PMRC
Policy Monitoring and Research Centre

CIVIL SERVANTS DEBT SWAP: A PROGRESSIVE DEVELOPMENT TOWARDS DISMANTLING OF DOMESTIC ARREARS

PRESS STATEMENT

FOR IMMEDIATE RELEASE

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Government through the Ministry of Information and Broadcasting on the 16th of July 2021 announced the debt swap between Government and civil servants as a way to ease the burden in loan repayments to financial lending institutions. **It is well known that deductions from civil servants' salaries are heavy and have adversely affected their productivity and service delivery**. The debt swap shows that Government is committed to the plight of civil servants, which is evident from the memoranda of understanding signed with various lending financial institutions to provide loans to public service workers.

The Public Service Micro-Finance Company is a Government institution which will take over civil servants' loans at a low interest rate. The current agreed interest rate is at 5% in a stretched duration and will provide favourable structured terms and conditions as compared to commercial Banks and other Financial lending institutions. **Government has also frozen loan salary deductions from civil servants who owe various financial lending institutions for the next three months to allow for debt consolidation and reconciliations**.

Government has also negotiated with financial lending institutions to freeze loan deductions on the pay slips of public service employees for reconciliation after which, some will have no outstanding loans as their debt would have been cleared. **Public service workers that will remain owing financial lending institutions after reconciliation will have their debts transferred from their financial lending institutions to the Public Service Micro-Finance Company**.

In addition to the announced measures, Government will continue to release funds to pay civil servants that are owed in various forms such as **leave travel benefits, long service bonus, gratuities and other personal emoluments where an initial Two Hundred Million Kwacha (K200,000,000) was released to continue for a period of six months**. Government will also recover civil servants loan remainders after swapping with worker allowances from the Public Service Micro Finance Company.

This debt swap that Government is implementing is within the confines of laws that govern the employment code of civil servants right to bargain their conditions of service through the Industrial and Labour Relations Act Cap. 269, PART VII of the laws of Zambia. This section of the conditions of service is a non-salary related bargain process, which encompasses issues pertaining to leave for civil servants in all forms.

The debt swap has been formulated following **policies and strategies that support Government's efforts towards dismantling of domestic arrears thereby easing liquidity in the economy**. Since the breakout of the COVID-19, Government has implemented such measures of easing liquidity in the economy, which includes among others, **paying off retirees and provision of COVID-19 stimulus packages**.

Although the debt swap is destined to ease financial pressure of public service workers, it is important to note that its multiplier effects will in turn benefit the private sector by increasing the availability of financial resources (liquidity) to many qualifying borrowers such as Small Medium Enterprises (SMEs). The debt swap is yet another measure of cushioning the adverse effects of COVID-19 on the public service workers, SMEs and the Zambian Economy.

This debt swap is a step towards the realization of the aspirations of the Economic Recovery Programme (ERP 2020-2023) where Government is aware that the domestic arrears have led to a tightening of financial conditions, constrained the growth of private sector credit and contributed to a rise in non-performing loans and consequently pose a threat to macroeconomic stability. Henceforth, Government has prioritized the dismantling of arrears based on the defined criteria of; **socio-economic impact, age, costs, risk, currency and credit** among other variables during the ERP implementation.

The Policy Monitoring and Research Centre (PMRC) commends Government on move taken as various loans and debt owed to public service workers have a negative impact on both their survival and the survival of these financial lending institutions. **This is also a positive stride towards Government's commitment and desire to dismantling domestic arrears**. This is a timely move that will reduce the burden on public service workers who are already facing the economic challenges brought about by the COVID-19 pandemic.

Lastly, PMRC commends Government on this move as restructuring public service workers debt will ease financial burden during the pandemic by increasing disposable incomes through adjusting repayment periods with reduced interest rates in comparison to commercial rates charged by banks and other micro finance lending institutions. **This measure is likely to boost the confidence of workers and consequently improve productivity and quality service provision in the civil service**.

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