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G8 and IMF Hinder Aid for Zambia While Vultures Attack

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Zambia is a prime example of an impoverished country betrayed by the failure of the Group of Eight to deliver on promises of more aid and effective debt relief. This report chronicles how G8 promises of debt cancellation have been of little benefit to the poor due to a decline in Official Development Assistance and the International Monetary Fund's obsession with low inflation and restrictive fiscal policies.

Some 1.2 million Zambians out of a population of 11 million are living with AIDS. There are nearly 600,000 AIDS orphans. Life expectancy has fallen from 54 years in the mid-1980s to just 37 years now. There is just one doctor for every 14,000 people as compared with one for every 550 Canadians.

After the Group of Eight Summit at Gleneagles, Scotland, in 2005, Zambia's Health Minister, Dr. Brian Chituwo was somewhat optimistic. The G8 governments had promised to double development assistance for Africa by 2010. Since about one-third of Zambia's annual budget of US$3 billion comes from foreign aid, a doubling could have enabled a significant expansion of health care services. But the new foreign aid never arrived and now Dr. Chituwo calls the G8's broken promises a "betrayal".[1]

At Gleneagles the G8 had also promised to wipe out debts owed to multilateral financial institutions by 18 Heavily Indebted Poor Countries (HIPCs), including Zambia. This additional debt relief would top up what had already been granted after Zambia reached its completion point under the HIPC initiative. The intent was to free up more money for much needed social services including health care and education.

Costly Conditions Attached to Debt Relief

Zambia paid a very heavy price to qualify for HIPC debt relief. It endured years of austerity and Structural Adjustment Programs overseen by the World Bank and the International Monetary Fund (IMF). One condition they imposed was a requirement that Zambia cap its 2004 spending on public sector wages at 8% of its Gross Domestic Product (GDP). This requirement was imposed to put the country back on track for receiving new loans and debt relief after the IMF suspended loans to Zambia in 2003 because it had granted a long-overdue increase in teachers' salaries and a housing allowance for civil servants. These remuneration increases had pushed the wage bill to 9% of GDP and increased the budget deficit above the IMF's targets.[2]

In order to stay on side with the IMF in 2004 the Ministry of Finance forced the Education Minister to cancel the wage increases and ban the hiring of new teachers. As a result schools were understaffed while 9,000 teachers remained unemployed. In some schools teachers had as many as 100 pupils in their classes.

After so many sacrifices the government had reason to expect that graduating from the HIPC program in 2005 would bring some rewards. After all the IMF said that HIPC debt relief would reduce debt service payments from 7% of GDP to 1.7%. Under these circumstances the IMF allowed the public sector wage bill to rise by eleven hundredths of one percent to 8.11% of GDP in 2005 but only after the government of the Netherlands agreed to cover severance benefits for retired teachers. This small adjustment in the wage cap allowed for the hiring of 5,000 more teachers.

The initial HIPC debt relief also allowed Zambia to eliminate user fees for health care in rural areas. Previously, poor Zambian families had to pay 8,000 kwacha (about US$2) to join the health care system. This payment deterred the very poor from signing up since a casual farm worker would have to work for two days just to make this payment. On the basis of its promised HIPC debt relief, Zambia decided to make rural health care free of charge. This initiative led to hundreds of thousands of new patients lining up at clinics, while the number of doctors, nurses and pharmacists remained constant. One consequence was that doctors had to serve three times as many patients as they did in 2004.

In theory, debt relief and promised aid increases should have allowed Zambia to hire more health care workers and improve conditions for existing staff. This would have helped deal with another problem, the exodus of trained nurses to better paying jobs in Botswana, South Africa and overseas. However, it did not turn out that way.

After the initial HIPC debt relief was delivered, development assistance to Zambia began to dry up. The IMF projected that while the initial HIPC debt reduction would reduce the government's debt service obligations by the equivalent of 5.3% of GDP, the actual amount of **money available for spending on anti-poverty measures would still fall by 0.8% of GDP**.[3] There are two reasons for this decline. The first is that foreign aid grants were projected to fall by 3% of GDP. The second reason is that the IMF decided to oblige Zambia to limit its deficit spending to only 0.6% of GDP, down from a previous limit of 3.9%.

In other words **what HIPC debt relief supposedly gave the country in terms of new spending power, foreign donors and IMF-imposed conditionality would take away.**

The additional multilateral debt relief promised at Gleneagles was meant to top up the debt relief already received under the HIPC initiative. Wiping out debts owed to the IMF was particularly important for Zambia because its debt service payments to the IMF alone had jumped significantly from US$9 million in 2000 to US$71 million in 2001 and then again to US$113 million in 2004 despite having reached its HIPC "decision" point when debt relief was supposed to commence.

The total cancellation of debts owed to the IMF, the International Development Association and the African Development Fund as promised at Gleneagles was supposed to have a significant impact. Total debt service was projected to fall to just US$34 million in 2006 from US$373 million in 2004. Yet the IMF projected that the additional debt relief would only be enough to turn what otherwise would have been a net reduction in fiscal space into a net positive increase in government spending capacity of only 0.8% of GDP.[4]

The inadequacy of this small increase is demonstrated by the fact that even if the whole amount of new spending capacity were added to the existing health expenditure of 1.5% of GDP the resulting 2.3% would be far short of what is needed. The United Nations Development Program reports that Zambia would have to spend 7% of its GPD to meet the Millennium Development Goals of reducing by three quarters the number of mothers who die while giving birth and halting and reversing the spread of HIV/AIDS, malaria and other diseases.[5]

For low-income countries as a group the amount of additional debt relief promised at Gleneagles was not very significant. It was equivalent to just 13% of the long-term debts of the 60 low-income countries most burdened by AIDS, debt and poverty.[6]

IMF Prohibits Aid Spending

At the St. Petersburg G8 Summit, a year after Gleneagles, Canadian Prime Minister Stephen Harper pledged that "Canada will contribute C$450 million between 2006-2016 to support country-led efforts to strengthen health systems and improve health outcomes in Africa." The Canadian International Development Agency (CIDA) committed $25 million to health care in Zambia.

This money could be put to very good use in rural Zambia where health clinics have only half the number of staff necessary to meet the population's needs. Drug supplies that are supposed to last a month run out within a week. While a broken down ambulance sits idle for lack of money for repairs, Dr. Charles Msiska uses his own car to pick up patients. "If [the promised] money ever came to us it would go a long way," he testifies.[7]

But the promised money does not arrive because back in Lusaka the Ministry of Finance is reluctant to contravene IMF guidelines on government spending even when foreign donors are willing to make long-term commitments.

According to the African Network on Debt and Development **"In the case of Zambia, the government was not allowed to employ more health workers by IMF despite the willingness of the Ca-**

nadian government to foot the wage bill for the next 5 years.”[8]

Although Zambia has an adult HIV prevalence rate of 17%, not only CIDA but other aid agencies, including the United Kingdom’s Department for International Development, the United Nations International Children’s Fund and the World Health Organization have also had difficulties in transferring funds to pay health care workers.

After vigorous protests by non-governmental organizations, the IMF has just announced that it will no longer impose wage bill ceilings except in “exceptional circumstances”.[9] Nevertheless, as of June 2007, 32% of IMF poverty reduction programs still had wage bill ceilings. Moreover, the IMF’s fiscal and monetary policies still constrain overall spending.

Is Zambia perhaps an exceptional case? **Unfortunately not**. The IMF itself commissioned a study by its own Independent Evaluation Office to examine allegations that “IMF-supported programs have blocked the use of available aid to sub-Saharan Africa through overly [restrictive] macroeconomic policies.”[10] The report examines IMF activities in 29 sub-Saharan African countries over the years 1999 to 2005.

The report states that the IMF has allowed only 28% of anticipated aid increases to be spent on actual programs while the other 72% has been held back as public savings. In other words **only about $3 out of every $10 in annual aid increases were programmed to be spent**, while the other $7 was set aside as international reserves or domestic savings.[11]

A prime reason for the IMF’s refusal to allow more public spending - even when it would be funded by international donors - is its overly zealous commitment to combating inflation. Countries with inflation rates below 5% were allowed to spend $8 of every $10 of aid increases while those with inflation rates above 5% were restricted to spending just $1.50 out of each $10 in promised aid increases.

Most economists accept that moderate inflation, in the 5% to 10% range, generates few costs, while attempts to impose very low inflation can be very costly and sometimes quite devastating for developing countries. Over the years 1999-2005 average inflation in Africa remained between 5% and 10%.

Another macroeconomic goal established by the IMF to fight inflation involves very low fiscal deficits. Yet government deficits across Africa have not been excessive in recent years falling from an average of 7% of GDP in 1994 to just below 2% in 2005.

There is therefore a huge contradiction between the laudable goals of our aid program and the restraints imposed by the IMF’s inappropriate macroeconomic conditions.

Vulture Attack

As if Zambia did not have enough problems with its foreign accounts, in 2006 it was attacked by an unscrupulous “vulture fund”. Vulture funds are private companies that buy up foreign debt at low prices from creditors who don’t expect ever to receive full payment and want to cut their losses. The vultures then take the debtor government to court demanding payments that are many times larger than what the vultures actually spent to acquire the debt.

A US citizen, Michael Francis Sheehan, runs a number of vulture funds out of the British Virgin Islands. One of these companies, called Donegal, bought about US$40 million worth of Zambian debt from Romania in 1999 for just US$3.2 million. The original 1979 loan from Romania to Zambia for the purchase of tractors had a nominal value of US$15 million but had grown in size due to the compounding of unpaid interest.

Donegal sued Zambia in a British court demanding more than $55million in payments.

According to an advisor to Zambia’s President the original loan was not legitimate, as it was tainted by fraud. A full payment to Donegal would be equivalent to all the debt relief that Zambia received in 2006 and would prevent over 100,000 Zambians from receiving the health care they desperately need.[12]

In February of 2007 a British High Court Judge ruled in favour of Donegal but withheld judgement on how much Zambia would have to pay. A furious public backlash ensued against all kinds of vulture funds prompting denunciations by then British Chancellor Gordon Brown but silence from the White House.

It turns out that vulture fund owners have very close connections to the Republican Party. Billionaire Paul Singer pioneered vulture fund activity by collecting US$58 million from Peru in 1996 on debt he purchased for just US$11 million. Singer also made US$127 million on Congo Brazzaville debt he purchased for only US$10 million. Singer reportedly donated US$1.2 million to the 2004 Bush re-election campaign.[13]

Finally, in April of 2007 the British High Court rejected the fund's claim for full payment but still awarded Donegal US$15.5million. This amount represents about a third of Zambia's total debt relief savings for 2007.[14]

G8 Fails Africa

At their 2007 Summit in Heiligendamm, Germany, the G8 once again failed to deliver on its promises. Prior to the Summit the Development Assistance Committee of the OECD reported that Official Development Assistance had actually declined between 2005 and 2006 globally and remained virtually stagnant for Africa. During the Summit there were repeated media reports that Canada, along with Italy, was blocking progress on commitments to fight poverty in Africa.

Then it was revealed that the promise made two years ago at Gleneagles by the Paul Martin government to double Canadian aid to Africa to $2.8 billion by 2008-09 has been scaled back to just $2.1 billion. Far from apologizing for the missing $700 million, Prime Minister Harper declared that Africa is no longer a priority for Canadian aid. Yet Africa is home to 300 million people who live in desperate poverty.

While Harper was in Germany signing on to a communiqué that says that aid should be targeted "particularly [to] poverty eradication", back in Ottawa Conservative Senators were holding up approval of a bill already passed by opposition MPs in the House of Commons that would make fighting poverty the principal goal of Canadian development assistance.

Conclusion

On September 5, 2007, Canada signed on to a UK initiated International Health Partnership for achieving the health-related Millennium Development Goals. Zambia is one of seven developing countries that is to benefit from this global compact that will "tackle the challenges facing country health systems – particularly having enough trained health workers, in the right places."[15]

While this initiative will hopefully overcome some of the funding constraints, this new program by itself will not be adequate unless it is accompanied by removal of the constraints imposed by debt servicing obligations and IMF policy conditions.

Social justice advocates remain steadfast in our demands for complete cancellation of low-income country debts without any policy conditions attached and for fulfillment of industrial countries' historic commitment to devoting 0.7% of their Gross National Income to development assistance. Two years from now in 2009 the G8 will again meet in Canada when we will hold the G8 to account for their past betrayals.

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Endnotes

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[5] Ibid. Page 12.

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