



SOVEREIGN DEBT, THE SUSTAINABLE DEVELOPMENT GOALS AND TRADE UNIONS IN **ZAMBIA**



ITUC CSI IGB



Summary Briefing – December 2023¹

Zambia's protracted debt crisis has led to suffering for workers and shows the urgent need for enhanced trade union engagement and a reformed international system for debt relief.

¹ This briefing is based on a longer background paper commissioned by the ITUC and completed by the Zambia Institute of Labour Research and Development (ZILARD).

CONTENTS

WHAT IS THE CURRENT SOVEREIGN DEBT SITUATION? WHAT ARE THE CAUSES AND KEY ISSUES?	4
WHAT IS THE EFFECT ON KEY SDGs INCLUDING THOSE RELATED TO DECENT EMPLOYMENT, INEQUALITY AND GENDER, AND CLIMATE?	5
WHAT ARE THE POTENTIAL OPTIONS FOR THE FUTURE?	8
HOW ARE TRADE UNIONS INVOLVED? WHO ARE THE KEY STAKEHOLDERS? WHAT ARE THE KEY PROCESSES?	9
WHAT SHOULD TRADE UNIONS DEMAND AND WHAT ACTIONS CAN THEY TAKE?	12

WHAT IS THE CURRENT SOVEREIGN DEBT SITUATION? WHAT ARE THE CAUSES AND KEY ISSUES?

Since 2020, Zambia has been going through a protected sovereign debt crisis that has had a severe impact on economic production and investment, the living standards of workers and progress towards the SDGs.

Zambia is no stranger to economic crises, having suffered in past decades through numerous cycles of over-indebtedness, hyperinflation, commodity boom-and-bust, IMF-prescribed structural adjustment programmes and austerity measures, such as public sector wages caps. Zambia's economy is heavily dependent on copper mining, which accounts for more than 70 per cent of the country's total export earnings yet employs less than 2 per cent of the population.

Following significant debt relief provided under the Heavily Indebted Poor Countries initiative (HIPC) in the early 2000s, the Zambian economy was nevertheless one of the fastest growing in sub-Saharan Africa. Economic growth averaged around 7 per cent between 2005 and 2015, driven primarily by unprecedentedly high commodity prices, that elevated Zambia to lower middle-income country status. However, the fall in world mineral prices in late 2014, alongside insufficient production and supply of industrial drivers, such as electricity, led to a decline in the GDP growth rate to 2.9 per cent. Zambia's fiscal deficit worsened, rising from 2.4 per cent of GDP in 2011 to 9.4 per cent

in 2015, and necessitated increased public borrowing at home and abroad. In 2017, an IMF-World Bank Debt Sustainability Assessment identified Zambia as being on the verge of debt distress. Zambia's debt had been rising steadily since 2011 and the situation worsened as the Covid-19 pandemic-induced contraction hit copper prices and tipped the economy into recession, hampering the government's ability to make interest and principal payments. The debt buildup made Africa's second-largest copper producer the first Covid-19-era default in November 2020.

Currently, the country is struggling to maintain economic growth and reduce poverty. Rising public debt has had adverse effects on inflation, exchange rates, and growth and reduced fiscal space for critical productive and social spending. Inflation was at 10.2 per cent as of April 2023, far from the country's medium-term target range of 6-8 per cent. In the 2021 and 2022 national budget allocation by government function, more than 45 per cent of the total budget will be spent on debt servicing.

Following its default, the Zambian government applied for debt relief under the G20 Common Framework process. While authorities had hoped for a speedy conclusion, disagreements between lenders (creditors) have led to years of delay, with a major contributing factor being the lack of a globally coordinated sovereign debt mechanism capable of bringing official and private creditors to a swift agreement. The Zambian experience has been held up as an important 'test case' of the international system for resolving debt crises yet has demonstrated instead a lack of global political will to fix the

dysfunctional system. While Zambia managed to reach partial milestones in the form of an IMF bailout in September 2022 and an agreement with official (government) creditors in July 2023, a comprehensive debt relief deal also covering

the significant holdings of private creditors (international investment funds and banks) has proved more difficult, taking more than three years since its current crisis began.

WHAT IS THE EFFECT ON KEY SDGs INCLUDING THOSE RELATED TO DECENT EMPLOYMENT, INEQUALITY AND GENDER, AND CLIMATE?

According to the trade unions and civil society organisations (CSOs), the impact of debt on progress towards the SDGs has been to derail the resources needed for investment to transform social sectors, including education and health. Continued economic distress has threatened welfare and the state's ability to prioritise human rights over creditor repayments, specifically the right to work, to health, to social security, housing, poverty and inequality. For example, in 2021, at least 90 per cent of the budget was spent on emoluments and debt servicing, while only 10 per cent was allocated to all other sectors. The unnecessarily long period of time taken for debt restructuring has further exacerbated the economic situation: the unstable kwacha has left businesses unable to predict income gains or losses, and to hire staff on a part-time basis with no job security and benefits. Even after anticipated relief, debt servicing will still be a significant part of the budget given that most of Zambia's debt will remain, limiting the fiscal breathing space for the implementation of Zambia's development agenda.



SDG 1: Reducing Poverty and Vulnerability. Debt impacts poverty through lower economic growth, inflation, unemployment, falling government revenues accompanied by reduced economic activity along with increases in regressive taxes, and restrictive fiscal policies. CSOs have warned that the austerity measures that accompany insufficient levels of debt relief could have damaging consequences for ordinary Zambian citizens. IMF loan conditions state that the country must restrict its spending, lower subsidies, privatise public goods and services, or raise its taxes. This places the tax burden squarely on citizens who are forced to pay more or face restricted access when public services are privatised. The fuel crisis and high electricity prices are likely to further increase and raise the costs of goods and services. This has an impact on SDG 1, as most Zambians, especially those living in low-income areas, need fuel to power their homes and cook their meals, in turn affecting the right to food and resulting sometimes in individuals being able to afford only two meals, instead of the standard three meals, a day.



SDG 3: Good Health and Well-being.

The right to health can be achieved progressively if the government invests adequately in the health-care sector by

ensuring that adequate numbers of health-care workers are available to cater to patient needs. Under its agreement with the IMF, Zambia must implement austerity measures that include the removal of fuel subsidies and “inefficient public investment” to reduce the primary balance deficit. In theory, this means more money for social services in Zambia, as shown in Zambia’s 2023 budget plan, which sees a 25 per cent increase in health spending this year. However, some of the lending conditions and austerity measures are regressive and disproportionately affect the most vulnerable members of society, affecting access to health services. For example, removing fuel subsidies could make transportation more expensive for people in remote areas and reduce their access to medical centres. Likewise, rising electricity costs lead to increased costs for hospitals and clinics seeking to provide uninterrupted care, and for households forcing them to choose between food, electricity and medicines. This tends to disproportionately affect poorer consumers, who spend more of their household income on these goods.



SDG 5: Gender Equality.

Many of the typical conditions associated with IMF agreements are worse than merely gender-blind: they actively impact

women more adversely than men and disproportionately disempower women since they fail to distinguish the different and dynamic ways in which men and women interact with the economy. Women play various economic roles: as workers in paid employment, where

they typically face more difficult labour market conditions than men; as self-employed workers; as migrant workers; and as unpaid and underpaid workers within households and communities. Globally, women dominate care activities: as unpaid workers, as paid workers, as migrant workers. This work is often increased by fiscal austerity measures, largely because of the assumption that women will take up the slack by delivering care services at lower wages or without being paid.

Indeed, policies that are apparently ‘gender neutral’ effectively rely on the gendered division of labour and the unpaid and underpaid work of women to cushion the impacts of fiscal austerity. When developing debt-relief packages, it is crucial to avoid purely symbolic or minor gestures towards gender equality that do little to improve the actual condition of women within a wider package that makes them worse off. The worker’s movement has stated that ‘do no harm’ should be the basic strategy. This means, for example, that the debt relief should not be so small and so delayed that it has negligible effect on a state’s fiscal capacity. The level of ambition in debt restructuring must be much higher than at present and must recognise the need to involve private creditors in such restructuring. Trade unions believe that regressive taxation measures – such as increased in value added tax (VAT) that increases the prices of essential commodities – are anti-poor and anti-women and can inhibit economic recovery. Specific programmes targeted at women and children do not compensate for macroeconomic policies that reduce employment and livelihoods. Universal access needs to be a key principle in public service provision. Table 1 (below), shows the impacts of the debt crisis on women’s rights and gender justice.

TABLE 1: CUMULATIVE IMPACTS OF THE DEBT CRISIS ON WOMEN'S RIGHTS AND GENDER JUSTICE

	IMPACTS OF THE DEBT CRISIS
ACCESS TO FOOD, WATER, HOUSING AND INCOME	Cuts in government social investment, cuts in food subsidies, inability to fund reconstruction of infrastructure after a climate extreme event.
HEALTH	Cuts and privatisation of health services.
VIOLENCE AGAINST WOMEN	Fewer resources to provide safe shelter, for example, after an extreme climate event. Cuts in services for gender-based violence survivors.
UNPAID CARE WORK	Increase of domestic and care work as an increasing debt undermines public services.



SDG 8: Decent Work and

Economic Growth. Unions are of the view that there is a need to protect Zambian local industrial and service sectors even as

the country goes through debt restructuring. Most workers in the industrial sectors are dependent employees with ties to unions, while workers in the service sectors are commonly independent contractors, agency workers and the self-employed who are rarely unionised. A representative from the Zambia Congress of Trade Unions (ZCTU) said:

“If the government does not address the wide range of factors affecting local companies, their production costs will remain high, their production level will remain low, and the product quality will remain at a low level compared with imported products. As a result, consumers will choose expensive foreign products. High import taxes will eventually further harm consumers. They will spend more on consumption, save less and invest less, leading to loss of employment opportunities. Therefore, if the government does not address inconsistent policies, good measures aimed at protecting local industries may have counterproductive effects.

Trade unions and CSOs predict that the combination of increased inflation and austerity measures that come with the debt restructuring may potentially see reduced funding to social security programmes. An official from the Centre for Trade and Policy Development stated:

“Usually, pension schemes have indexation mechanisms that are designed to safeguard against inflation. However, sometimes in cases of very high rates of inflation, indexation may not match the level of inflation resulting in a decrease in the actual worth of the benefits.

From the cost-of-living perspective, trade unions and CSOs in Zambia state that because debt has deteriorated the country's economic growth and created an environment where inflation remains high, it has eroded purchasing power for essentials. Salaries do not increase to match the increase in cost of living. The minimum wage revision of 2021 was applauded because the minimum wage had not been revised since 2018, although indexing the minimum wage to inflation still creates a mismatch in terms of overall incomes. This has led to compromise in living conditions which erodes the dignity of the working labour force. The current debt situation has also led

to increased government domestic borrowing, which has pushed up domestic interest rates. This reduces the amount that businesses in the private sector can grow and, in turn, affects employment.

Trade unions and CSOs also noted some scenarios where the government, because of the debt position it had fallen into, delayed making payments leading to domestic arrears to workers. A representative from ZCTU stated:

“Suppliers to government, who had employees that were both formal and informal, were not paid for periods of up to five years. This led to layoffs and many companies going out of business. Further, pension benefits suffered, as workers would retire and not get paid their pension benefits in a reasonable time which made it hard for them to survive. These social economic impacts were doubled during the heights of the Covid-19 pandemic. The pension scheme policy has since been improved as of 2022, but the jury is still out on how sustainable the current policies on pensions are.”

Workers in countries with high levels of debt, and in particular those in the process of debt restructuring, may face reduced bargaining power as they feel constrained in demanding higher wages, or taking action on other grievances due to the fear of losing their jobs.



SDG 13: Climate action.

Developing countries facing high debt levels will encounter severe difficulties in implementing policies to fairly phase out fossil fuels, protect people from the harms of the climate crisis and provide remedy to those most affected. Indebtedness combines with inadequate climate financing as wealthier states continue to evade their obligations to provide climate finance to developing countries. Developing countries, such as Zambia, will find that they have no means of making climate-related investments if most of their resources are allocated towards debt servicing. “Commitments to ensure urgent and sufficient relief for nations in debt distress, and more grants, are required to support those states struggling to protect the rights of people against the devastating impacts of the climate crisis and other disasters,” said one official from the Jesuit Centre for Theological Reflection (JCTR).

WHAT ARE THE POTENTIAL OPTIONS FOR THE FUTURE?

Negotiations on a debt relief deal for Zambia have dragged on for more than three years and continue at the time of writing. In June 2023, Zambia finally secured an agreement with official external lenders. Nevertheless, the relief of US\$ 6.3bn that was announced covers only the bilateral

portion of Zambia's debt. This is less than half of the overall public debt, and responsible for only a small portion of interest payments, since Zambia's private creditors are not yet covered. In addition, for debt relief to be fully beneficial to Zambia, private creditors will need to grant greater levels of relief on debts owed to them, since they lent at higher interest

rates. Under this principle, the higher potential returns on loans by private creditors should entail a greater required contribution towards debt relief following Zambia's crisis. Having already profited from buying up Zambia's debt cheaply while the country struggled, private bondholders stand to reap huge profits. Despite the clear need to come to a quick agreement with the country's private foreign debtors, this has proved a key obstacle that has prevented a debt restructuring deal from being finalised.

Furthermore, there has been criticism of the terms of the debt relief already on offer from creditors. First, while the debt restructuring deal makes significant savings on debt payments in the 2020s and early 2030s, this comes at the expense of high debt payments in the late 2030s and early 2040s. Secondly, a worrying and novel mechanism included in the agreement allows for higher interest rates or quicker repayments to return if the 'debt carrying capacity' of Zambia improves.

The fear is that this may in effect act as a future 'growth penalty' for Zambia that would apply well into the future. It could mean, for example, that Zambia would no longer benefit from any increases in the world copper price, since part of the increased revenues would be diverted to increased debt servicing. If Zambia's government revenue grows at the historical rate, the deal would effectively cut the relative size of Zambia's bilateral debt payments by 40 per cent. But if Zambia's 'debt carrying capacity' is assessed to have improved, then payments to bilateral creditors could increase significantly, reducing the effective amount of debt relief to just 18 per cent – which would be far from freeing up sufficient fiscal space for meeting the SDGs. It is also worth noting that there is no provision for what happens if revenues unexpectedly fall short (e.g., during another crisis) as there is no similar mechanism to automatically reduce debt repayments in that case.

HOW ARE TRADE UNIONS INVOLVED? WHO ARE THE KEY STAKEHOLDERS? WHAT ARE THE KEY PROCESSES?

While trade unions and CSOs have participated in budget formulation talks, they have not had similar input into debt discussions due to a low level of engagement from the government. Meetings between CSOs and the IMF have taken place only after negotiations had already reached agreements on bailouts and debt restructuring, and CSOs felt they were not able to influence the negotiations.

While the government has been proactive in the provision of information and engaging in different briefings, some CSOs representatives have noted that "it is difficult to get certain information as pertains to SDGs and debt [...] there is no legislation that mandates any other government enterprise to provide this information." To address this gap, CSOs launched a Debt Alliance in November 2020, a collection of 42 Zambian CSOs from a variety of sectors that seeks to improve public debt

management by advocating for increased transparency and accountability in government borrowing and greater parliamentary oversight of loan contraction. The Debt Alliance took a broad approach to its advocacy efforts, tackling

the debt problem from multiple angles, including through legal analysis. Box 1 (below) outlines some best practices in building alliances between trade unions and CSOs on debt.

BOX 1: BEST PRACTICES IN BUILDING ALLIANCES BETWEEN TRADE UNIONS AND CSOs ON DEBT

The ZCTU and its affiliates have recently started to strengthen their alliance with CSOs working on sovereign debt issues, building on the following steps:

1. The ZCTU has put in place a research think tank called the Zambia Institute for Labour Research and Development (ZILARD) which conducts labour research and helps formulate policy positions for trade unions.
2. Trade unions and various CSOs have been engaging with government, the IMF and other stakeholders to understand the various issues and challenges surrounding the debt conversation.
3. Civil Society for Poverty Reduction (CSPR) has been training community-based organisations and media to get involved in monitoring how government is contracting debt.
4. CSPR has also developed a public debt monitoring tool that community members can use to monitor public resources. The existence of such tools and accompanying training have increased the ability of the community to hold government accountable.
5. CSOs such as the JCTR and the Zambia Institute for Policy Analysis and Research (ZIPAR) engage in advocacy programmes and submit advocacy papers to ministries and parliament.
6. Some CSOs have also been doing empirical research and comparative studies on debt to see how Zambia can achieve debt restructuring and if there are any other alternatives to debt restructuring.
7. CSOs also track the quarterly statistical bulletins on debt and the annual borrowing plan to ensure that government remains on course with concessional borrowing.
8. With technical support from the National Democratic Institute (NDI), the Debt Alliance conducted a legislative review of the existing Loans, Grants, and Guarantees Authorization (LGGA) Act, which guides the Zambian government's process of managing its debt and identifying gaps and weaknesses in the legal framework. Drawing on this analysis, a model debt management bill was developed and presented to the Ministry of Justice. The model bill included recommendations for a revised legal framework to ensure greater transparency, accountability, and parliamentary

oversight in debt contraction. Through this process, the Debt Alliance realised that there was an additional challenge to holding the government accountable: the lack of available public information about the country's debts. To address this, NDI worked with the Debt Alliance to examine global examples of Access to Information (ATI) laws and to create a model bill based on global best practices. During this period, the Debt Alliance also mounted a successful advocacy campaign against amending the constitution to remove a requirement for parliamentary oversight on debt contraction.

9. Through a robust social media campaign and advocacy efforts on these and other debt issues, the Debt Alliance helped make Zambia's spiralling debt a salient issue in the 2021 general elections. Debt and other economic and social issues proved to be a powerful motivation for the almost 60 per cent of Zambians who voted for new political leadership that promised a different approach. After the elections, the Debt Alliance continued to pressure the new administration to follow through on their campaign promises to prioritise transparency and accountability in legal reforms around debt contraction.
10. Through its advocacy and awareness-building efforts, the Debt Alliance garnered support from the government, political parties and members of parliament in favour of repealing the LGGA Act. In 2022, the Ministries of Justice and Finance invited the Debt Alliance to comment on the government's new Public Debt Management Bill. Dissatisfied with the lack of transparency and excessive executive branch powers contained in the bill, the Debt Alliance developed a submission to parliament asking for revisions to the bill. The parliamentary committee reviewing the bill adopted some of the Debt Alliance's most significant recommendations in its report to the Speaker of the National Assembly.
11. Over the past year, the Zambian government has taken steps to address the country's debt and restore macroeconomic stability. For example, in recent months, the government published a list of Zambia's international creditors and their loan amounts, reached a staff-level agreement on debt relief with the IMF, and brought foreign creditors to the debt restructuring table. The Debt Alliance's work has brought debt management, accountability and transparency to the fore for citizens who are increasingly demanding to know how their taxes are spent and, most importantly, whether the money borrowed is being put to good use. The Debt Alliance says it will continue to engage with the government, media and like-minded CSOs to call for a more robust legal framework to safeguard freedom of information, fight for more transparency around debt, and bring greater accountability to the use of loans contracted.

WHAT SHOULD TRADE UNIONS DEMAND AND WHAT ACTIONS CAN THEY TAKE?

There are many valuable actions that trade unions can take with the aim of addressing the debt situation now and into the future, mitigating the impact of debt on workers' welfare, ensuring that public debt is used more effectively in future as a tool for achieving the SDGs, and improving their own knowledge, communication and advocacy around the issue.

Lobbying for transparency and accountability around public debt and future investment, increasing trade union involvement in monitoring debt and budget decision-making are two key actions that trade unions can take. In addition, they can lobby for measures on tax, wages and formalisation of the economy; improve public investment for meeting the SDGs; and work with others, including parliamentarians, development partners, international organisations and CSOs to improve frameworks for how sovereign debt can be deployed to meet development priorities.

In the face of the immediate crisis, trade unions can advocate for pressure on creditors, such as the Paris Club, the Chinese government and international private sector bondholders to restructure debt. They can advocate for a deep and comprehensive debt treatment involving

all official and private creditors as a 'win-win' solution to be agreed and implemented as soon as possible. Such a debt treatment must ensure:

- Deep reductions to Zambia's existing stock of external debt – and not simply a restructuring and postponement of debt repayments to be borne by Zambians in decades to come.
- A clear path towards debt sustainability over the long term – especially considering the persistent threat of potential global economic slowdown in the coming period – to avoid the risk that Zambia faces repeated episodes of debt crisis in future.
- Significantly greater fiscal space for the Zambian government to invest in job creation, social protection and improved public services for future recovery and economic growth.

Equally, trade unions in Zambia are uniquely placed to speak out in favour of efforts to reform the broken international system for resolving debt problems. This includes efforts by trade unions and others to push the IMF and G20 to deliver urgent improvements and clarity to an expanded Common Framework, including to permanent reforms to the international architecture for resolving debt crises over the long term.

ITUC
International Trade Union Confederation

info@ituc-csi.org

www.ituc-csi.org

Phone: +32 (0)2 224 0211

Boulevard du Jardin Botanique, 20
1000 Brussels, Belgium

Publisher responsible in law:
Luc Triangle, General Secretary

