMF suspends lending to Zambia	Bank suspends lending to Zambia
1992	Rights Accumulation programme	Arrears to Bank cleared by Zambia
1995	Three year ESAF, one year SAF	ERIP agreed US\$1,300m
1999	Three year ESAF US\$350m	Sectoral and project loans
2000	HIPIC Decision Point	Sectoral and project loans
2004	PRGF loan of US\$320	

source: IMF and World websites

Appendix 2

Zambia Development Indicators

	1980	1990	1995	1999	2002
GNP (US \$ billion)	3.671	3.645	3.466	3.385	3.500
Population ('million)	5.647	8.110	9.364	10.486	10.8
GNP per capita (US\$)	650	449	370	322	340
Human Development Index	0.467	0.460	-	0.431	
Life Expectancy at birth (years)	46	47	43	40	37
% of population not reaching 40 years	-	-	42	47	-
Infant Mortality (per 1,000)	90	107	-	113	102.0
Under five Mortality (per 1000)	149	175	-	202	182.0
Child Malnutrition	6	23	29	-	28.1
Formal Employment ('000)	527	543	483	478	
Access to safe water Percentage of population	48	-	37	38	-
Public Education Exp. % GNP	4.5	-	2.2	-	-
Primary Education Enrolment Ratio	77	-	-	72	-

Source: UNDP, Zambia: Human Development Reports (Several Years)

World Development Indicators Database, August 2004

Appendix 3
Comparative Economic Indicators between Sub Sahara African Countries
and others

		Sub-Saharan Africa	Low income economies	High income economies
1	Growth of per capita % 1980-1989	-2.2	2.3	2.5
2	Change of per capita private consumption (%) 1980-90	-14.8	31.3	24
3	Gross Domestic Savings as % of GDP, 1970	18	28	22
4	Gross domestic Investment as % of GDP 1990	19	31	22
5	Growth of Export volumes (annual %)	0.2	5.4	4.3
6	Growth of import volumes (annual %)	4.3	2.8	5.3
7	Change in terms of trade % (1985-90)	-9.1	-6.5	3.1
8	Gross International reserves in months of important coverage, 1990	2.3	3.4	3.1

Source: IMF, World Development Outlook (various issues)

Appendix 4
Average Real Per Capita GDP Growth Rate in Africa
(1960 – 2002)

Region	1961-1970	1971-1980	1981-1990	1991-1994	1995-2000
West Africa	1.86	1.05	-1.48	-0.53	0.68
Central Africa	0.13	1.34	0.97	-4.13	1.66
East Africa	0.32	-0.06	-0.23	-3.22	0.52
Southern Africa	2.21	0.94	-4.6	-1.68	1.77
North Africa	2.45	3.08	1.08	0.54	2.33
Sub Sahara Africa	2.57	0.76	-1.12	-2.02	0.73

Source: World Bank, World Debt Tables (2005), African Development Indicators

Appendix 5

Poverty in Sub Sahara African Countries (Alternative Classification schemes)

	COUNTRY	LOW INCOME (WORLD BANK)	LOW INCOME DEVELOPED (UNDP)	HEAVILY INDEBTED POOR COUNTRY (WB/IMF)
1	Angola	-	X	-
2	Benin	-	X	X
3	Botswana	-	-	-
4	Burkina Faso	X	X	-
5	Burundi	X		X
6	Cameroon	-	X	X
7	Cape Verde	-	-	-
8	Central African republic	X	X	X
9	Chad	X	X	X
10	Comoros	X	X	X
11	Congo Brazzaville	X	-	X
12	Congo Kinshasa	X	X	X
13	Cote d' Ivoire	X	X	X
14	Djibouti	X	X	X
15	Equatorial Guinea	X	X	X
16	Eritrea	X	-	-
17	Ethiopia	X	X	X
18	Gabon	-	-	-
19	Gambia	X	X	X
20	Ghana	X	X	X
21	Guinea	X	X	X
22	Guinea Bissau	X	X	X
23	Kenya	X	X	X
24	Lesotho	X	X	X
25	Liberia	X	X	X
26	Madagascar	X	X	X
27	Malawi	X	X	X
28	Mali	X	X	X
29	Mauritania	X	X	X
30	Mauritius			
31	Mayetta		NA	
32	Mozambique	X	X	X
33	Namibia		-	-

34	Niger	X	X	X
35	Nigeria	X	X	X
36	Reunion		NA	
37	Rwanda	X	X	X
38	Sao Tome and Principe	X	X	X
39	Senegal		X	
40	Seychelles			
41	Sierra Leone	X	X	X
42	Somali	X	X	X
43	South Africa			
44	Sudan	X	X	X
45	Swaziland			
46	Tanzania	X	X	X
47	Togo	X	X	X
48	Uganda	X	X	X
49	Zambia	X	X	X
50	Zimbabwe	X		

Source: World Bank (1996), African Development Indicators

Appendix 6

Zambia's Poverty Trends 1991-2003

		1991	1993	1996	1998	2003
Official sources	Ext Poverty Incidence (PQ)reme pov	582	60.6	53.2	53.9	46
	Poverty incidence (PQ)	69.7	73.8	69.2	72.9	66.5
	Poverty Gap (Depth – P1)	62.2	58.3	51.3	40.1	27.1
	Poverty severity (P2)	46.6	40.5	32.3	26.7	13.9
Alternative Calculations b	Extreme poverty Incidence	56.5	-	65.8	59.8	
	Poverty Incidence (P0)	68.9	-	79.4	75.4	
	Poverty Gap (depth – P1)	41.7	-	45.4	40.0	
	Poverty severity (P2)	30.6	-	30.7	25.6	
Alternative	Extreme poverty Incidence	57.0	-	68.6	55.8	
	Poverty Incidence (Po)	69.5	-	81.3	71.9	
	Poverty gap (depth-P1)	42.1	-	47.4	36.9	
	Poverty severity (P2)	30.9	-	32.3	23.1	

Source: Weeks et al, UNDP (economic Policies for growth: Employment and poverty Reduction: Case study for Zambia, Volume 2: Main Report (UNDP, Lusaka) P87

Appendix 7

Zambia's Calculations of Estimated External Debt as at June 4, 2003 (IN US\$ 000')

(as per MoFNP Calculations)

	DEBT OUTSTANDING	PRINCIPAL	INTEREST	TOTAL DEBT INCL. ARREARS
	(1)	(2)	(3)	(1+2+3)
Zambia's Creditor				
Govt & Govt Guaranteed Debt				
Australia	8,660.18	1,22.45	411.33	10,292
Brazil	64,615.55	2,295.60	8,023.06	74,934
Canada	35,964.78	13,493.75	9,034.65	58,493
France	82,198.80	26,919.61	13,467.90	122,586
Germany Fe. Rep.	353,396.39	125,532.93	43,728.56	522,568
Japan	555,356.78	37,655.80	42,939.30	634,952
Russia	138,466.71	287,631.95	119,474.60	545,573
United Kingdom	276,570.69	58,368.81	26,862.06	361,802
United States	249,955.00	8,691.32	29,883.01	288,529
Total Paris Club	1,846,883	581,951	298,782	2,727,616
Non-Paris Club				
Bulgaria	0.00	3,618.91	1,361.36	4,980
China	27,589.04	107,293.00	7,73.47	142,622
Czechoslovakia	0.00	0.00	0.00	0
India	0.00	11,067.28	3,893.12	14,960
Iraq	0.00	49,172.62	13,662.24	62,835
Romania	0.00	12,210.16	4,171.29	16,381
Saudi Arabia	0.00	0.00	0.00	0
Yugoslavia	2,968	44,827.74	6,181.68	53,978
Kuwait	340	0	0	340
Shelter Afrique	1,000	0	0	1,000
Total Non Paris Club	31,898	228,190	37,009	297,096
Total Bilateral	1,878,781	810,140	335,791	3,024,712
Multilateral Loans				
Africa Dev. Bank	83,568.37	.00	0.00	83,568
Africa Dev. Fund	244,630.69	0.00	0.00	244,631
BADEA/ABEDA	18,530.21	0.00	0.00	18,530
European Dev. Fund	38,235.12	0.00	0.00	38,235

European Inv. Bank	20,805.94	0.00	0.00	20,806
IBRD	4989.43	0.00	0.00	489
IDA	2,226,696.57	0.00	0.00	2,266,697
IFAD	25,199.80	0.00	0.00	25,200
OPEC	8,128.01	0.00	0.00	8,128
NDF	1,702.89	0.00	0.00	1,703
IMF Credits	1,065,112.75	0.00	0.00	1,065,113
Total Multilateral	3,773,100	0	0	3,773,100
TOTAL GOVT DEBT	5,651,881	810,140	335,791	6,797,812
Parastatal Private				
Debt Parastatal	8,432.00	24,402.00	11,030.00	43,864
Multilateral	500.00	11,767.00	8,065.00	20,332
EIB	63.00	32.00	1.00	96
IBRD	437.00	0.00	0.00	437
IFC	0.0011,735.00	9,064	19,799	
Financial Institutions	7,932.00	12,635.00	2,965.00	23,532
CDC	0.00	2,6997.00	1,493.00	4,190
DEG	0.00	884.00	161.00	1,045
Investec	467.00	9,054.00	1,311.00	10,832
KBC	7,465.00	0.00	0.00	7,465
Private	416.693	163,062	33.509	613,264
Multilateral	40,158	3,805	493	44,456
ADB	9,119	915	120	10,154
EIB	24,421	2,372	158	26,951
IFC	6,618	518	215	7,351
Financial Institutions	284,553	52,082	18,647	355,282
CDC	15,654	1,295	876	17,825
PTA Bank	3,103	1,682	2,026	6,811
DEG	0	458	58	516
FMO	235	2,647	314	3,196
Dev. Bank SA	9,700	0	0	9,700
Investec Bnk Ltd	0	0	0	0
Zambia Copper Inv.	165,000	10,000	13,084	188,084
Rand Merchant Bank	66,861	0	0	66,861
Dresdner Bank	24,000	36,000	2,289	62,289
Other Creditors	91,982	107,173	14,369	213,526
NORAD	609	0	0	609
NOSAD	0	125	15	140
Elworth Agencies	0	150	14	164
Freeway Supplies	0	1,023	31	1,054
Merasa Holdings	8,638	0	0	8,638
First Quantum	5,634	877	17	6,528
Southern Cargo Ltd	90	0	42	132
Anglovaal Mining	0	105,000	14,250	119,250
Chimimpexp	7,611	0	0	7,611

COMAFIN	750	0	0	750
IDC	18,000	0	0	18,000
KBC	9,700	0	0	9,750
AFRieXPLOS	900	0	0	900
CARLISA	15,000	0	0	1500
Glencore	25,000	0	0	25,000
Short Term Debt	16,483	158,652	0	175,135
BoZ Short Term	16,483	0	016,483	
Commercial Arrears	0	150,452	0	150,452
Pipeline Personals	0	8,200	0	8,200
Total Parast. & Private Debt	441,608	346,116	44,539	832,263
GRAND TOTAL	6,093,488.68	1,156,256.37	380,329.63	630,075

Source: GRZ, Ministry of Finance and National Planning ,IDM Department, Debt Analysis Worksheet, 2003

Appendix 8
Zambia Revenue (in % of GDP)

	90	91	92	93	94	95	96	97	98	99	2000	01	02	03	2
e	24.6	32.9	33	26.3	30.2	29.0	26.8	24.8	24.9	35.5	26.7	24.9	26.2	24.9	2
	4.5	14.2	14.7	10.5	10.1	9.2	6.1	5	6.5	7.9	8.4				
Total	17.5	43	44.5	40	33	31.7	22.3	20	26	31.8	31.5	32.2	31.3	30.9	2

Source: Zambia: Ministry of Finance and National Planning, Economic (Report, Various years)

Appendix 9
Zambia's GDP (change in %)

	90	91	92	93	94	95	96	97	98	99	2000	1	2	3	4
	-3.4	-0.6	+2.1	-0.2	-8.6	-2.3	6.6	3.3	-1.9	2.0	3.5	12.5	4.9	5.1	5.2
per	100	96.4	95.6	92.6	81.6	75.6	76.5	77.5	73.6	72.8	72.9				

Source: CSO Quarterly statistics

Appendix 10

Zambia's Terms of Trade and Copper Prices

	1990	91	92	93	94	95	96	97	98	99	2000-04
Terms of Trade Index (1990-2000)	101	105.9	94.5	82.4	89.1	99.5	76.8	93.4	83.8	79.1	89.6
IMF price Index	90	80	78	65	79	100	78	78	56	54	61

Source: IMF price Index services

Appendix 11

Zambia's GDP by Type of Expenditure (in % of GDP at Current Prices)

	1990	91	92	93	94	95	96	97	98	99-2004
Public consumption	14.8	16.2	17.9	13	13.1	15.5	18.3	17.5	15.8	13.4
Private consumption	68.7	75.4	82.8	75.8	79.5	72.3	76.4	73.2	80.3	87.7
Investment including change in stock	17.3	11	11.9	15	8.2	15.9	12.8	14.6	14.8	17.5
Trade balance	-0.7	-2.6	-12.6	-3.8	-1.0	-3.8	-7.5	-5.2	-12.5	18.6

Source: CSO, National Account statistics (Various Years)

Appendix 12

Zambia: Balance of Payments, 1995-2004 (In millions of US Dollars, unless otherwise indicated)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Current account balance	-463	-525	-471	-579	-429	-590	-727	--583	-593	-583
Merchandise trade balance	4	-60	54	-153	-99	-221	-342	-259	-242	82
Exports, F.O.B	1,198	995	1,110	816	755	746	884	916	1,117	1779
Metal sector	984	760	807	520	467	497	590	560	710	1322
Non metal	214	235	304	296	288	249	295	357	407	457
Imports, f o b	- 1,194	-1,055	-1,056	-971	-870	-978	-1,253	- 1,204	- 1,388	1727
Services, non factor (net)	-324	-250	-264	-197	-211	-225	-228	-245	-235	-215
Income (net)	-276	-210	-251	-223	-164	-158	-168	-155	-148	-424
Of which: official interest payments	-252	-198	-219	-192	-156	-155	-144	-137	-131	-121
Current transfers (net)	132	4	-10	-24	45	14	11	76	32	-25
Capital and financial accounts	43	296	412	285	452	355	510	324	355	251
Project grants	166	269	189	203	153	153	222	236	240	246
Official loan disbursement (net)	-104	-49	9	-45	121	14	-52	-53	-108	-205
Disbursement	234	206	190	91	284	247	180	181	134	110
Amortization (-)	-338	-255	-181	-136	-162	-233	-233	-234	-242	-315
Change in net foreign assets of commercial banks	-338	-255	-181	-136	-162	-233	-233	234	-242	
										-90

(- Increase)	-46	-22	-7	-35	2	-89	40	-5	70	
Private capital (net)	27	98	221	162	176	278	301	147	153	299
Errors and omissions, short-term capital	167	126	-137	-159	-180	4	-107	14	-28	47
Overall balance	-254	-103	-195	-453	-156	-231	-324	-245	-266	-332
Financing	254	103	195	453	156	231	324	245	266	285
Change in net int. reserves of BoZ (-increase)	40	-31	-49	246	-35	-49	-124	-225	-148	-44
Gross official reserves of (-increase)	65	-3	-52	194	-2	-68	0	-169	100	-28
Box liabilities	-21	-27	-11	52	-47	-7	-5	-6	-6	-6
IMF (net)	-4	0	14	0	14	26	-119	-50	-242	-10
Disbursements	2,253	0	14	0	14	26	94	173	0	248
Repayments	-257	0	0	0	0	0	-213	-222	-242	-257
Other foreign assets of the BoZ	-	-	-	-	-	30	-	-	-	-
Debt relief	37	310	159	122	443	259	417	458	379	264
Non HIPC initiative	37	310	159	122	443	217	170	171	154	245
HIPC Initiative, including IMF	-	-	-	-	-	-	266	266	236	19
Net change in arrears (+ increase)	176	-176	85	85	-251	-10	31	12	35	0
Memorandum items: Current account balance including grants (Million of US dollars)	-297	-282	-376	-276	-369	-369	-394	-246	-262	-292
Current account balance										

including grants										
(Percent of GDP) 7/	-8.5	-7.2	-7.2	-11.6	-8.8	-11.4	-10.8	-6.5	-6.2	-5.4
Copper volume (thousands of metric tons)	344	327	302	256	240	234	297	330	349	393
Copper price (US dollars per pound)	1.19	0.86	1.00	0.72	0.70	0.82	0.77	0.70	0.78	1.20

Source: Bank of Zambia (BOZ), Economic Indicators, (Various Years)

Appendix 13

Results of Workshop Organized by Ministry of Finance and National Planning (MoFNP)to assess Capacity Constraints of Zambia on Public Debt Management from 19-30 May 2003, Livingstone, Zambia

1. Laws specifying functions of most agencies were not comprehensive and up to date.
2. Legal provisions for defining requirements for public information lacked somewhat in comprehensiveness. No appropriate regulations for information flow among agencies.
3. No laws for evaluating and audit of debt management unit though ad hoc technical regulations existed.
4. Coordination was weak, responsibilities were not clearly defined and some aspects of debt management were not covered.
5. Laws defining parameters for debt contraction, guarantees and servicing were not available but out of date and not supported by implementation manuals.
6. Job descriptions existed but there was inadequate experience and training, motivation and compensation was low and staff assessment and development plan was inadequate.
7. Staff experience less than 3 years, not enough training & qualifications, virtually no analytical training because most of the staff were new.

8. Staff salary scales were the same as in the overall civil service since this was determined centrally.
9. Job descriptions did not cover all tasks and staffs were not clear.
10. There was ad hoc training, but no staff assessment and development plans.
11. No manuals of procedures in work unit systems and procedures.
12. Work planning was updated regularly but the monitoring mechanism was inadequate.
13. Capacity building plans were updated and implemented on an ad hoc basis.
14. Work units met less than quarterly. The flow of information was poor.
15. Inadequate working conditions, equipment, computers & office space insufficient; frequent shortage of supplies.
16. Lack of policy guidelines for political and technical coordination
17. Inadequate sensitisation on procedures for contracting finance and matching with high quality projects
18. Lack of analytical capacity for prospective new financing and new financing guidelines
19. Lack of policy guidelines to support loan/debt negotiation
20. Lack of capacity for identifying best financing available to the country
21. Lack of harmonisation of quality of government/donor procedures ad conditions
22. Delays from implementing agencies
23. System in place for identifying, reporting and follow up of non disbursing loans

24. Delays in meeting conditions precedent to disbursement
25. Incomplete training in report customisation
26. Under HIPC some creditors did not give Zambia the discount factor on a loan-by-loan basis. There could not be determined HIPC relief for each loan for Zambia to update
27. Some creditors never responded to Zambia's reconciliation requests
28. Insufficient analysts to carry out regular detailed portfolio analysis.
29. The Ministry of Finance and National Planning did debt service projections.
30. There was no reconciliation of debt service payments at the Ministry of Finance and national Planning especially for Government securities.
31. Debt service payments process in terms of Government securities was timely and apart from debt service on domestic arrears where Government pays the debt services only when funds are available
32. Government of Zambia had established the Commitment Control System (CCS) as a measure to avoid domestic arrears; however, the system needed to be effectively implemented.
33. Poor working relationship with scope for major improvement, poor preparation and inadequate information flow of political and technical coordinating bodies for renegotiation.
34. No procedures for renegotiating debt and signing agreements.
35. Very poor analysis made, no calculation of PV impact, consideration of wider debt portfolio as a result of lack of training.

36. Very little information used and documentation was poor, negotiations based mainly on staff experience.
37. Best terms often achieved in outcomes of negotiations
38. Macro agencies generally worked independent of each other and only came together during IMF meetings, due to failure by MOFNP management to lead in economic management.
39. Quality of economic data was out-dated and un-reliable due to inadequate funding and understaffing resulting in infrequent data collection and consistency checks.
40. Inconsistent and unrealistic macroeconomic projections, due to lack of reliable national models.
41. Failure to use international best practices in macroeconomic projections, due to lack of information and lack of a macroeconomic model.
42. Inability to know path of long term economic development, due to absence of long term projections
43. Knowledge gaps/lack of common understanding on poverty strategy and operations
44. Ineffective data collection systems, and low human resource capacity and funding
45. Inadequate monitoring and evaluation of activities implemented in sector ministries
46. Inadequate forecasting tools and limited staff training (exposure) in the area of forecasting poverty reduction trends

47. Inadequate forecasting tools and limited staff training (exposure) in the area of accuracy of poverty reduction forecasting
48. Ad hoc coordination among agencies for portfolio and risk analysis
49. Ad hoc analysis of concessionality and a risk for some loans, no policy conclusions drawn.
50. Ad hoc overall portfolio review, not user friendly, not comprehensive and detailed enough, little analysis of policy implications.
51. Very basic risk analysis if any (percentage of variable rate in the portfolio, currency composition, maturity), no conclusions on implications for policy
52. Some results achieved, particularly in debt restructuring, but not in risk prevention
53. Lack of awareness of importance of coordination
54. Zambia still had the old version of Debt Pro and only installed on a few machines
55. Lack of coordination to ensure that team to update debt strategy was active and up to date with its skills
56. Strategy document was incomprehensive due to little coordination on required information and lack of implementation of documented presented
57. Lack of adoption of 1998 DSA document by policymakers
58. Little debt management knowledge by political leadership
59. No transparency in debt management
60. No self evaluation of debt management capacities

Appendix 14
INTERVIEW GUIDE FOR RESPONDENTS

**CONSTRAINTS ON PUBLIC DEBT MANAGEMENT IN ZAMBIA 1991 –
2004 AND PROSPECTS FOR IMPROVED MANAGEMENT**

NAME: -----

INSTITUTION: -----

POSITION IN INSTITUTION: -----

**A. EVOLUTION, STRUCTURE AND CHARACTERISTICS OF ZAMBIAN
DEBT**

1.0 EXTERNAL DEBT

1. What has been Zambia's Debt Structure between 1991-2004?
2. What has been Zambia's Debt Service annually between 1991-2004?
3. What is the composition of Zambia's external debt by creditor between 1991- 2004
4. What was the debt stock by interest rate structure yearly between 1991-2004
5. What debt relief in form of debt rescheduling and write-offs has Zambia received between 1991-2004?

2.0 DOMESTIC DEBT

1. What is the stock of domestic debt by year between 1991-2004?
2. What is the stock of treasury bills holding by year between 1991-2004?
3. What is the stock of bonds holding by year between 1991-2004?

4. What is the stock of the following categories of domestic debt by year between 1991-2004?
 - b) Domestic arrears
 - c) Compensation and Awards
 - d) Un-remitted GRZ Statutory Contributions Arrears
 - e) Contingent liabilities
 - f) Kwacha and foreign exchange bridge loans
5. What has been the government securities interest costs by year between 1991-2004.

GOVERNMENT POLICY ON PUBLIC DEBT MANAGEMENT:

1. What has been Zambia's development policy and between 1991 – 2004?
2. In what way did the policies affect public debt management?
3. Has Zambia got a National Policy and guidelines on contraction and management of public debt?
4. What is the procedure for contracting debt in Zambia?

SUSTAINABILITY OF PUBLIC DEBT

1. Have you conducted a DSA?
2. If yes, what model did you use and how useful was it?
3. Is Zambia's debt sustainable?

LEGAL FRAMEWORK

1. What law/laws regulations govern debt contracting and management in Zambia?
2. Does the law/regulations clearly specify responsibilities of the various agencies? Please explain.

3. Does Zambia have a central deposition of all original loan agreements? If so, where?
4. Is there a law that govern evaluations and audit of public debt?
5. In your view, is there need to review the laws/regulations to improve debt management? Please explain.

6.0 INSTITUTIONAL ARRANGEMENTS

1. Explain the Management of debt in your department/Ministry
2. Does Zambia have debt strategy? Please explain
3. How is new borrowing done?
4. What can you say are the weaknesses in Zambia's institutional arrangement?
5. What measures can improve the institutional arrangements?

7.0 HUMAN RESOURCE MANAGEMENT OF PUBLIC DEBT

1. Please indicate the staff organization structure of your department/organization.
2. Are the job descriptions comprehensive?
3. Is all the staff adequately trained? Please explain
4. Is the level of remuneration of staff adequate?
5. Is staff regularly assessed and promoted?
 - i) Does your department have manuals on procedures of debt management
 - ii) Do you consider the working environment adequate or inadequate?
 - iii) Is there work planning and monitoring?

8.0 CAPACITY BUILDING

1. Do you have capacity building plans?
2. Does your staff have capacity to negotiate debt?
3. Does your officers calculate present value impact of the debt?
4. Does your department posses complete relevant debt information?
5. Do you have front, middle and back offices in your public debt management?

9.0 DATABASE MANAGEMENT

1. What debt database system do you use?
 - Manual
 - DMFAS 4.1
 - DMFAS 5.2
 - Debtpro
 - Others
2. Is the data base maintained on the local LAN
YES/NO
3. How many officers are trained on the database?
4. Do the officers regularly update the database?
5. Are the updates on DMFAS Sites shared between BOZ and MFNP?
6. Does MFNP and BOZ hold regular meetings to compare debt data and projections?
7. Of the three data sites, who manage them
 - a. Domestic data base – BOZ
 - b. On-lending activities of general
 - c. Government domestic arrears

0.0 PORTFOLIO RISK ANALYSIS

1. Does the Ministry of Finance and the Bank of Zambia have common methodology?
2. Do you conduct loan-by-loan quality analysis?
3. Do you conduct regular policy reviews?
4. Do you conduct risk analysis?
5. Do you conduct annual debt sustainability analysis?

1.0 DEBT SERVICING

1. **Do you make debt service projections?**
2. Do you verify debt service payments with creditor records?
3. How timely are domestic arrears paid?
4. How much money have you paid as penalties on arrears between 1991-2004?
5. Is the commitment control system working well?

2.0 NEGOTIATING DEBT/NEW FINANCING

1. Are there procedures for negotiating and debt contracting?
2. Are staff well trained in negotiating techniques and analyses?
3. Do you have or use international guidelines? If yes, which ones.

3.0 DEBT STRATEGY ANALYSIS

1. What computer program do you use for this.
2. Do you have people in place to design debt strategy
3. Do you make debt service projection?
4. Do you have written procedures on disbursement?

14.0

TRANSPARENCY AND ACCOUNTABILITY

1. Who is responsible for contracting and quoting debt in Zambia?
2. Is commitment control policy in domestic debt management obeyed by all?
3. In your view, how can oversight on debt contraction be best done?
4. Is civil society consulted in debt contraction? If so, how?
5. How are political structures consulted?
6. Are there regular audits of the public debt? YES/NO is this published regularly?
7. Does your debt office file annual debt management reports giving activities and projections?

15.0

FOREIGN AID

1. Are there guidelines to assist in contracting new debt?
If so, what are they?
2. What is the structure and quantum of aid to Zambia between 1991 and 2004?
3. Does Zambia possess odious debt? Please explain.
4. Is there need for an aid -exit/debt-exit strategy for Zambia? YES/NO
5. Are procedures of government and donors in harmony?
6. How have agreements with creditors affected public debt management?

15. IMPROVED PUBLIC DEBT MANAGEMENT

In your view, what would you recommend for Zambia to improve its public debt management to ensure that it adequately supports poverty eradication.

END