Export Credit Agencies in Zambia

A Case Study

African Forum and Network on Debt and Development

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About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

1. To enhance efficient and effective management and use of resources by African governments;
2. To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
3. To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

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The views on Zambia expressed in this report are solely the author's own and do not necessarily reflect the views of AFRODAD or any of the institutions that the author consulted. Similarly, the views herein do not necessarily reflect the views of any of the institutions to which the author is affiliated. Errors and omissions are fully the author's own responsibility.

Preface

Calls for the reform or even elimination of export credit agencies (ECAs) come in the broader policy context of government commitments to meet Millennium Development Goals (MDGs) that set targets for poverty alleviation, health, education, and environmental protection. In terms of their financial impact on international trade, these agencies are unsurpassed, but rarely do they receive attention in the financial press or broader recognition. A key concern in development circles is that public resources directed via ECAs to support export promotion have contributed very little to sustainable development or the MDGs more broadly.

During the 1990s and since 2000, there has been a great deal of talk about 'free trade' and 'export led growth' although neither of these has been realized. At the same time that this rhetoric existed, Africa was exposed to huge agencies (ECAs) whose impact is to distort, rather than create, free markets.After 1991, Zambia after years of experimenting with socialist policies embarked on fully liberalizing markets to enhance private sector participation through free market development, reduce government role in commercial activity and improve and strengthen the sector's delivery system. In so doing, a number of export credit agencies were invited to assist Zambia in its economic development pursuits and these consequently brought about challenges related to socio-environmental management as well as the up scaling of bilateral external debt in the country. An in-depth understanding of export credit agencies, how they promised to pull the country out of its economic quagmire and development crisis is fundamental to understanding whether export credits are crucial to solving developing countries problems or they rather worsen the situation.

This research report is an attempt by AFRODAD through the use of a country-based case study- --aimed at revealing and explaining ECAs history, role, functions, and controversies regarding their missions.-so to stimulate debate on the role, achievements and failures of export credits in Africa with the sole purpose of unveiling the closed and secretly guarded manner by which ECAs have operated in developing countries. For those who are opportunistic about ECAs playing a positive role in Africa's development more often than not the discussion is on how best to ensure a proposed reform agenda for ECAs that would support sustainable development. This includes steps on how to minimize the negative development impacts of current ECAs activities (lack of transparency and accountability, corruption, bribery, environmental degradation, etc) and how to maximize the positive development benefits (risk management, infrastructure development, technological transfer, etc) to be gained from ECA support. For the pessimistic the latter is more emphasized than the former.

If reform is to remain preferable to elimination of ECAs, however, it will be necessary for national governments to take meaningful and timely steps that ensure enforcement of ethical standards of their operation, local control of these agencies and putting them to work where their comparative advantage is needed most. A potential future for ECAs begins with the adoption of reforms that allow ECAs to remain relevant in the global marketplace and lead ECAs to shift a share of their support to projects and exports that contribute significantly to sustainable development. A potential future for ECAs begins with the adoption of reforms that allow ECAs to remain relevant in the global marketplace and lead ECAs to shift a share of their support to projects and exports that contribute significantly to sustainable development.

The point has to be made that ECAs in themselves do not pose a threat to Africa's development; it is the structure of their operations that do. For a long time, Africa bargained from a terribly difficult and disadvantaged position with its partners. In many cases, such bargaining disadvantages do not arise out of poor position, but simply on account of lack of information.

Charles Mutasa

Executive Director

AFRODAD

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List of Acronyms

AfDB	African Development Bank
AfDF	African Development Fund
AFRODAD	African Forum and Network on Debt and Development
BESSIP	Basic Education Sub-Sector Investment Programme
BOZ	Bank of Zambia
CSO	Central Statistical Office
CSPR	Civil Society for Poverty Reduction
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee (of the OECD)
DSA	Debt Sustainability Analysis
ECA	Export Credit Agency
ECZ	Environmental Council of Zambia
EIA	Environmental Impact Assessment
ERIP	Economic Recovery and Investment Project
ERC	Economic Reform Credit
ESAC	Enhanced Structural Adjustment Credit
EU	European Union
FDI	Foreign Direct Investment
FNDP	Fifth National Development Plan
HIPC	Highly Indebted Poor Country
HMIS	Health Management Information System
IDA	International Development Association
IMF	International Monetary Fund
JCTR	Jesuit Centre for Theological Research
LDC	Least Developed Country
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MOFNP	Ministry of Finance and National Planning
NGO	Non Governmental Organisation
NPV	Net Present Value
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PIRC	Privatisation and Industrial Reform Credit

PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Report
SFH	Society for Family Health
TNDP	Transitional National Development Plan
TOT	Terms of trade
UN	United Nations
UNZA	University of Zambia
WTO	World Trade Organisation

1.0 Introduction

Many non-governmental organizations around the world are calling for more far-reaching reforms in the practices and approaches of Export credit agencies (ECAs). Expectations of greater transparency and accountability in the international economic and trade system are increasingly heard from all quarters. Recent examples where all these issues have come to the fore include ongoing debates over the need for reform of the International Monetary Fund and the international discussions and controversy over agricultural subsidies within the World Trade Organization in negotiating a fair and equitable global trade deal. From the perspective of many observers on the outside progress in ensuring that ECAs work in a transparent and accountable way for the development of poor countries has been too slow, and the current situation remains seriously inadequate. Most export credit agencies (ECAs) and public insurance agencies have few and, at times, no environmental and social standards. Such agencies compete intensely with one another, they often step in to support projects lending that encourages the absence or lowering of standards.

It is widely held that the bulk of financial transactions and flows in the global economic system favour multinational corporations and banks in rich countries over the poor and the environment in (low and middle income) developing countries (Goldzimer, 2003). Financing from high to low and middle income countries in the global economy takes place in three main ways:

1 AS LOAN FINANCING OR EXTERNAL DEBT This is where developing countries take on formal external debt on concessional or non-concessional (market) terms from richer, more developed countries. The debtor countries then use the loan finances to support developmental or macroeconomic stabilization programmes, and in some peculiar cases, to pay for other debts that have fallen due.

2 AS OFFICIAL DEVELOPMENT ASSISTANCE (ODA) This is essentially foreign aid and grants channelled from rich to poorer countries on a non-market basis. This form of funding is mainly meant as international assistance for poorer nations to make progress in human development efforts. Since 2000, such efforts have been largely shaped by the Millennium Development Goals (MDGs).

3 AS FOREIGN DIRECT INVESTMENT (FDI) This consists mainly of flows of foreign capital into the financial and goods markets of developing countries, with the express aim of seeking profits. A large proportion of international investment financing is in the form of public funds such as taxpayer-backed loans, guarantees, and insurance investment funds.

Western governments and private establishments have traditionally used various agents to channel development assistance and investment funds to recipient countries, including institutions like the World Bank, and the International Monetary Fund (IMF), commercial banks, private venture capital firms and a range of export credit and investment support agencies (ECAs) which are most often quasi government bodies.

The main problem associated with ECAs is that they often support projects that are so risky and potentially harmful to local environment and to people that other agencies, such as the World Bank group and other multilateral banks, will not support them. The ECAs go ahead with financing such risky ventures even when the ventures can reasonably be expected to be unproductive or counter-developmental. The motive for this behaviour - which is essentially a demonstration of bad faith - is the ability of the ECAs to pass on the risks and losses associated with bad debts to developing countries. Developing countries incur the export credit debt either by borrowing directly from the ECAs or by guaranteeing (often unproductive or retrogressive) ventures. ECAs universally require the domestic government to guarantee their investments or to counter-guarantee their own guarantee extended to the projects. In any case, as latter parts of this study show, ECAs have the potential to generate debt that is particularly harmful to the domestic economy, and comes at a cost to society and the environment in developing countries.

Many ECAs have a Debt collection or recovery department that will apply pressure on the African governments to negotiate and enforce repayment schemes for export credit debt. As already noted but worth repeating, due to the counter-guarantee mechanism, the ECA is able to shift the original private risk of the company involved to the government of the African country or for that matter any developing country. That is how ECAs have become responsible for 30-40% of the total external official debt of developing countries while still being associated with "white elephants".

These types of Debt are odious and will, at some point in the future, have to be subjected to Arbitration processes on Debt[1]

In addition, partly because of the clandestine mode of operation employed by ECAs, the activities they support are rarely governed by appropriate environmental safety and pro-poor policies in the domestic economies in which they are implemented, ultimately causing serious consequences. Reportedly, some ECAs are even able to support the export of arms and military equipment to dictatorial regimes (www.eca-watch.org). The damaging socioeconomic and physical consequences for recipient low and middle income countries, including environmental destruction and disruption of the lives of poor local communities, will inevitably persist in the absence of the necessary mechanisms (legal frameworks, policies and programmes) for fostering transparency and holding ECA-supported actors accountable for these adverse effects.

The way in which the global economic system favours multinational corporations and banks from rich countries over the poor and the environment in developing countries has been a source of much controversy. Within this context, export credit debt has been widely acknowledged as a mounting problem for developing countries. Through a secondary test case of one ECA that has been involved in debt transactions with Zambia, the study also presents more specific evidence on the role and consequences of ECA operations for the economy and environment of a particular region of Zambia.

1.1 Rationale

Recent discussions on Africa's external debt largely focused on the multilateral debt, particularly the debt owed to the World Bank, the IMF and the African Development Bank. While some countries were provided with partial debt relief, little attention is given to the role of Export Credit Agencies (ECAs) as creditors of export credit debt and their impact on sustainable development. Export credits are an increasingly important source of public financial flows to under-developed countries.

ECA supported activities in developing countries have raised substantial concern. It has been widely observed that ECA supported operations frequently work as clandestine ventures that convert 'risky money' in western countries into profits for western multinational corporations and banks. They do this by making the money work in developing countries, but solely for the benefit of the multinationals and banks. In the recipient developing countries, ECA supported activities have often been carried out at the expense of poor populations and the environment without offering them substantive benefits in return. Domestically, little has been done about these activities because the environmental and safety policies and legislation needed to adequately protect the recipient countries and their citizens from the adverse side effects of the risky, large scale operations that are supported by the ECAs are so often either weak or non-existent.

Borrowing heavily from abroad, especially through the use of export credits to finance development, has spiralled out of control for many African countries and has left those governments at the mercy of often fickle investors. Growing evidence of the negative impacts of ECAs includes environmental degradation, corruption, mismanagement and increased debt burdens.

1.2 Research Objectives

The major aim of the study is (using Zambia as a case study) to investigate the extent of the African debt overhang resulting from the use of export credits and offer solutions pertaining to how best ECA supported credits and investments can contribute to sustainable and equitable development in Africa.

To achieve this, the following specific objectives are pursued:

1. To secure a better understanding of the role of export credits in Africa's mounting external debt and environmental degradation.
2. To identify and analyse the mechanisms by which export credits contribute to Africa's indebtedness and ecological damage.
3. To document evidence regarding the need to adopt more effective environmental and debt management strategies for export credits in Africa.

[1] The AFRODAD project on Free and Transparent Arbitration Court on debt is still in progress. It is expected that civil society lobby and advocacy work around the Fair and Transparent Arbitration FTA mechanisms will translate into the United Nations agreeing to set up an Arbitration Court on Debt through which exploited African and other third world countries could get reparations from those odious activities supported by the ECAs. See www.afrodad.org See also www.odiousdebts.org

4. To establish the role, success and failure of export credits in financing development in Africa.
5. To ascertain the opportunity costs of using export credits to finance development in developing countries and their implications.
6. To initiate public debate on the need for public accountability and transparency of export credits.
7. To contribute towards the fight against the growth of ecological debt in African countries.
8. To use the results of the study to initiate policy change and institution of new mechanisms to overcome the identified issues.

1.3 Methodology

This section highlights the scientific aspects of the conceptual framework, and data collection and data analysis methods.

Literature review was a continuous process carried out at various stages of the study. A considerable number of documents was reviewed and used to inform key components of the study. It captured the subject matter from the perspective of other authentic observers. The literature review also informed the design of the data collection and data verification tools, as well as the conceptual framework for analysis. It drew data from several national and international institutions.

To this end, the study relied mainly on secondary data from official and credible international sources, including the Ministry of Finance and National Planning (MOFNP), the World Bank and IMF, Central Statistical Office (CSO) and NGO sources. Simple data triangulation was the main conceptual format for validating the secondary data, and for the general qualitative and quantitative analyses of the study. The quantitative analysis employed in this report was largely descriptive and focused on deriving and explaining various quantitative indicators on the operations and consequences of ECAs. For aspects that could not be easily quantified, qualitative assessments were relied upon.

In-depth analysis of the effects of ECAs in African countries is limited by lack of adequate and accurate data. From the full profile of ECA-supported projects considered in the descriptive analysis, a case study of one ECA was selected. It is was determined a priori that the case study would be a transaction or projects supported by one of the non Paris Club bilateral or commercial creditors since many of these provide loan financing as export or trade credit. The main criteria used in the selection of the appropriate ECA for the case study was the availability of basic, aggregated information on the ECA. This ensured that it was possible for the study to build a full profile of the test case ECA.

1.4 Export Credits as a Development Issue

ECAs, however, have hardly been studied. In fact, not much is known of their activities both in the advanced countries where they come from or in developing countries where they work. Campaigns have been on for the reform of International Financial Institutions, particularly the World Bank and the International Monetary Fund, but little has been said over the years about ECAs. Some countries keep multiple export credit agencies. The United States, for example, has the Export Import Bank, and the Overseas Private Investment Corporation; Germany has the Hermes Kreditversicherungs - AG, PwC Deutsche Revision AG and Kreditamstalt fuer wiederaufbau (KfW); Japan has the Japanese Export Import Bank and Japan Bank for International Cooperation (JBIC) as well as the Nippon Export and Investment Insurance.

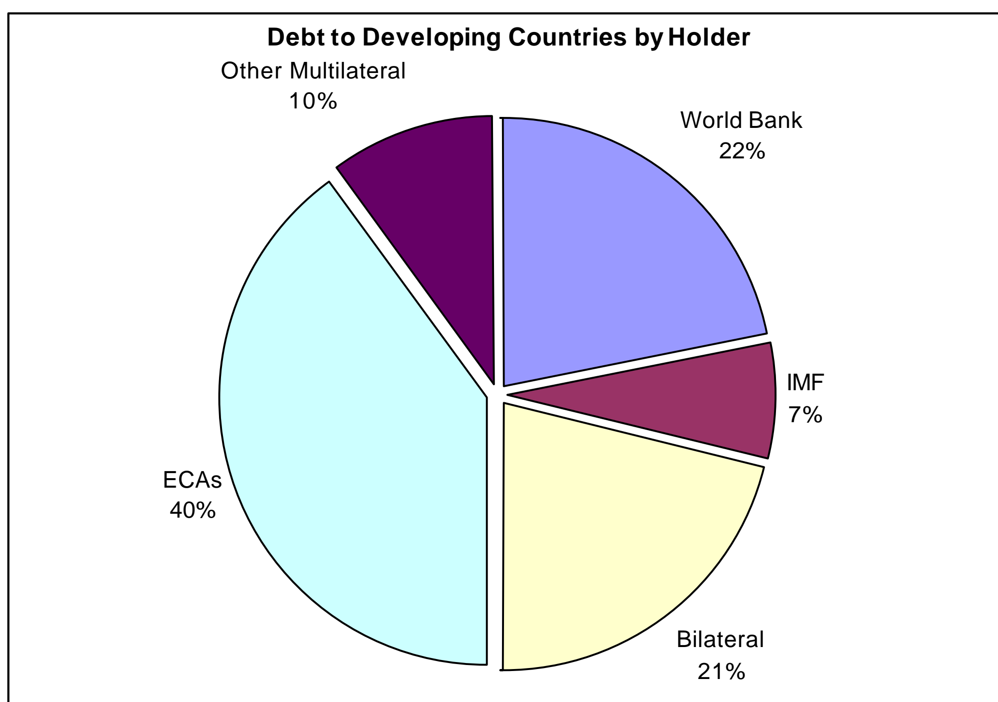
The regime governing these official trade finance (OTF) flows has puzzling features. The legal basis of the regime, officially known as the Arrangement on Guidelines for Officially Supported Export Credits (Arrangement), is ambiguous. Supplier states comprise the rich industrial countries that "produce" official export finance or "give" foreign aid to finance the exports of capital goods, military equipment and agricultural products sought by buyer states. Buyer states are generally developing countries, which have limited ability to pay in cash or self finance these imports. Its proceedings are secret. Its membership is restricted to a relatively small number of states. The Organization for Economic Cooperation and Development (OECD) became the forum of choice for the Arrangement because it permitted secrecy and selective membership that better aligned the interests of supplier states against buyer states. Finally, some sectors and modes of finance are more tightly regulated than are others. Some are not regulated at all.

This research study draws extensively from Zambia's experience as a case study to review ECAs and their operations in Africa. It places the analysis within the context of the pressing development challenges facing many African countries. It outlines salient issues on the journey towards indebtedness for developing countries and ECAs' roles in this. It ends by looking at possible means of harnessing the great potentials in ECAs and minimizing the negative impacts they have on Africa.

2.0 Export Credit Agencies, Environment And Development

The use of export credits has recently become an important source of support from industrialised countries for exports and investments of private corporations in developing countries. Internationally, lending by export credits increased over the eight years from 1988 to 1996 by 400%, from US$26 billion to US$105 billion. They facilitated US$412 billion or 10% of exports from their home countries in 1999 and US$14 billion in foreign investment - mostly based on loans. According to the OECD all aid recipients had a joint official debt of US$ 1,064,718 million owed to public creditors by the end of 2002. Of this huge amount, US$ 368,503 million (nearly 35%) was owed to ECAs, underscoring the fact that export credits are a significant public contributor to the debt crisis of the South[2].

Figure 2.1 Debts to Developing Countries by Holder



Source: www.bothends.org

The amount of investment that ECAs support globally is large and growing-significantly greater than the total amount of lending from the World Bank, IMF, and all other multilateral institutions combined. Most of the results presented in this section are based on the findings from the literature review and the descriptive analysis. The results are presented so that they follow the objectives of the study as closely as possible.

2.1 An Operational Definition of ECAs

According to ECA-watch (2006), export credit agencies (ECAs),

…are public agencies and entities that provide government-backed loans, guarantees and insurance to corporations from their home country [in the west] that seek to do business oversees in developing and emerging markets. (www.eca-watch.org)

To a large extent, they are providing protection against the financial and political risks often inherent in investment in these markets. This definition is consistent with the definitions employed by other international debt observers, such as Joint BIS-IMF-OECD-World Bank (http://www.oecd.org/statistics/jointdebt). Based on this understanding of ECAs, we consider some of their operations and the consequences of these.

[2] External Debt Statistics 1998-2002, ISBN 92-64-10621-9, OECD 2004, p. 191.

In terms of their financial impact on international trade, these agencies are unsurpassed, but rarely do they receive attention in the financial press or broader recognition. There are currently some 90 countries with official ECAs; two-thirds of these countries can be classified as developing or transitional nations; the remainder include the major developed countries. ECAs provide loans, guarantees, insurance, and other financial services to their particular nation's exporters and foreign direct investors. Their contribution to national growth and development both in the North and South is significant, and the special nature of their operations makes them essential to the welfare of countless businesses worldwide.

Key elements in export credits are the credit terms comprising length of credit, starting point for repayment, interest rates, premiums for insurance and guarantees. Through a Guarantee, a fixed interest rates maybe supported by an ECA throughout the loan period. Equally it could provide a guarantee of repayment of the loan at a commercial interest rate agreed by the lending Bank and the Borrower. Such interest rate could be fixed or floating depending on the financing package.

The length of the credit for capital projects is dependent on the category in which the country of the buyer is. The OECD classification puts Cameroon, Nigeria, Zambia and many other African countries into Category II where repayment could range from 8 to a maximum of 10 years. Up to a maximum of 15 years could be applied to renewable energy and water projects.

Repayment of the credit portion must be in equal half-yearly, or more frequent, instalments. The first is payable six months from the starting point of credit. Interest also has to be paid at least half-yearly and is usually paid on the reducing balance of the principal outstanding. The OECD Arrangement requires that the buyer must pay at least 15 per cent of the contract value before the starting point of credit. Some ECAs like ECGD also require that at least 5 per cent of the contract value to be paid on or before the date on which the supply contract becomes effective.

Official or government supported export credits supported by ECAs require less premium and interest to be paid than those charged for commercial market based export credits. Although government supported ECAs are said to assume risks in reality they are fully backed up to offer support for those transactions that cannot find export credit support in the financial markets. In reality therefore industrialized countries subsidize their exports through ECAs even if they do not officially wish to accept that in the context of the World Trade Organization (WTO) rules.

2.2 Modalities and Consequences of ECA Operations

Most industrialised nations have at least one ECA, which is usually an official or quasi-official branch of their government. In some cases, however, the ECA can be a private firm mandated to act on behalf of a nation's tax payers or authorities. A large proportion of international investment financing comprises taxpayer-backed loans, guarantees and insurance investment funds that are channelled through ECAs to recipient low and middle income countries. The aim of ECAs is profit from these ventures and to do so even when the financial and political environments in the developing countries are highly risky. Today, ECAs are collectively among the largest sources of public financial support for foreign corporate involvement in industrial projects in the developing world. For example, ECAs are estimated to support twice the amount of oil, gas and mining projects as do all multilateral development banks, such as the World Bank Group (Goldzimer, 2003; www.eurodad.org).

A significant problem of ECA operations is that they often result in very limited development and poverty reduction in the countries where they implement their projects. They are overly focused of profits and frequently this is at the expense of the low and middle income economies where the funds work. Within the domestic economies, mounting external debt, adverse environmental impacts, increased poverty outcomes and inequality have been observed as the main result of ECA-supported projects. The analysis of Zambian secondary debt data and the case study presented in following sections lend empirical support to these arguments.

2.3 The Environment and ECAs

A significant number of the infrastructure projects whose financing is made possible by ECA cover can involve very serious potential environmental and social impacts: e.g., large scale dams and power plants, mining projects, roads in both pristine and densely populated areas, oil pipelines, chemical and industrial facilities, forestry and plantation schemes, to name a few.

By nature and mandate, export credit agencies are very competitive. This is a major factor in their impact on developing countries. Their success is often measured by how many compatriot firms they are able to support, what contracts they are able to help them win and the amounts they spend in getting businesses for their client firms. As such, in many cases, they do not pay attention to the need, developmental or otherwise, of their host countries. This impacts negatively on a number of aspects of development for most poor countries. First, sustainable developmental goals are subjugated to more nominal and financial returns to the client firms. This reason alone accounts for the fact that export credit agencies support the highest number of ecologically unfriendly projects across the entire spectrum of developing countries. They often fight dirty among themselves in a bid to help domestic firms win contracts. Under the circumstances, many of them set out first to win the contracts and worry later about the impact of the projects that they fund. This has led to the funding of several projects that are considered harmful for residents of the host countries

The first risk of environmental ECAs relates to the physical and financial viability of a project. Such include accelerated sedimentation of dam reservoirs caused by deforestation of watersheds (reducing power generation capacity and project life- span), and the financial costs and risks associated with accidents and toxic spills associated with certain kinds of operations, e.g. use and transport of cyanide in mining. Secondly, even if a project is technically, physically and financially sound and viable, it still has impact.e.g. air and water pollution that affects surrounding populations, disruption of ecosystems (forests, agricultural lands) on which rural populations depend. Third, is social risks related to disruption of the natural environment: examples include forcible resettlement of populations caused by large infrastructure projects such as occurred with the Cameroon-Chad pipeline in Cameroon.

The OECD DAC environmental guidelines reflect a voluntary, non-binding, but common understanding of what is accepted international good practice in development finance. The multilateral development banks have formed a working group (the "Multilateral Financial Institutions Environmental Group") that meets to discuss steps for closer cooperation and collaboration in implementing their existing policies and procedures. The environmental role of the ECAs has already been raised informally in meetings of this group. In reality, in many developing countries environmental and social issues are hard to separate: air and water emissions become a public health concern affecting most often the poor, impacts on tropical forests of large projects almost inevitably affect adversely indigenous and tribal peoples etc. the delayed risk to project viability -- both financial and physical -- that arises from the social and political discontent that occurs when project proponents and financers neglect to adequately address the other kinds of environmental risk (catastrophic accidents and failures, threats to the environment qua environment, and social disruption ensuing from environmental disturbance)[3].

2.4 Development and ECAs

ECAs in different countries are quite different in their procedures and approaches for reviewing export credits and guarantees. The different export support systems are not amenable to common policies, guidelines and standards. More rigorous common policies, guidelines and standards, for example, will result in unacceptable delays in processing applications for certain ECAs. However, there appears to be some growing momentum internationally in a variety of contexts for the adoption of common, or at least coherent, approaches to environmental and social assessment--with corresponding standards and guidelines -- of economic, investment, and trade activities supported by public agencies.

The pressure to provide basic infrastructure and lay the foundation for development leads many developing country governments to make concessions and agree to terms that are often quite crushing to their economies. The credits extended to many developing countries often come with excruciating conditions. For example, the countries are required by the contracts drawn up by ECA-supported firms to purchase only the goods produced by the exporting or investing firm. These might have to be supported with after-sales parts and support services, which are also paid for with funds from the credit. Many of the contracts are over-priced; many of the consultants/technicians overpaid while contracting institutions have very high mark-ups covering all possible risks. Overall governance of many of the projects is weak as the contracts are designed and enforced by the 'donors' while host countries merely receive whatever is offered.

Operations of Export Credit Agencies in many countries are near black holes, and very little publicity is given to them. It is not uncommon to meet a very large proportion of citizens in countries with huge ECA presence professing ignorance about ECAs and their work. The major reason for this is the fact that ECAs do not come directly to support projects.

[3] Bruce Rice, (1998) "Export Credit Agencies: The Need for More Rigorous, Common Policies, Procedures and Guidelines to Further Sustainable Development"

They provide support to the local firms which then engage in the projects. This makes them less visible than many of the firms they support. This is not helped by lack of transparency of many governments. For example, Africa has had a long history of very poor transparency in public sector business. In government, it is generally considered normal to conceal information from the public. The great majority of the public have come to take this as given.

Being supply-driven, a number of ECAs supported projects in developing countries operate often not exactly in sectors that the host countries consider priority areas. Priority investment areas for firms supported by ECAs are determined by the profit potentials of such sectors and activities. On the other hand, the pressure for social and physical infrastructure for development in many developing countries is mainly in sectors in which returns may not be immediate. As such, there is a continuous tension between export credit agencies' operations and objectives and the long term development needs of their host countries.

Whether in the name of development assistance or financial services, Export Credit Agencies (ECAs), and Investment Insurance Agencies (IIAs) have all, in one way or another, helped northern companies get rich at the cost of the populations in the host countries. Apart from the environmental impacts Export Credit Agencies have had many serious effects:

- Dramatic increase in the public debt burdens of developing and transition countries: in addition to official credits from bilateral and multilateral sources, debts incurred by northern private banks and financiers are converted to official debts that add to the public debt stocks of borrowing countries; in many countries, significant portions of the public debt are held by domestic private financial institutions who are able to stash their profits in offshore accounts.
- An eroding away of local and national capacities for economic and political sovereignty: not only are southern governments directing spending away from the public to private sectors, but also, there are few efforts by foreign investors to build technological, productive and management capacity in-country; this carries the danger of entrenching dependency on foreign capital, technology and know how. There is also the problem of a weakened and unprotected labour force, whose capacity and potential is suppressed by domestic policy environments designed to attract and favour foreign investment.
- Stripping domestic economies of natural resources, and local and national assets: many TNC investments are geared towards physical infrastructure development, resource extraction, the export of natural resources and primary commodities, and manufacturing in the apparel sector. Such investments expropriate the natural wealth of the host countries, mandate the privatisation of state enterprises and utilities, and the restructuring of land and resource tenure arrangements to the benefit of private corporate interests (both domestic and foreign).
- The creation of moral hazard and its promotion as the preferred business climate: by underwriting investments without proper economic, social and environmental assessments, ECAs and other International Financial Institutions encourage and facilitate investors to act irresponsibly and take unwarranted risks; they thus create moral hazard; even worse, these business and investment practices are then promoted as the normal (and even desired) ways of doing business.

2.5 Positive Aspects of ECAs Considered

But then an opportunity exists in the fact that if the potentials in ECAs are properly harnessed, they could turn out to be great facilitators of growth for Africa. The point has to be made that ECAs in themselves do not pose a threat to Africa's development; it is the structure of their operations that do. For a long time, Africa bargained from a terribly difficult and disadvantaged position with its partners. In many cases, such bargaining disadvantages do not arise out of poor position, but simply on account of lack of information.

In general Export credit terms from the ECA are better than those obtainable on commercial markets. The starting point of the credit, the point at which the buyer should start repaying the Credit offered may vary according to the nature of the goods or services being supplied. Depending on the ECA, for capital goods or spare parts, the starting point could be the time of acceptance of the goods by the buyer; for projects where the seller is responsible for commissioning the starting point is at commissioning and for those projects where the project supplier is not responsible for commissioning the starting point is the date of physical possession of the equipment by the buyer.

Practicable alternatives to private capital flows apart from support from export credits are quite few, if available at all. Whether in the recent past or in the near future, ECA funding may continue to be relevant for developing countries. Presently aid is dwindling, and in contrast, private capital flows have been on the increase. This changing structure of financing is partly responsible for the high share of developing countries' liabilities accruing to ECAs. As at 2002, ECA-held debts constitute 40% of total debt of developing countries. In contrast, the World Bank and IMF together hold only 29% of total debts. Bilateral debt for the same period amounted to only 21% while multilateral debt outside of the World Bank and IMF formed only 10% of developing countries' debts.

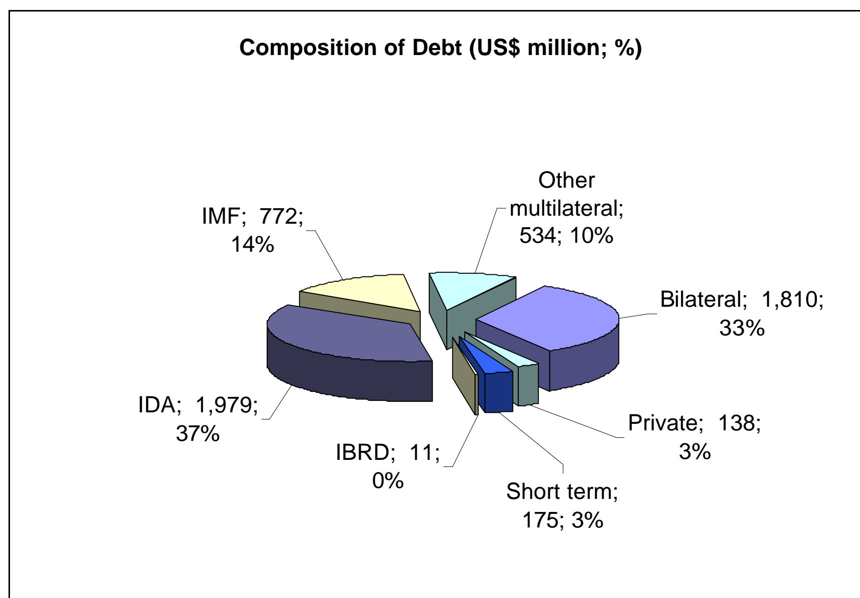
3.0 Financial Implications of Export Credits For Zambia

Zambia has experienced problems of a significant external debt burden and repayment difficulties for about four decades. These problems stem from economic misfortunes of the 1970s and 1980s, which were characterised by falling copper prices at the London Metal Exchange (LME), rising oil prices and increasing macroeconomic instability that considerably dampened the country's ability to meet its social and economic ambitions.

For a long time the origin of Zambia's debt crisis was attributed almost exclusively to domestic issues of good governance and economic reforms. It was assumed that the indebtedness problem was based on domestic policy failure. Over time, however, it has been realised that heavy indebtedness was a result of a complex interrelationship of a ranging of both domestic and external political, economic and social factors. It is well known that on the external front, poor and worsening terms of trade, the above-mentioned adverse price shocks, and the worsening political environment in the region especially in the 1970s all contributed substantially to the large external debt burden that Zambia experienced for a long time. The international context of the origins of external debt is partly what prompted international debt assistance and debt relief effort[4]. The farthest reaching international effort to tackle the debt problems of low income countries was the HIPC initiative - in both its initial and enhanced versions.

A look at the country's debt composition (Figure 1) shows that a large proportion (about 33 percent of the country's total external debt of US$ 5.5 million in 2003) was non-concessional (market terms) loans owed to bilateral creditors.

Figure 3.1 Zambia's External Debt, 2003



Source: Author's construction from World Bank data, World Debt Tables 2005, 2006

As a component of Zambia's total external debt obligations, export (or trade) credit has historically been sizable. Table 1 illustrates the country's debt profile for the period 2002 to 2006 in end-of-year value terms. The table disaggregates the debt data by total stock, due falling due at years end and debt as a memorandum item. Focusing on the debt figures for 2002 and 2003, it can be seen that the financial implications of export credits on Zambia's external debt position were substantial during the period under review. Although export credits as a proportion of the total debt stock were somewhat modest, at only 19 percent of total external debt (all maturities) at the end of 2002 and 2003,[5] they formed the second largest part of total external debt.

[4] Of course in this context, one must make mention of the significant contribution of the extensive campaign efforts of local and international civil society organization, which fostered the change in the international thinking on external debt and persuaded creditors to grant assistance to poorer countries.

[5] The notes (# (4)) at the bottom of Table 1 explain that there is a break in the data after 2003 so that 2002 and 2003 are the latest years for which trade (export) credit data are available. This means the data for the years after 2003 may not be very reliable.

Table 3.1 Zambia External Debt: Total Stock, Debt Due and Memorandum Items 2002-06 (US$ million)

		Stocks (end of period)								
		2002		2003		2003		2004	2005	2006
		Dec	%	Dec	%	Dec (adj)	%	Dec	Dec	Mar
A	Bank loans (3)	107	2	162	3	164	3	200	220	
B	Debt securities issued abroad									
C	Brady bonds									
D	Non-bank trade credits (4)	1 042	19	883	19	883	16			
E	Multilateral claims	3 515	66	3 652	78	3 652	66	3 905	3 443	2 891
F	Official bilateral loans (DAC creditors)	702	13			819				
	Total External debt - all maturities (Sum of A-to-F)	**5 366**		**4 697**		**5 518**		**4 105**	**3 663**	**2 891**
G	Liabilities to banks (5)	68	46	67	68	67	68	89	148	
H	Debt securities issued abroad (6)									
I	Non-bank trade credits (4)	81	54	31	32	31	32			
	Debt due within a year (Sum of G-to-I)	**149**		**98**		**98**		**89**	**148**	
J	Total liabilities to banks (7) (locational)	111	4	166	8	168	8	205	238	
K	Total liabilities to banks (6) (consolidated)	129	5	155	7	155	7	240	331	
L	Total trade credits	1 136	43	995	46	995	46			
M	Total claims on banks (8)	758	28	586	27	586	27	663	792	
N	International reserve assets (excluding gold)	535	20	248		248		337	560	453
	Memorandum items (Sum of J-to-N)	**2 669**		**2 150**		**2 152**		**1 445**	**1 921**	**453**

Source: Adopted from Joint BIS-IMF-OECD-World Bank database http://www.oecd.org/statistics/jointdebt, with modifications

Notes:

(1) From creditor and market sources, except for data on Brady bonds which are from debtor sources, all currencies included

(2) Flow data for items B, C, E, F and L; exchange rate adjusted changes for items A, J and M; no data available for items D, G, H, I, K and N

(3) From BIS locational banking statistics, which are based on the country of residence of reporting banks

(4) Official and officially guaranteed. Break in series at end 1999 due to reallocation of rescheduled export credits from line F to line D

(5) From BIS consolidated banking statistics, which are based on the country of head office of reporting banks and which include banks' holdings of securities

(6) Including debt securities held by foreign banks, which are also included in line G

(7) From BIS locational banking statistics, which are based on the country of residence of reporting banks and which include banks' holdings of securities

(8) From BIS locational banking statistics, which are based on the country of residence of reporting banks

Export credit also forms a significant proportion of external debt due within 2002 and 2003, accounting for 54 and 32 percent, respectively, of all external obligations due. This means that export credits attracted disproportionately higher repayment amounts than other debt components even though their contribution to the total debt stock was relatively small. The debt falling due to export credits was about US$ 81 million in 2002 alone. As a memorandum item, total trade credits accounted for 43 and 46 percent of total memorandum claims in 2002 and 2003, respectively, reflecting a huge external debt burden on the domestic economy.

Also important to note in Table 1 is the acknowledgement that considerable portions of official bilateral loans (Development Assistance Committee creditors) are official and officially guaranteed export credit, not official development assistance (ODA). This was associated with an appropriate reallocation of rescheduled export credits from line F to line D and resulted in a break in series from 1999, reflected in non-bank trade credit from 2004 onwards not being recorded. Later (in Section 4.1), this is linked to important observations on Paris Club creditors.

3.1 ECA Related Transactions and Zambia's Export Credit Debt

The contributions of ECA-supported transactions are explained in this section in terms of total amounts and origins of debt generated from ECA-supported activities. Tables 2 and 3 show the relative debt contributions of ECA-supported transactions to the country's total debt stock. Export credit agency supported transactions are mainly linked to the debt stock owed to non Paris Club bilateral and commercial creditors. This is because the multilateral and Paris Club bilateral creditors have traditionally had an extensive array of institutional and legal arrangements for handling of their loans to Zambia and have, therefore, not used ECAs in debt transactions with the country.

As of 2003, non Paris Club bilateral and commercial creditors accounted for less than 6 percent of Zambia's total debt obligations. This group of creditors was owed a total of US$ 126 million in 1999 net present value (NPV) terms and US$ 312.8 in 2003 NPV terms. It is noteworthy that not all external debt owned to the non Paris Club and commercial creditors was in the form of trade credits. Table 3 shows that, out of the nine non Paris Club bilateral creditors, four countries (Czech Republic, Kuwait, Romania and Yugoslavia) explicitly used ECAs in their debt transactions to recover outstanding payments. For the other nine creditors, it is not clear how far ECAs were used in handling debt transactions. Similarly, no detailed information is available on the handling of commercial creditor loans by ECAs. The US$ 312.8 NPV of debt in 2003 is therefore taken as the upper limit of external debt that ECAs could have possibly handled in 2003.

Table 3.2 Debt Stock by Creditor, 1999 and 2003 (US$ million)

Type of Debt	Creditor	NPV of Debt, end-1999	Nominal Debt 2003	End-2003 NPV of Debt	End-2003 NPV of Debt as % of Total NPV Debt
Total Multilateral		2 126	3 924.7	2 581.6	43.4
Paris Club Creditors		1 739	2 725.3	2 832.3	47.6
Non-Paris Club Creditors (1)		89	247.9	239.1	4.02
	Bulgaria	*n.a*	*2.7*	*2.7*	*0.05*
	China	*n.a*	*212.8*	*206.7*	*3.47*
	India	*n.a*	*8.0*	*7.5*	*0.13*
	Iraq	*n.a*	*0.7*	*0.7*	*0.01*
	Kuwait	*n.a*	*7.6*	*6.2*	*0.10*
Commercial Creditors		37	74.7	73.7	1.24
Bilateral and Commercial		1 865	3 279.7	3 368.9	56.6
TOTAL DEBT (bilateral + commercial + multilateral)		**3 991**	**7 2040**	**5 951.0**	**100.0**

Source: Author's construction using IMF (2005a) and MOFNP (2004) data

Note: (1) disaggregated figures not available for Czech Republic, Romania, Saudi Arabia or Yugoslavia

From Tables 1 and 2,[6] it is estimated that, as a proportion of the 2003 total non-bank export credits amounting to US$ 883 (Item D, Table 1), at most, 9.3 percent (US$ 82 million) was ECA-supported transactions. The origins of the debt generated by ECA-supported transactions are rather unclear as the study was unable to collect hard evidence on this from MOFNP. However, to infer the origins of the debt, one can look at the historical evolution of external debt in Zambia.

[6] The data discrepancy of just over US$ 400 million is noted between the 2003 NPV total external debt value as given in Table 1 (from Joint BIS-IMF-OECD-World Bank database) and the value for the same indicator as presented in Tables 2 and 3 (from IMF, 2005a). The discrepancy may arise from huge exchange rate variations (swings) on the Zambian currency, which is captured differently by different agents or from reconciliation disparities among observers. Both data sets are used because Table 1 (joint database data) has detailed information on total export credits which is not provided in Tables 2 and 3 (IMF/MOFNP data), while Tables 2 and 3 have detailed information on non-Paris Club bilateral creditors and their behaviour in using ECAs in debt transactions (the latter information is not captured in Table 1).

Zambia's huge external debt arose as the country's external position weakened due to adverse international oil and copper price shocks in the 1970s.

Essentially, the price of oil, which the country imports, occurred simultaneously with a plunge in the price of copper, then Zambia's major export commodity.

At the time, the shocks were viewed by the authorities as temporary and, to counteract their adverse effects, the country resorted to borrowing abroad.

Initially, the borrowing was on a concessional basis but, as the economic malaise persisted, the country lost the privilege of borrowing on concessionary terms. Through the combined effect of reductions in aid grant financing (ODA) over time, the loss of concessional borrowing and persistent economic malaise, the authorities eventually began to look for alternative sources of capital. This resulted in positive net flows of new private commercial and non-concessional loans with high repayment terms.

4.0 The Main ECAs in Zambia

The main ECAs that this study was able to clearly identify in relation to Zambia's export credit debt are two international commercial firms, Camdex International and Debt Advisory International. These firms bought debt owed to Kuwait and Romania, respectively, and subsequently recovered outstanding obligations through litigation. The credits taken over by the two firms had both been publicly counter-guaranteed by the Zambian government at inception (i.e. at the signing of the credit agreements) and they were both locally managed by the government.

Based on the information provided by MOFNP,[7] the study was unable to determine the original contraction dates of the credit agreements between Zambia and the two respective countries. Similarly, the study was unable to fully establish the purposes for which the loans were taken by Zambia. In brief, MOFNP indicated that the loan from Romania was contracted to finance procurement of vehicles. The details of the project and implementing line ministry were unobtainable. On none of the indicators solicited in the data collection tool (Annex 2) were any details beyond those summarised here provided. From the brief description, it can only be inferred that the loan was somehow linked to the transportation sector, either directly or indirectly. Nothing can, therefore, be said about the development performance of the credit.

For the Kuwaiti loan, the brief description of the project shows that the loan was contracted to support developmental projects in water and infrastructure. This suggests that the loan was contracted to support the Electricity, Gas and Water and the Construction sectors.[8] Again, beyond generating this brief description, the information provided to the study was not sufficient to yield an understanding of the origins and purpose of the credit, the geographical operation area of the credit-supported project, the project implementers or performance of the Kuwaiti loan funds.

With very little detail on the export credits in the official MOFNP and IMF data, particularly concerning their purpose, geographic area of operation and performance outcomes, it was difficult for the study to rely only on these secondary data in determining the contribution of ECA supported activities to environmental degradation. It was necessary to derive more detailed information from other sources and extensively dealing with the above aspect in a test case of ECA activity in Zambia. The ensuing test case of one of the above-mentioned ECAs, Camdex International, and its past involvement in debt transactions in Zambia therefore relies on additional secondary information to illustrate the environmental consequences of ECA operations.

The case of an ECA-supported development project is considered below in terms of the processes of planning, consultation and implementation it employed as well as its development or other impacts.As noted above, official secondary sources of data on the operations of specific ECAs and the consequences of the activities they support are rather scanty. This section, therefore, pieces together empirical facts from various sources on the involvement of Camdex International, a commercial firm, in transacting on Zambia's debt owed to Kuwait. Among other things, the section looks at:

- The main sectors of the Zambian economy that have been affected by the involvement of Camdex International in debt transactions;
- The environmental, health, social and cultural consequences of having Camdex International take over the debt owed to Kuwait;
- The mechanisms for consultation with local stakeholder (local authorities and communities); and
- The perceptions of local communities and debt authorities with respect the operations of the ECA related project in Zambia.

4.1 The Origin of the Relationship between Zambia and Camdex International

The involvement of Camdex International in debt transactions with Zambia stems from a Deposit Agreement that was entered into between Zambia and Kuwait in 1988 (Park et al, 2003). In the early 1990s, Zambia, which had already experienced a history of debt repayment difficulties, began to default on scheduled payments on the Kuwaiti credit. In response, the Central Bank of Kuwait, which was legally responsible for the loan on the Kuwaiti side, assigned all the debts due under the 1988 Deposit Agreement to Camdex International.

[7] Some information was obtained through key informant interviews with MOFNP staff

[8] Exploration of other data in the case study in Section 5 revealed that the loan was actually meant to finance a project in the Transport, Storage and Communication sector.

Camdex International thereafter initiated a litigation process against the Bank of Zambia, which was legally charged with managing the debt repayments on behalf of Zambia.

The Bank of Zambia appealed against Camdex International's litigation claims. In the Court of Appeal in Camdex International vs. Bank of Zambia, it was noted that written notice of the assignment was given to the Bank of Zambia, which did not dispute its debt to the Central Bank of Kuwait or the amount due, but contested the validity and enforceability of the assignment under English law in circumstances where Camdex International knew, or ought to have known, at the date of the assignment that the underlying debts (in which Camdex International had no pre-existing interest) would have to be recovered by means of litigation.

The Court held that this did not make the assignment invalid or unenforceable. If a debt was bona fide, it did not become unassignable merely because the debtor chose to dispute it. In the absence of bad faith, suing on an assigned debt was not contrary to public policy, even if the assignor retained an interest. The Bank of Zambia's petition for leave to appeal to the House of Lords was dismissed (Dickinson, 2004).

Unfortunately for the Zambian people, who ultimately bore the full burden of the debt, the case of bad faith in the original contraction of the Deposit Agreement was never pursued. Essentially, what this means is that some unscrupulous persons in strategic positions in Zambia signed for a loan from Kuwait, Zambia failed to pay back due to a host of factors,[9] and so Kuwait minimised its losses by selling the debt to Camdex International. The firm then sued Zambia in the English courts and won. That unscrupulous debt[10] had been contracted did not come into question. Most leads on this case suggest that no one could find the documents, or even informal or verbal records of who agreed to the loan in the first place. So, while Kuwait and then Camdex International recovered their debt in full, the original loan funds seem to have disappeared into thin air without anyone ever being held accountable for contracting the loan or managing the project funds. Hence the loan did not benefit the Zambian people at all!

4.2 Areas of the Economy Affected by the Involvement of Camdex International

To establish the sectors of the Zambian economy that were affected by the involvement of Camdex International in debt transactions, one has to understand the nature of the project for which the loan was taken out. The original Deposit Agreement between Zambia and Kuwait was part of a broader Co-Financing Agreement to support the Mongu-Kalabo Road project. The aim of the project was to connect the small villages in the western part of the country (in Kalabo district[11]) with the rest of Zambia, through an all weather road which specially catered for the project area where the road would pass through the Zambezi flood plain. This road connectivity was to be achieved through the construction of a paved road of about 74 km, and the provision of all the necessary drainage and traffic safety measures. The project would also provide tow ferries to cross the Zambezi River (BADEA, 2004).

Although the original Deposit Agreement and road construction process date back to the late 1980s, as of 2005, there was still no road connecting Kalabo to Mongu, with construction still going on. The people of Western Zambia and particularly, the people of Kalabo who had been waiting for a road for almost two decades have kept waiting.[12] At the same time, the Zambian people in general have been made to bear the additional burden of this bad debt without the loan funds ever having generated any positive developmental outcomes in the country.

Astonishingly, in the mean time, the Zambian government went back and took out two additional export credits from Kuwait, one in April 2000 and another in December 2004 (BADEA, 2004). This after the initial financing agreement went horribly wrong and ended in litigation and losses to the Zambian people. Reportedly, the credits were for co-financing the Mongu-Kalabo Road project, the same project for which Kuwait had extended a credit to Zambia in 1988. As a condition of the latter loans, part of the funds where to be dedicated to paying for the consultancy services of TAEP, a firm of Kuwaiti nationality, which was appointed as co-consultant with DIWI (a German consultancy firm). To build the road, Consolidated Contractors Co., another Kuwaiti firm, was appointed as the sole constructors.

[9] Some of these included: limited growth prospects due to a persistent economic downturn; and poor performance of the loan with limited developmental impacts to the extent that the Zambian government became increasingly reluctant to honour the debt.

[10] That is, debts taken on by unscrupulous individuals in the recipient country to, first and foremost, serve the strategic geopolitical and economic interests of the creditor and the individuals themselves rather than the well-being of the local population.

[11] Kalabo is a rural district in a remote part of Zambia. It boarders Angola on the west and is largely in a flood plain. The district is sparsely populated with a people that follow very conservative ways of life rooted in tradition and culture.

[12] Based on press report in one of the local news reports: http://www.times.co.zm/news/viewnews.cgi.

This clearly points to significant weaknesses in the loan contraction process, both domestically and externally. It is inexcusable that people in strategic position were able to sign for a loan, receive funds and allow them to disappear without the funds ever being accounted for and then simply go back to the same creditors to sign new loans.

Domestically, this points to a weak and nontransparent institutional framework for loan contraction that is prone to fiduciary risks, resource leakages and corruption. On the external side, it reflects profit-oriented and highly opportunistic behaviour whereby the creditor was willing to make out a new loan even after a previous loan in the same country, in the same project area and on the same project had failed badly.

Considering that a strong signal had already been given indicating that the domestic environment was unsafe for extending further project financing, there seemed to be a considerable amount of bad faith on the part of the creditors in granting additional loan contracts.

Overall, the main sectors affected by the involvement of Camdex International were the transportation sector (and the road sub-sector) and the construction sector. The construction sector was denied the benefits of additional local employment in consultancy and civil engineering. More significantly, the completion of an important national link to a remote area, in terms of a reliable road from Kalabo to Mongu, stagnated, as the road network around Kalabo remained undeveloped. In addition, the entire Western province would have benefited from the opening up of the Zambezi flood plain, a region with enormous agricultural potential. Access to essential social services would have been improved, thereby offering the isolated communities of Western province the chance to enjoy a better standard of living. These would-have-been benefits were forgone however. Overall, the road sub-sector was significantly adversely affected because of reliance on an export credit for financing.

4.3 Environmental Impacts of the Mongu-Kalabo Road Project

The potentially adverse impact of ECA supported ventures on the environment has also been cited as a major concern with the operations of ECAs. The usual anecdotal claim is that ECA-supported activities are rarely governed by appropriate environmental safety and pro-poor policies in the domestic economies in which they are implemented. This study raised this issue regarding the Mongu-Kalabo Road project, since this is the only clearly defined project where an ECA choose to get at least indirectly involved in Zambia.

According to the Environmental Council of Zambia (ECZ),[13] the Ministry of Works and Supply, as the local implementing agency of the project, failed to comply with the Environmental Act by commissioning construction of the Mongu-Kalabo road under the Phase I design. Reportedly, it had advised that the road was being constructed on a plain and, as designed at the time, would not withstand the floods once construction was through. Unfortunately, the project implementer and Kuwaiti consultants did not take this advice. As ECZ had expected, under Phase I of the project, the consultants later determined that the civic works could not be fully carried out under the original civic design and financing plan. The project was thus revised to be carried out in two phases. The problems being faced in the construction of the road could have been avoided if there had been wider consultation. Meanwhile, loan funds had been expended before the design flaws were finally acknowledged but ECZ had warned about this beforehand!

A considerable number of claims were made by the then Minister of Works and Supply in 2004 and the Kuwaiti consultants on the Mongu-Kalabo Road project that extensive environmental and social safety evaluations had been done and standards adhered to. None of these claims can be supported by documented evidence.

In the new, two-phase approach, ECZ was still concerned with the slow pace of the response of the implementers and consultants to the request for an Environmental Impact Assessment (EIA). As of June 2005, they had not complied with the requirement of an EIA and were going ahead with a project the environmental impact of which was unknown. Without an EIA, there was no way of ensuring that the environmental and social standards applied by the implementers and operators of the road project were in compliance with the local environmental and social standards set for the country in the Environmental Act. It was very likely that the road constructors were in violation of environmental standards given the delicate nature of ecosystems around major rivers generally. And, according to ECZ, the construction of the road without an EIA was illegal as it ignored the legal requirements of the Environmental Act.

[13] Based on brief key informant interviews with staff at ECZ who chose to remain anonymous; supported with press reports – *The Post of* Zambia, 29/9/2004 (thepost.zamnet.zm).

4.4 Social and Cultural Impact of Camdex's Involvement in Zambian Debt

ECZ also argues that, on the technical (engineering) side, the design of the Mongu-Kalabo road will continue to be a liability to the people of Western province because it actually divides the plain into two. The culverts that were designed for the road were too small for canoes or boats to pass through and would hinder movement. The expert opinion of ECZ is that cultural considerations are being grossly violated in the way the road project is being handled. The people of Western province, who normally use the Zambezi river for transportation via canoe in their (internationally renowned) Kuomboka Ceremony, will be forced to change this cultural heritage since the route used by the Litunga (the Chief of the Lozi people of Western province, who leads the Ceremony) will be blocked by the embankment and by impassable culverts.

Box 1 Sentiments from Western Province on the Mongu-Kalabo Road (2005)

[The Mongu/Kalabo road has great economic significance for the province as it is used by fish traders, cattle traders, farmers and other traders in the area, but] the Road is an emergency that needs speedy attention before the rainy season which usually leads to floods in the two districts. Because of the negative consequences floods have had on the residents, sometimes causing death and famine, the shoddy work on the Mongu/Kalabo Road has raised a lot of concern. Many people fear if the road is not completed in time, there is likely to be a calamity similar to the floods that happened in 1958 leading to famine...

One does not need to be an expert to see that the work on the Mongu/Kalabo Road is shoddy. This writer toured the road which has raised dust in Mongu and Kalabo.

The Kuwait Consolidated Contractors Company (KCC) which is working on the road is being funded by several stakeholders like the Kuwait Fund Corporation, the Arab Economic Development, the Arab Bank for Development in Africa and OPEC Fund for International Development. The KCC was aided with a whopping $25,000,000 which could have been put to good use with a properly constructed modern road from Mongu/Kalabo.

However, what is pertaining on the ground is disastrous. The road has no outlets to allow for water to pass through when the water levels are high. The old culverts are exposed and would make water transportation disastrous.

One resident, Ricky Nyambe, said the work on the road was below par and asked for a commission of inquiry to intervene before residents take to some unpalatable actions against the road contractors...

In August this year [2005], vehicles from Mongu could not go to Kalabo because of floods which had completely water-logged the road.

Despite doing such a shoddy job, KCC was bold enough to abandon the work on the road three months ago despite being paid K 7.6 billion [approximately US$ 2 million]. At a press briefing in Lusaka, Dr Sondashi said the Government had rejected the pre-conditions from the contractor to abandon the project...

Mongu diocese through the Catholic Commission for Justice and Peace (CCJP) has raised concern on the raw deal KCC has given the government and the residents. Said Mrs Sanana Lewanika, the diocesan CCJP coordinator in Mongu: "We have mobilized people to lobby for construction of a better road. Even as laymen, we feel the contractors should have understood the terrain they were working in. There is no way we can keep quiet when people are being cheated in broad daylight." Nathaniel Mubukwanu, the director of development with Mongu Diocese said the Catholic Church in the area has been in the forefront to sensitize the local community, government and the general leadership to address the matter.

Mr Mubukwanu said at a meeting they organized that residents resolved, among other things, to have Dr Sondashi visit the area and address the residents on the poor road. He said the residents also resolved that the Government should consider environmental issues that the Environmental Council of Zambia (ECZ) had raised. The ECZ recently called the Mongu/Kalabo road an environmental disaster that would have both short and long-term negative effects on the environment...

Dr Sondashi has restated that the construction of the Mongu/Kalabo road has not been abandoned adding that his permanent secretary has just returned from Kuwait where they signed a new agreement. The minister said more money was needed for the completion of the road. A question that would arise is what has been done with the colossal amount that was released for the road?

Source: Adopted from The Post (thepost.zamnet.zm), with minor modifications

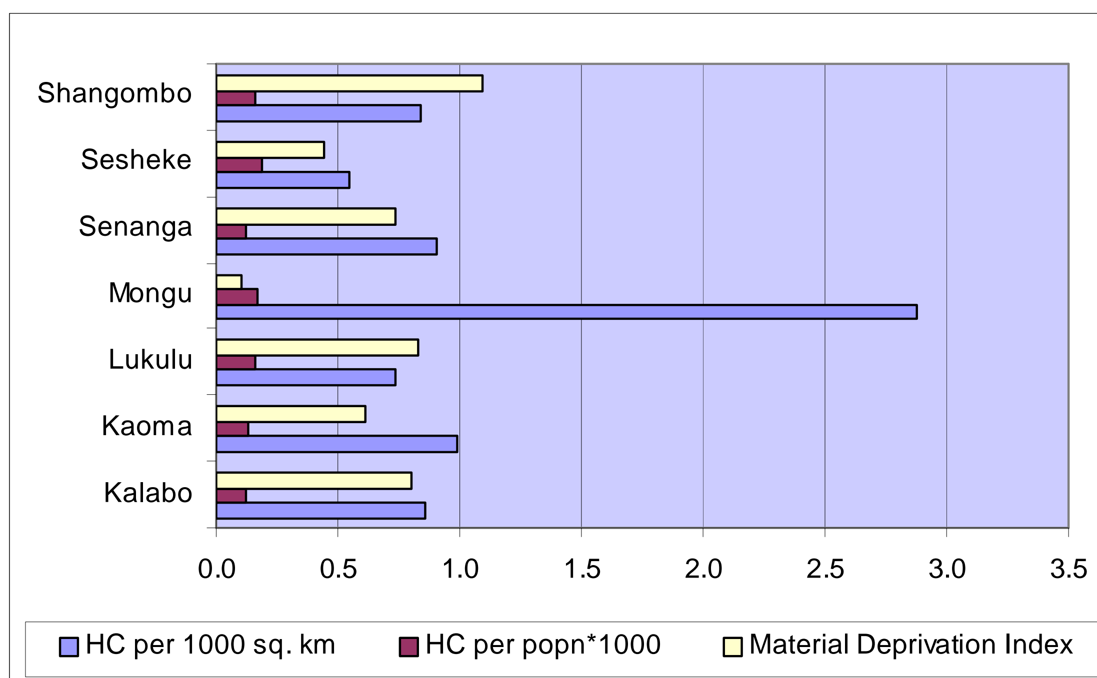
The implementers and executers of the project clearly did not follow any consultation process with local stakeholders and local communities in carrying out the project. That they ignored these cultural parameters is evidence that the project was not done in the best interest of the Western province people.

Although the perception, views and attitudes of local communities with respect to the operation and function of ECA-supported projects in their local communities could not be fully determined, it can be inferred through the opinions expressed by stakeholders such as ECZ that the community would have had at least some reservations about the project had they been consulted. Moreover, reports in the press clearly show that many local stakeholders are very disappointed and concerned with the way the Mongu-Kalabo Road project was handled (see, Box 1).[14]

In terms of social impact, due largely to flawed design, the project has the potential to disrupt the culture of Western province. The people of Kabalo are conservative with deep-rooted cultural traditions. This is seen in the fact that the intra-district internal migration rates during the year are among the highest in the country (CSO 2004), which is simply because the people migrate to higher ground every year when flooding occurs in the Zambezi flood plain and return to the lowlands when the floods subside. On the other hand, the Kalabo people have very low rates of migration to other parts of the country, both in-year and over longer time horizons. This indicates a culture that encourages the people to stay in their local areas and thrive on traditional ways of life. To disrupt peoples' lives without adequately consulting them is unjust!

Without a reliable road network connecting the villages in Kalabo to each other and to other regions, access to public health facilities and general health outcomes in the district will continue to be limited. Even by provincial standards Kalabo health service availability is relatively low. As shown in Figure 2 below, Kalabo has among the lowest number of health centres per 1 000 square kilometers, at 0.86 centres, compared to the provincial average of 1.11 centres per 1 000 km2. This means that most people in Kalabo have to cover greater distances to reach health centres that people in other parts of the province.[15] Clearly, the district would have benefited significantly from a reliable road network that improves physical connectivity and accessibility of people to social services such as health.

Figure 4.1 Status of Kalabo Health Care Access in Relation to the rest of Western Province



At the same time, Kalabo's material deprivation levels are relatively high, compared to general levels for the province. Only two districts have worse general material deprivation indicators than Kalabo. Access to essential social services would have been improved, thereby offering the isolated communities of Western province the chance to enjoy a better standard of living.

[14] The report in the text box has been kept in its original form as far as possible, to ensure that the original sentiments of the report are not altered or distorted.

[15] The figures used here were calculated using CBoH (2002) data, data from the HMIS database and CSO (2004) data.

Although the official position of the government and its project partners is that the road construction is now going on well, media reports suggest that there is still little - almost no - progress on the ground. However, regardless of whether the project it now running smoothly or is still riddled with problems, it is irrefutable that the stalling of the Mongu-Kalabo road in the past considerably delayed the benefits of better living standards. Perhaps project financing that did not involve a 'loose' export credit arrangements would have, at least, resulted in the completion of the road on time and according to national environmental standards.

4.5 The Perceptions of the Zambian Debt Management Authorities

As a starting point, it must be emphasised that the institutional and legal weaknesses inherent in Zambia's loan contraction system were not (and are not) the responsibility of Kuwait or Camdex International. This is by no means the position of this report.

The report does however contend that the two external agencies bore some overall responsibility for perpetuating an inherently weak institutional system and contributing to Zambia's mounting 'debt-without-development' situation. There was laxity in the granting of the loans to Zambia; the conditions attached to the credits were overly one-sided. For instance, the main requirement for approving the loan was that the Zambian government guarantees the investment, largely to ensure that litigation was possible and profits (the full amounts of the loans, including interest payments) were protected in the even of default. The likelihood of adequate loan performance was never brought into question. This curious agreement was simply the perpetuation of a lopsided and unfair system, which allows for the contraction of unnecessary debt that is counter-developmental, environmentally unfriendly and cannot be accounted for.

Another condition for the loan is related to the procurement procedure, which tied the credit to the use of Kuwaiti consultancy and contraction firms as service suppliers. This disadvantaged the domestic economy, robbing it of employment opportunities and the spill-over effects these might have had into other domestic sectors. More profoundly, the conditions imposed a dishonest road contractor who seems to have misrepresented the extent of their knowledge of the local conditions in Western province and their competence to undertake the project. Ultimately, Zambia incurred an export credit debt against an unproductive and retrogressive venture that yielded very limited if any benefits for the Zambian people.

Ironically, MOFNP, the authority with overall responsibility for Zambia's debt, acknowledges that credit financing, particularly from bilateral non-Paris Club creditors is the least desirable form of external resource mobilisation. In MOFNP (2004), donors and creditors were ranked on the basis of their procedures and practices. Donors and creditors with more favourable procedures and practices were ranked as 'priority 1' while those with less favourable procedures and practices were ranked as 'priority 2'.

In the report, overall, the multilaterals were reported to perform "better than the bilaterals on procurement procedures and disbursements methods, since they do not normally tie their aid/credit to any particular suppliers and easily reimburse claims or disburse cash directly to Government or line ministries" [p.28]. For instance, the multilaterals do not insist on making disbursements through payments for services to their preferred suppliers.

From among the bilaterals, loans from China and Belgium are presented as 'priority 1' in the report (MOFNP, 2004), while credits from the Kuwait Fund and the Saudi Fund are listed as 'priority 2'. The report thus recommends that countries like China and Belgium be pursued for assistance as they have proved to be non-conditional in their deliverance of aid and loans. The corollary of this (not stated in the report) is that countries like Kuwait and Saudi Arabia should not be actively pursued for assistance as they have been shown to provide assistance with disadvantageous conditions (e.g., on procurement procedures).

With this expressed position of the Zambian debt management authority, it is curious to observe that the country continues to extend its already long history of loan agreements with Kuwait. Over the years, non-transparent and odious loans have been contracted, litigation action has been taken against Zambia with the decision going against the country, counter-developmental projects have been pursued based on questionable, one-sided loan conditions, projects have stalled and export credit debt has mounted. And yet, Zambia has insisted on continuing to contract loans from Kuwait

5.0 Conclusion And Recommendations

In the case study given in the report, it was observed that the involvement of an ECA in handling debt transactions with the Zambian government led to counter-developmental impacts in at least one poor region of the country. Although the ECA was clearly only doing what was within its mandate to do, the adverse economic, cultural and health implications of the project related to Candex International (such as lost employment opportunities, disruption to cultural practices, delayed improvements in access to health and other social services, etc) are also undeniable. The potential for adverse environmental impacts, due to non-compliance with local environmental standards, were clearly exposed. The perceptions of the local authorities on the undesirability of export credits as a source of external financing were also determined.

Be it as it may with the foregoing country case study we do recognise that ECAs though currently operating in a hazardous and harmful manner in Africa, they do hold huge potentials for the development of Africa. The central challenge is in effectively tapping these huge financing and technical gains in ECAs for infrastructural and economic growth. This is a central problem that needs concerted thinking and action by policymakers, researchers and advocacy groups. In this conclusion, we try to raise a few points for consideration in this regard.

5.1 Regulation of ECAs

Presently, many African countries do not have effective laws guiding investment and foreign inflows. This is badly needed for effective policy coordination. Human nature is such that there is ever the tendency for indiscriminate tapping of public resources for private gains. There is a school of thought that believes that the continent cannot afford to over-regulate economic activities. This is correct; but it is doubtful that the ECAs issue presently is that of over-regulation as much as it is of effective regulation. The fear that further regulation of activities will scare foreign inflow of resources is unfounded. China is one of the most regulated economies in the world and yet is garners more foreign inflows than all other developing countries combined. What investors fear in any economy is arbitrariness and volatility, not regulation. Such regulation only has to be stable, predictable and conducive for business and should tackle such issues as critical sectors for investment, conditions for such investment among others. To this end, the African Union can be of much help. As a central platform for most African countries, it could lay out the broad policies and strategies for foreign inflows into the continent even as it works towards greater stability. Countries can thereafter adapt such broad policies to fit to local needs.

5.2 Harness ECAs to Africa's Development

Currently, export credit agencies are very active in many countries of Africa. But the sectors of concentration of their activities are mainly oil and services and not the traditional sectors of manufacturing and agriculture. It is important to channel efforts of export credit agencies to productive sectors with clearly defined job creation and sustainability analyses. Sovereign guarantees have historically not helped many African countries, particularly those that involve financial obligations on the part of government in the event of failure of projects. It is therefore important to establish central coordinating mechanisms for any such guarantees and negotiations so that individual agencies are not left free to commit countries. This is where the debt management offices which have come to be established in many countries in response to the debt crises could be helpful. As these work towards relieving the country of past debts, it also needs to be proactive and set guidelines and minimum standards for contractual obligations that may imply financial obligations of their governments either to export credit agencies or private foreign firms. There is need to reduce arbitrariness both in the approach to ECAs and the capacity of individuals/groups to negotiate and commit countries to long term obligations. This calls for institutionalization of processes of negotiations and contracting on the part of African countries.

5.3 Subject ECAs to Public Scrutiny

There is need therefore for enlightenment on the activities of ECAs in many countries of Africa. In almost every forum, a central fact staring advocacy groups in the face is the low level of enlightenment about the activities of ECAs in Africa. Whether it is the press, civil society, the public sector or the general public, the situation runs across board; many have never even heard of ECAs. So it is easy to understand that one of the key reasons why ECAs have done so much harm to the continent over the years is because many people do not even know. There is need for identification of credible civil society and non-government groups in strategic countries in Africa and empowering these to coordinate research and advocacy activities on ECAs, debt, economic development and environmental degradation.

5.4 Public Awareness and Debate on ECAs must be Promoted

ECAs must be development focused and to that end there is therefore need to re-structure the objectives of ECAs to incorporate social objectives particularly relating to the development of poor countries. This could begin with partnership; for instance establishment an incentive system that encourages foreign investment in collaboration with local firms under terms monitored by government. It is becoming obvious that aid is largely inadequate to help developing countries. The new global financial architecture that many analysts canvass for should also incorporate investment and technology transfers to developing countries; and one effective means of such transfers could be export credit agencies.

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Appendix 1 List Of Participating Institutions

The participating institutions included the following:[16]

1. Africa Development Bank (AfDB)
2. Bank of Zambia (BOZ)
3. Central Statistical Office (CSO)
4. Catholic Commission for Justice, Development and Peace (CCJDP)
5. Civil Society for Poverty Reduction (CSPR)
6. Common Market for Eastern and Southern Africa (COMESA) secretariat
7. International Monetary Fund (IMF)
8. Jesuit Centre for Theological Reflection (JCTR)
9. Ministry of Finance and National Planning (MOFNP)
10. University of Zambia (UNZA)
11. United Nations Development Programme (UNDP)
12. World Bank (WB)

[16] 'Participating institutions' were defined as institutions that have conducted assessments or reviews of external debt, export credit and/or environmental issues in Zambia or that have otherwise contributed to an understanding of these aspects or components thereof based on documented technical works. They also included institutions whose personnel provided opinions and comments directly to the study.