

PLAIN ENGLISH
ECONOMICS



DEBT AND COVID-19: THE CASE OF ZAMBIA



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FROM

<https://www.eurodad.org/zambia> the canary in the debt crises

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<https://jubileedebt.org.uk/countries/zambia>

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Colonial Rule

In the nineteenth century Zambia was ruled indirectly by the British. It gained independence in 1964, but the newly independent country still relied on Britain economically, and was heavily dependent on copper exports. This dependence on income from exports was the economic model established before independence.

In the 1970s a global oil crisis, combined with a dramatic drop in the price of the copper Zambia exported, meant that Zambia's debt rose from \$800 million to \$3.2 billion. Most of these loans were lent to Zambia by Western banks.

When those lenders began to increase interest rates, Zambia had to take out even more loans from the IMF (International Monetary Fund - an international lender dominated by rich country governments). Zambia borrowed more money from the IMF to pay back the Western banks who had lent money to it previously. This equates to 'borrowing from Peter to pay Paul'. Western banks were facing a crisis after lending recklessly to countries around the world, and so these IMF loans were effectively bailing out those banks in rich countries that lent recklessly.

Debt relief - with strings attached

In exchange for the loans from the IMF, Zambia was forced by them to make large cuts to public services, sell much of its industries to private businesses (privatisation), and open up its country to global trade which negatively impacted locally produced goods (trade liberalisation). For example, removal of trade taxes on used clothes cut government revenue and led to a flood of cheap second hand clothes entering the country from Europe. These put Zambian textile manufacturers out of business, increased unemployment, and made the country even more dependent on copper exports.

However, despite these measures, the economy continued to shrink. By 2004 external debt had reached roughly \$7 billion. Due to this 'austerity', ordinary people suffered two decades of falling incomes. Child mortality increased, and life expectancy fell. The number of people living on less than \$2 a day increased from 6 million in 1991 (75% of the population) to over 9 million by 2003 (85% of the population).

The IMF allowed some debt relief in the 2000s, on condition that teachers' wages were reduced and public banks were privatised. At the end of this period of enforced conditions, some of Zambia's debt was finally cancelled in 2005. In November that year however, drought led to food shortages affecting over a million people.

Debt relief has freed up a lot of money that was previously earmarked for paying interest on debts, what is called 'debt servicing'. However, under the 'free market' policies imposed by the IMF, Zambia's economy has remained weak.

Covid-19 and the new debt crisis

From 2014 to 2020 when the Covid-19 pandemic hit Zambia, Zambia's external debt payments increased substantially from 4% of government total income (revenue) in 2014 to an estimated 33% in 2020.

Throughout the Covid-19 pandemic, Zambia was spending four times more on repaying debts than on healthcare. It was forced to take on more and more debt, often from unscrupulous private lenders who did not consider whether Zambia could afford more loans.

Rich countries agreed to temporarily suspend the debts of poor countries during the global pandemic. This just means that countries like Zambia have to pay later, it does not mean that their debt is cancelled. However, private lenders - vulture funds, hedge funds and private investment funds - refused to agree to a similar deal. Since most of Zambia's debts were owed to these private lenders, its debt continued to pile up in the midst of the pandemic, and most of the debt relief provided by rich countries was used to pay the debts to private lenders. What's more, most of these private lenders are actually based in the rich countries! For example, 49% of Zambia's external debt is owed to these private lenders, and 56% of the commercial bank loans to Zambia are owed to banks in the UK.

Human impacts

Zambia has a very young population as 7 to 8 million people are under 15 years old. Eight million people are living below the poverty line. Despite being a party to the Abuja Declaration of 2001, which committed Member States of the African Union to allocate at least 15 per cent of their budgets to the health sector, the country has yet to fulfil its commitment. Zambia has not been reaching the minimum it should be spending on healthcare and this is getting worse every year as interest on debt continues to rise.

During the Covid-19 pandemic, Zambia was paying four times as much on debt repayments as it was on its healthcare service. Over the last five years, public healthcare expenditure has averaged 9.1 per cent of the government's budget. In the meantime, during this same period, debt servicing alone accounted for 70.3 per cent of government revenues.

What's more, the share of government expenditure going towards education has been decreasing since 2016, as has social protection. According to Muchimba Siamacho of the Jesuit Centre for Theological Reflection Zambia, "Interest payments have surpassed some of the key sectors that need resources". Zambia has an extreme budget 'deficit', caused by its rising debt.

Eventually, in November 2020, Zambia 'defaulted' on its debts. That meant that it did not make the repayments it owed to some of its lenders.

What should happen?

Campaigners Jubilee Debt Campaign UK asked "Should Zambia have continued to make debt payments when 88% of its population is surviving on less than £4.20 a day? Should Zambia have continued debt payments when it was already spending four times more on those repayments than public healthcare?"

In order to ensure that this decade is not a lost decade for millions of people, many of them very young, in Zambia, "a longer term more structural response is needed" according to Juana Sotomayor, Human Rights officer, Office of the High Commissioner for Human Rights. Jason Braganza, the Executive director of Afrodad, says, "we're not going to find solutions in this broken system...we need to really rethink the global financial architecture to build forward better".

Questions

1. List the causes of the debt crisis in Zambia.

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2. List the consequences of the debt crisis in Zambia.

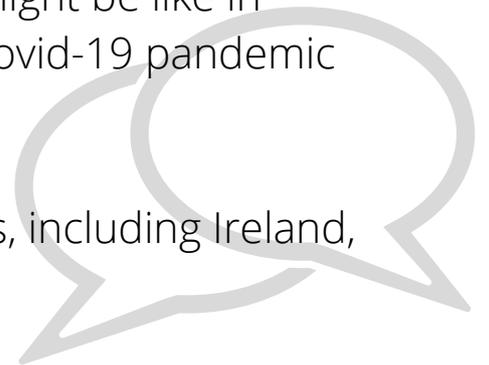
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3. Name two different kinds of lenders who have lent money to Zambia.

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4. With your partner, discuss what you think life might be like in Zambia. Discuss what challenges you think the Covid-19 pandemic might be bringing to Zambia.

5. What measures do you think rich governments, including Ireland, could take to support Zambia?



Further study:

Online Research Go to Jubilee Debt Campaign's data centre at data.jubileedebt.org.uk.

Spend time exploring the countries who face debt crisis. Then:

- Pick one country in the Global South that's currently in debt crisis

- Try and find the following information about your chosen country:
 - Has their debt increased or decreased over the past five years?

 - What percentage of the country's total income (revenue) is spent on repaying debts? _____
 - Who does the country owe the most money to? _____
- Now, try and find information online about your chosen country's experience of the Covid-19 pandemic.

- Discuss with your neighbour and your class what you have learned about debt and Covid-19 in the Global South.

