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Joint Evaluation

Antonie de Kemp
Jörg Faust
Stefan Leiderer

Between high expectations and reality: An evaluation of budget support in Zambia (2005-2010)

Synthesis report

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Authors: Antonie de Kemp, Jörg Faust, Stefan Leiderer

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Antonie de Kemp (IOB)

Jörg Faust (DIE)

Stefan Leiderer (DIE)

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Preface

The past fifteen years have witnessed a shift in development cooperation from a project-based approach to a sector-wide approach (SWAp) and towards sector budget support and general budget support. These new instruments were a response to the perceived lack of efficiency, effectiveness and sustainability of directing aid towards specific projects. It was believed that the failure of this approach had been caused by fragmentation, a lack of coordination and a weak sense of ‘ownership’. Stakeholders on both sides of the aid relationship felt that budget aid in support of the overall national development strategy and sector strategies would enhance the effectiveness and efficiency of development cooperation and would contribute to more sustainable development.

Zambia is no exception to this paradigm shift in development cooperation. The Government of the Republic of Zambia (GRZ) has a preference for general budget support. In 2005, GRZ and a number of cooperating partners signed a memorandum of understanding about the way in which general budget support would be delivered. This was called Poverty Reduction Budget Support. This budget support was aligned with Zambia’s Fifth National Development Plan, which covered the period from 2006 to 2010. The move towards general budget support also fitted into the overall harmonization process, which culminated in the Joint Assistance Strategy for Zambia in 2007.

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The introduction of budget support created new challenges. Cooperating partners and academics in the field both felt that budget support would be a more efficient, effective and sustainable method of aid delivery, but analysing its impact was proving to be complicated. A lack of information on tangible results sparked a debate in a number of partner countries about the effectiveness of the aid modality, and parliaments in donor countries were demanding to be shown the results of this support. In response to this, the evaluation departments of cooperating partners took the initiative to develop a common methodology for assessing the effectiveness of budget support in recipient countries. This methodology is now being applied in several countries. The objective of the evaluations is to provide empirical evidence that budget support does realize its objectives in terms of development results, including governance, institutional strengthening, economic development, poverty reduction and the improved delivery of services.

This report includes the results of an evaluation of general budget support and sector budget support in Zambia. The evaluation assesses how GRZ and cooperating partners have applied the instrument of budget support in Zambia and how the aid modality has given the government the means of implementing national and sector policies related to economic development and poverty reduction. The evaluation also assesses how successfully these policies have contributed to economic development, improved service delivery and the eradication of poverty. Budget support has contributed to these policies, through funding, but also through the policy dialogue, conditionalities and technical assistance.

The evaluation concludes that budget support has helped to realize a number of objectives in Zambia. Budget support was especially effective in sectors and situations where there was strong government ownership and where the government and cooperating partners were in broad agreement about priorities. Nevertheless, the evaluation also concludes that budget support could have been more effective in Zambia. Weaknesses on the part of GRZ as well as a lack of harmonization on the donor side have undermined the potential of the instrument.

For cooperating partners, the evaluation was led by the Evaluation Department of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Policy and Operations Evaluation Department (IOB) of the Netherlands Ministry of Foreign Affairs and the Secretariat for the Evaluation of the Swedish International Development Cooperation Agency (Sida). These departments have been working closely with the Ministry of Finance and National Planning (MoFNP) in Zambia. MoFNP officers participated in the evaluation's management group.

This synthesis report was written by Antonie de Kemp from the Netherlands Ministry of Foreign Affairs Policy and Operations Evaluation Department (IOB) and Jörg Faust and Stefan Leiderer from the German Development Institute (DIE). The synthesis is based on separate contributions. Stefan Leiderer and Jörg Faust, supported by other researchers from DIE, wrote the report that covers the direct effects and political economy of budget support. This report analyses the development of budget support including funding, policy dialogue, conditionalities and technical assistance. Oliver Saasa of Premier Consult Zambia, the main local consultant for the report, wrote the background material on the political economy of budget support in Zambia and the report on the role of budget support in the health sector. Chris Elbers and Jan Willem Gunning of the Amsterdam Institute for International Development wrote a paper on the macroeconomic impact of aid. They also collaborated with Julien Schrijver, Remko van Leeuwen and Leander Buisman in an analysis of the impact of government policies in the health sector. A team of researchers guided by Eva Terberger of the German development bank *Kreditanstalt für Wiederaufbau* analysed the impact in the roads and water and sanitation sectors. Dennis Chiwele, Martin Fowler, Ed Humphrey, Alex Hurrell and Jack Willis, all consultants with Oxford Policy Management, assessed the role of budget support in the agricultural sector. Antonie de Kemp and Charles Ndakala, who is attached to the Ministry of Education in Zambia, wrote the report on the basic education sector. They received a contribution to this from Mwila Chikwekwe of Impreuna Consulting, who also participated in the poverty analysis section of the report along with Alexander Chileshe of the Economics Association of Zambia. Alexander Chileshe also advised on the overall drafting of the report.

The report was discussed in reference groups in Lusaka and in Bonn. While it is impossible to give a complete list of names of the people who have contributed to the discussion, it is important to single out a few. Geske Dijkstra of the Erasmus University in Rotterdam commented extensively on the draft report. On the Zambian side, the team is grateful for the useful comments received from the Inter-Ministerial Technical Evaluation Committee of GRZ. The GRZ reaction was coordinated by Acting Director of the Economic Management Department of the MoFNP, Felix Nkulukusa, and Chasiya V. Kazembe, donor coordinator at

ETC. Apart from ETC, the evaluation team has also received enormous support from Chola Chabala of the Monitoring and Evaluation Department of the MoFNP. Several ministries and organizations have provided important information and data to the evaluation team, including the Ministry of Finance and National Planning, the Central Statistical Office, the Ministry of Health, the Ministry of Education, the Ministry of Agriculture and Cooperatives, the Ministry of Works and Supply, the Ministry of Local Government and Housing and the Office of the Auditor General. The team also wants to thank Georg Rademacher (German Embassy), Hans de Voogd (Royal Netherlands Embassy) and Karin Sverkén (Embassy of Sweden) for their great support during the evaluation. Thanks also to Mark Speer and Anita Toebosch for the editing and layout of this report.

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Michaela Zintl (BMZ-E)
Annika Jayawardena (UTV-Sida)
Ruerd Ruben (IOB)

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Abbreviations

AFD	Agence Française de Développement
AfDB	African Development Bank
AICD	Africa Infrastructure Country Diagnostics
AIID	Amsterdam Institute for International Development
APT	Annual Performance Tranche
ASIP	Agricultural Sector Investment Programme
BESSIP	Basic Education Sub-Sector Investment Programme
BMZ	German Federal Ministry for Economic Cooperation and Development
BoZ	Bank of Zambia
BS	budget support
CAADP	Comprehensive African Agricultural Development Programme
CCS	Commitment Control System
CIDA	Canadian International Development Agency
CO	Cabinet Office
CP	cooperating partner
CPG	Cooperating Partners Group
CPG–HoC	Cooperating Partners Group –heads of cooperation
CPG–HoM	Cooperating Partners Group - heads of mission
CSO	Central Statistical Office
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DFID	Department for International Development
DHMT	District Health Management Team
DIE	German Development Institute
DPs	Development Partners
DTF	Devolution Trust Fund
EAZ	Economic Association of Zambia
EC	European Commission
EIU	Economist Intelligence Unit
EMIS	Education Management Information System
ETC	The Economic and Technical Cooperation unit of the MoFNP
FISP	Farmer Input Support Programme
FRA	Food Reserve Agency
FSP	Fertilizer Support Programme
FMS	Financial Management System
FNDP	Fifth National Development Plan
FSRP	Food Security Research Project
GBS	general budget support
GDP	gross domestic product
GNI	gross national income
GRZ	Government of the Republic of Zambia

Abbreviations

HDI	Human Development Index
HIP	Harmonization in Practice
HIPC	Highly Indebted Poor Countries
HLPD	High Level Policy Dialogue
IFMIS	Integrated Financial Management Information System
IFS	International Financial Statistics
IMF	International Monetary Fund
INGO	international non-governmental organization
IOB	Policy and Operations Evaluation Department
JAR	Joint Annual Review
JASZ	Joint Assistance Strategy for Zambia
JEC	Joint Executive Committee
JSC	Joint Steering Committee
KfW	Kreditanstalt für Wiederaufbau
KPI	key performance indicator
LCMS	Living Conditions Monitoring Survey
MACO	Ministry of Agriculture and Co-operatives
MDGs	Millennium Development Goals
MDGT	MDG-Tranche
MEWD	Ministry of Energy and Water Development
MLGH	Ministry of Local Government and Housing
MMD	Movement for Multi-Party Democracy
MoESP	Ministry of Education Strategic Plan
MoFNP	Ministry of Finance and National Planning
MoH	Ministry of Health
MoU	memorandum of understanding
MPs	Members of Parliament
MPSAs	ministries, provinces and spending agencies
MTEF	Medium Term Expenditure Framework
MWS	Ministry of Water and Sanitation
NGO	non-governmental organization
NIF	National Implementation Framework 2008-2010
NORAD	Norwegian Agency for Development Cooperation
NRFA	National Road Fund Agency
NWASCO	National Water Supply and Sanitation Council
OAG	Office of the Auditor General
ODA	official development assistance
OECD	Organisation for Economic Co-Operation and Development
PAF	Performance Assessment Framework
PEMFA	Public Expenditure Management and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	public financial management
PHC	Primary Health Care
PRBS	Poverty Reduction Budget Support
PSM	Public Service Management

PRS	Poverty Reduction Strategy
PSRP	Public Service Reform Programme
RDA	Road Development Agency
ROADSIP	Road Sector Investment Programme
RSTA	Road Transport and Safety Agency
SAG	sector advisory groups
SBS	Sector Budget Support
Sida	Swedish International Development Cooperation Agency
SWAp	sector-wide approach
TA	technical assistance
UN	United Nations
UNIP	United National Independence Party
Ups	underlying principles
WB	World Bank
WDI	World Development Indicators
WHIP	Wider Harmonization in Practice
WSS	water supply and sanitation
ZCCM	Zambia Consolidated Copper Mines Limited
ZDHS	Zambia Demographic and Health Survey
ZRA	Zambia Revenue Authority

Summary and conclusions

Summary and conclusions

Introduction

In 2005, the Government of the Republic of Zambia (GRZ) and a number of cooperating partners signed a memorandum for the provision of Poverty Reduction Budget Support (PRBS). By then, the movement towards general budget support was a logical step in the process of harmonizing and aligning development cooperation. This process had started in the 1990s with the development of sector-wide approaches (SWAs). The SWAs contributed to further harmonization, resulting in the Joint Assistance Strategy for Zambia (JASZ) in 2007. The memorandum of understanding (MoU) was also an expression of the preference that GRZ had for budget support as the main aid modality. Over the years, budget support for Zambia increased from US\$100 million in 2005 to US\$216 million in 2009 (including loans respectively US\$109 million and US\$ 248 million).

By agreeing to the MoU for general budget support, signatories committed themselves to:

- a) Enhancing ownership and promoting the effective implementation of the National Development Plan;
- b) Increasing the predictability of aid flows;
- c) Promoting a more efficient system for allocation of funds in public spending;
- d) Reducing the administrative burden on the government; and
- e) Improving both domestic accountability and GRZ's institutional capabilities.

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In turn, GRZ committed itself to:

- a) Continuing the fight against poverty, including adopting public expenditure patterns consistent with poverty reduction priorities;
- b) Pursuing sound macroeconomic policies, as evidenced by a positive IMF assessment;
- c) Implementing public financial management (PFM) reforms; and
- d) Respecting and promoting peace, democratic principles, the rule of law, good governance and the fight against corruption.

This report presents the results of an evaluation of budget support in Zambia. The evaluation focused on cooperating partners' strategies for providing budget support. It also dealt with the process and structure of donor harmonization and alignment with government policies and systems. Finally, it looked at the effects that this aid modality had on institutional performance, PFM and budget allocations, and analysed the impact of budget support in a number of key sectors.

Rationale and intervention logic

Budget support is the financing of a country's budget through a transfer of resources to the national treasury (OECD-DAC, 2006). General budget support (GBS) contributes to national development strategies, while sector budget support (SBS) focuses on a single sector. Both

GBS and SBS emerged in response to dissatisfaction with existing micro- and macro-interventions in development cooperation. The project approach (micro-level) was often fragmented and uncoordinated. The macro-approach focused on economic reforms but gave little emphasis to poverty-oriented sector reforms and institutional improvements in the field of governance. Neither type of intervention encouraged local ownership, which meant that the results were often not sustainable. With budget support, cooperating partners and recipient countries sought to prevent these disadvantages, thereby enhancing effectiveness and realizing more sustainable results.

Budget support is not merely the simple transfer of funds. One of the misunderstandings about this aid modality is that it is a 'blank cheque'. It is not. A specific characteristic of budget support is the direct link between the funds and the policy dialogue, conditionality and capacity building: non-earmarked funds facilitate improvements in the quantity and quality of public expenditure programmes, the policy dialogue helps to define the priorities and instruments, conditionalities create the incentives, and technical assistance helps to remove technical impediments and contributes to capacity building. The effectiveness of budget support relies on the complex interaction between these elements as well as on the roles and capacities of the recipient country and cooperating partners.

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Main findings of the evaluation

In Zambia, budget support has developed into a highly visible and relevant instrument of development cooperation. GRZ and PRBS partners have set up an institutionalized dialogue process. This mechanism served as the platform for discussing all relevant issues, including funding and disbursement procedures, conditionality, capacity building and institutional reform. The share of budget support as a percentage of OECD external assistance has increased. The resources represented a highly important share of the government's fiscal space. Budget allocations in most poverty-relevant sectors have increased absolutely as well as relatively. Overall, increases in these sectors were higher than the budget support inflows.

Framing the governance objective – setting incentives, not buying reforms

Overall, the results of this evaluation contribute to the debate on the potential of budget support. On the one hand, the Zambian experience confirms that budget support cannot simply ‘buy’ fundamental institutional reform, nor can it reduce poverty in a matter of a couple of years. Aid agencies can only expect to push through sustainable reform when there is a critical level of government ownership. On the other hand, this cannot be used as an *ex post* reason to argue that budget support is an ineffective instrument.

As development economists Abhijit Banerjee and Esther Duflo (2011, 253) point out:
‘Politics is not very different from policy: It can (and must) be improved at the margin, and results at the margin can make a significant difference.’

Banerjee and Duflo’s message is that one can make a difference by creating the right incentives. In principle, the intervention logic of budget support takes these insights seriously. The logic of providing a harmonized combination of financial inputs and non-financial components (dialogue, conditionality and technical assistance) is congruent with such a dynamic perspective on ownership. The challenge for aid agencies in Zambia (and elsewhere) has been to implement this intervention logic and to provide a coherent incentive system.

The results of this evaluation show that, like any other government, GRZ has responded to external incentives as well. Budget support has contributed to the realization of a number of – albeit modest – objectives and these results make a significant difference.

Yet the incentives created by the PRBS group, and the policy signals they have sent, have often been inconsistent and at times even contradictory. This has unnecessarily narrowed the margin of policy and political reform. The statement that aid cannot buy reforms – while true – thus easily obscures the fact that aid agencies can also miss opportunities in the margins of this reform.

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The budget increases helped to improve service delivery, especially in the social sectors. Nevertheless, serious challenges remain. While the situation has improved, the allocation of funds to the main sectors remains regressive and shortages persist at all levels. While there is evidence that the poorest groups did benefit from the increased spending, poverty levels remain high, especially in rural areas, and access to many public services is still unsatisfactory. However – and here a warning is in place as well – realistic time frames need to be set and over-optimistic expectations about what can be achieved in a short period of time need to be kept in check. The evaluation covers the period 2005-2009, which is not a long time, especially taking into account the extensive ambitions of cooperating partners. These ambitions were not always realistic.

Regarding policy and governance reforms, budget support has performed below its expected potential. While achievements in the areas of reforming PFM and strengthening the office of the Auditor General (OAG) can be linked to the budget support process, the instrument was not effective in realizing broader objectives. The PRBS group was not able to set up a coherent incentive system using conditionality and alignment that could have compensated for the weaknesses of GRZ. Beyond bringing about some improvements, the PRBS group did not harmonize disbursements and conditionality to a satisfactory level, nor

was it able to set up a joint knowledge management system that would have contributed to strategic consistency in the group's relationship with GRZ.

The root causes of this lack of harmonization relate to the disagreement among cooperating partners about the hierarchy of budget support objectives: some cooperating partners see the provision of funding to alleviate poverty as the main objective of budget support, while others give priority to institutional or governance reforms. Thus, cooperating partners were often unable to offer joint and consistent priorities to the GRZ through dialogue and incentives. Interference from headquarters, who responded more to domestic political situations than to Zambia's needs, hindered the harmonization and alignment attempts being made by aid managers in Lusaka.

The next sections expand on these findings more in detail.

The financing function of budget support

- | 16 |
- 1) *The financing function of budget support in Zambia has performed fairly well, although aid predictability has not improved substantially. The share of budget support has increased over time and represents the lion's share of the government's fiscal space. In addition, the poverty orientation of the budget has gained weight.*

Relative financial weight: Two trends have to be considered. First, budget support has become more important as a percentage of total aid. In 2009, budget support accounted for about 20% of total aid and 32% of the grants to GRZ. Second, the total share of external support has decreased rapidly from around 30% at the beginning of the last decade to less than 20% in 2010 as a result of an increase in domestic revenue. Nevertheless, the funding dimension of PRBS in Zambia was still considerable and has therefore been politically important. Budget support disbursements represented the lion's share of the government's fiscal space. Thus, the financial component of budget support – if combined properly with the instrument's non-financial components – has had the potential to promote policy and institutional reforms beyond the mere financing of poverty reduction.

Transaction costs and predictability: The increasing size and share of aid that is subject to GRZ's budgetary processes has facilitated planning, accounting and reporting procedures for the government with regard to aid inflows. However, this did not lead to a substantial reduction of overall transaction costs because GRZ still faced the challenge of administering huge off-budget inflows from cooperating partners. Similarly, aid predictability – which has traditionally been poor in Zambia – did not improve substantially.

Development of budget composition: Budget support was predominantly supplementary to domestic financing, and there is no evidence of crowding out of domestic resources. Zambia's budget has also become more pro-poor in recent years as poverty-related expenditure has increased as a share of the total budget and as a share of gross domestic product (GDP). Budget allocations and expenditure in Zambia have been roughly in line

with the strategic priorities set out in the Fifth National Development Plan. Overall budget increases in social sectors such as health and education stemmed over-proportionally from GRZ contributions.

Budget support as an instrument for promoting policy reforms and governance

- 2) *Budget support has not performed to its anticipated potential as an instrument for promoting policy reforms and governance.*

While important achievements were made in the areas of PFM, the Office of the Auditor General, decentralization, budget cycle procedures and tackling corruption, budget support has not been able to influence institutional reforms or influence policy in such a way as to substantially improve governance. While the period between 2006 and 2010 shows an overall upward trend regarding some core governance indicators, the ownership of improving core aspects of governance has decreased over the last two years. The instrument had little systemic effect on the general situation of the rule of law in Zambia. Nevertheless, budget support is one of the few external factors that have built up a certain leverage, which has worked against a deterioration of governance in the last two years.

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Budget support and sector results

- 3) *The congruence of the fundamental sector interests and strategies of GRZ and cooperating partners has been beneficial to the effectiveness of budget support. When these interests and strategies diverged, budget support was not effective in realizing the objectives of cooperating partners.*

There are large differences between the sectors in terms of size, the role of donors, aid modalities and GRZ ownership. In the health sector, budget support contributed to a more harmonized and coordinated approach, and strengthened ownership by making GRZ responsible for progress in the sector. Domestic resources allocated to the budget of the Ministry of Health increased from 48% in 2005 to more than 60% in 2008 (net of general budget support). Budget increases between 2005 and 2010 contributed to improved service delivery and especially to improved urban and rural health facilities, medical staff, drugs supplies and use of facilities. The number of health workers increased from 12,000 in 2005 to 17,000 in 2010; the availability of essential drugs improved from 71% to 82%. The percentage of fully immunized children in the worst-performing districts improved from 63% in 2005 to 69% in 2010. The efforts of GRZ and cooperating partners produced positive results, which reduced tuberculosis and (recently) malaria and underweight among children. There was also significant improvement in indicators such as infant mortality, child mortality and maternal mortality, although results in these indicators are still off track. The impact analysis did identify positive impacts on child mortality, maternal death, malaria and diarrhoea.

In the *education sector*, budget support and the sector pool accounted for about 12% of the total resources of the Ministry of Education and about 30% of the discretionary budget. Through PRBS, cooperating partners were able to discuss the development of the education sector and the required budgets at a higher level. Domestic resources almost doubled between 2005 and 2010, and expenditure increased from US\$326 million to US\$590 million (constant prices). The budget increases have enabled the Ministry to invest more in teachers, classrooms and books. The number of basic schools increased from 7,600 in 2005 to 8,400 in 2010, the number of teachers from 50,000 to 63,000 and the number of primary school pupils from 2.9 million to 3.4 million. The enrolment of girls improved and gender parity was almost achieved at the lower and middle basic levels. The number of Grade 9 examination candidates increased from 190,000 in 2005 to 280,000 in 2010 (with an increase of female candidates from 89,000 to 133,000). Partly as a result of a lack of resources, the quality of education remained low. However, it must be noted that improved access among underprivileged groups changed the composition of classrooms in primary schools, which had an impact on average examination results.

In *agriculture*, both the government and cooperating partners agreed that improving the agricultural sector was a condition *sine qua non* for the reduction of poverty in rural areas, but they disagreed about the instruments to achieve this goal. While cooperating partners favoured investments to enhance productivity through farming techniques and capital investment (such as irrigation), the government has raised expenditures for the subsidies provided by the Fertilizer Support Programme (FSP) and the Food Reserve Authority (FRA). *De facto* general budget support contributed to these expansion programmes, which used up the majority of resources from the Ministry, thereby preventing other investments to modernize the sector. The evaluation concluded that the potential of the FSP was undermined by poor targeting and implementation.

In the *roads sector*, general and sector budget support helped improve the roads network, especially the paved trunk and main roads' network. Econometric analyses showed that roads had a significant positive effect on income and school attendance in rural areas. However, cooperating partners have not managed to prioritize the unpaved roads in rural areas. The same applies to rural *water and sanitation*. The econometric analyses showed water and sanitation's positive effects on health and school attendance and a correlation with income. However, the GRZ budget for *water and sanitation* is relatively small and project support is the dominant aid modality, especially in rural areas.

The findings show that two factors in particular affect whether budget support will be effective. First, sectors of interest must be supported by strong government ownership. This was missing in the rural water and sanitation supply sector, where NGOs remained the main providers. Second, budget support can only work if government policies and the objectives of cooperating partners are aligned. Health and education were not only highly important for most members of the PRBS group, but their policy interests converged with a broadly similar perspective of GRZ on sector objectives and strategies. This congruence improved the chances of making budget support effective in channelling more financial resources to the sectors and of promoting policy improvements through a harmonized and aligned

dialogue. In contrast, when the objectives of cooperating partners and GRZ diverged, as they did in the agriculture sector, an inherent contradiction between ownership and donor influence became apparent. While there was agreement on the objectives, GRZ and cooperating partners disagreed on the strategy. As a result, PRBS funds were used for instruments that cooperating partners deemed ineffective.

Budget support and poverty reduction

- 4) *Because it had not been in existence for very long, budget support was not able to contribute very much to the reduction of poverty in Zambia. While improvements are visible in a number of areas, development has been slow. Although improving living conditions in poor rural areas was not always given the highest priority, more realism is needed when addressing expectations.*

Economic policy created conditions that were favourable for economic growth. But in spite of this, poverty has not decreased much and the already high income disparities have widened further. According to 2006 data, 64% of the households may be classified as poor (and in rural areas 80%). Preliminary data of the most recent survey (2010) do not suggest an improved situation. Rural poverty is particularly persistent. One of the main causes is the slow growth of agricultural production. Moreover, a simulation of the potential effects showed that aid may exert a negative impact on the income of farmers. This means that increased aid should be accompanied by well-targeted programmes. One of the main programmes in this sector, the Fertilizer Support Programme (FSP), did not sufficiently target the poorest groups. Recently, the programme has been transformed into the Farmer Input Support Programme (FISP). It has been suggested that this programme will target these groups more effectively.

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Cooperating partners have continued to show their concerns over service delivery in the most underserved areas. However, the government and cooperating partners have not, so far, been able to meet the rising expectations of the poorest groups. Evidence shows that access to many facilities has not improved much for the poorest rural groups. There continue to be major disparities between rural areas, and between the poorest groups and other groups in terms of access to basic services. Roads and water and sanitation programmes insufficiently targeted the poorest rural groups. However, more dynamic analyses also identify some improvements in health and education. The poorest groups particularly benefited from improved access to basic education.

It would also be an illusion to think that the small amounts of per capita aid would be enough to ‘make poverty history’ within a few years. Too many other variables come into play, and the contribution of budget support has not been that high. The results show that the high expectations of cooperating partners were not realistic. It is not reasonable to expect that with a budget of much less than one dollar per capita per day, it is possible to educate the children, improve people’s quality of life, eradicate deadly diseases and reduce poverty within a couple of years. Measured against unrealistic expectations, budget support was not successful. However, the evaluation shows that, aided by budget support, the

government was able to accomplish results in a more modest way. The analysis of service delivery supports this finding.

Budget support and harmonization: A political economy perspective

- 5) *Budget support has not reached its expected potential in terms of realizing all its objectives. This is the result not only of a lack of commitment or capacity at the GRZ level, but also of the limited progress being made by the PRBS group in the areas of harmonization and alignment. This has not rendered the instrument ineffective, but it has impaired its application.*

According to the intervention logic of budget support, the instrument has the potential to promote poverty reduction and institutional reforms through an effective combination of the instrument's financial and non-financial components. However, regarding budget support as useful in principle for promoting institutional capacity, democratic accountability and poverty reduction, does not automatically lead to its effectiveness. What is crucial is the extent to which cooperating partners adapt to a country's systemic capacity to address its own development barriers. Equally crucial is the willingness of the government to address these issues.

| 20 | Based on the common intervention logic of budget support, one could argue that in order for the instrument to be effective, a recipient country has to have two crucial characteristics: a substantial level of ownership of poverty reduction policies and institutional reforms, and the institutional capacity to craft and implement complex development plans. In addition to these important characteristics, the intervention logic requires a recipient country to be capable of aligning a heterogeneous set of cooperating partners with its own reform strategies and priorities. Consequently, as a recipient country's systemic capacity to address development issues improves (along with higher levels of democratic accountability, transparency and administrative capability), the endogenous collective action problems of cooperating partners will be resolved. Recipient countries with such a systemic capacity will have both ownership of development processes and the capability to plan and implement reforms. In these cases the responsibility for harmonizing and aligning donors will move relatively smoothly to the partner country's government. Unfortunately, governments in developing countries that need budget support typically do not have these capacities.

While it would definitely be over-optimistic to expect budget support to resolve all GRZ's challenges, the instrument could have been better adapted to the case of Zambia. Like many other countries in the region, Zambia's relatively weak systemic capacity to cope with its tremendous political and economic challenges could have been taken into account in a more appropriate way by the PRBS group. The country, and particularly its government, has not yet developed the level of systemic strength that allows for effective harmonization and alignment of cooperating partners according to a coherent strategic framework. In recent years in particular, GRZ has not shown a substantial will to engage in far-reaching

institutional reforms. It has also not demonstrated that it has enough administrative capacity in certain sectors and at the level of inter-sector organization to coordinate complex development plans and to align cooperating partners accordingly. In such a scenario, cooperating partners themselves become much more responsible for contributing to coherent policy making and institutional strengthening.

Systemic weaknesses

Vagueness of the National Development Plan: the Fifth National Development Plan (FNDP) has served only as a very broad framework for aligning cooperating partners to the government's priorities. The plan, and its specific sector considerations, were focused more on past developments than on setting out well-defined scenarios for future policies that could serve as guidelines for adapting strategic goals and as indicators of changing context factors.

Inter-ministerial incoherence: Given the broad setting of the FNDP, it did not function as an instrument for fostering a more integrated setting up of sector ministries. Nor did it promote the relative strength of the Ministry of Finance and National Planning (MoFNP) vis-à-vis powerful sector ministries. It is true that one has to distinguish between sectors and their specific degrees of ownership and engagement to bring about solid policy reform. However, the weak integrative capacity of the MoFNP (despite its relatively high commitment to budget support), has set strong limits on overall government ownership and on advancing more comprehensive, cross-sector strategies.

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Weak aid management: As a consequence, the management of strategic and cross-sector aid in Zambia has been weak. In the government system, there is no clear mechanism that deliberates, in a formalized manner, the management of aid beyond the more routine government systems and structures. Moreover, the discourse between government and non-state actors in the area of aid effectiveness is also weak at best. This means that there is no effective overall government strategy on how to include NGOs and civil society organizations in the process of development.

Less will for political reform: Political developments since 2008–2009 cast some doubt on GRZ's willingness to advance the crucial political reforms that are defined in the underlying principles of the MoU (see Chapter 4). Public sector reforms related to decentralization and public service or budget reforms have been advancing slowly. Moreover, some legislative initiatives on regulating NGOs and on the financial transparency of political decision makers have cast further doubts on the government's will to advance reforms that favour democratic accountability. GRZ has been acting in a defensive manner over the past two years with regard to institutional reforms. Instead of opting for a strategy of institutional reforms in core areas (including constitutional change for more democratic accountability), the government was not supportive to calls from NGOs and the opposition for greater transparency, accountability and decentralized state structures.

Incomplete harmonization and alignment

These weaknesses, which are related to the lack of administrative capacity and coherence as well as to a declining political will, have made it impossible for cooperating partners to rely on a purely alignment-based harmonization strategy. On the one hand, cooperating partners have, at least partly, taken on the challenge of harmonization and substantial progress has been made in setting up dialogue structures and a common conditionality framework. However, a closer look at conditionality, disbursement mechanisms, the dialogue process and knowledge management reveals several flaws in the harmonization and alignment process.

| 22 | *Conditionality and disbursement procedures:* Overall, the PRBS process in Zambia has not set up a harmonized incentive system that has linked financial and non-financial components of budget support in a coherent manner. The Performance Assessment Framework (PAF) covered too many indicators from different sectors and was not helpful in measuring progress. Both of these elements reflected the fact that there was no common priority framework shared by cooperating partners. There are different interpretations among cooperating partners as to what the focus of the PAF should be. Closely related to the inconsistency of the PAF is the failure of cooperating partners to harmonize their disbursement mechanisms. This leads to differences in the application of fixed and variable tranches and their links to the PAF. These diverse disbursement mechanisms make it more difficult to send out a coherent signal to the GRZ about the relative priorities of cooperating partners.

In addition to the incoherence with regard to the PAF and the attached disbursement mechanisms, cooperating partners have varying interpretations about whether the underlying principles have been violated. This was particularly apparent in 2009 and 2010 when the Office of the Auditor General found evidence of misappropriation of funds and fraud in two strategic sectors, health and roads. Cooperating partners expressed discomfort with the overall governance performance and considered suspending budget support altogether. This had a signalling effect. Such a joint suspension of disbursements would have been picked up by the press, by civil society and by the opposition as evidence that the government was not performing well. However, the leverage effect that this could have had was limited because of the fragility of the harmonized approach. While several cooperating partners suspended sector support, one partner augmented its disbursements.

Joint knowledge management: Because cooperating partners have different views about how best to craft and implement conditionality and disbursement mechanisms, the potential to build up joint knowledge management (including joint monitoring and learning) has been underexplored. Relevant information, such as budget analyses, sector assessments and disbursement activities, have been made largely on an ad hoc basis and were not widely dispersed among cooperating partners. This situation has caused a huge duplication of work for individual cooperating partners and GRZ and obstructs a more efficient use of invested human capital. The absence of a permanent PRBS secretariat with responsibility for joint knowledge management was a heavy burden when it came to establishing a more solid, fact-based dialogue process. It is also worth mentioning that the present endeavour of jointly

evaluating the instrument's effectiveness ran in parallel with a number of uncoordinated ad hoc evaluations which were being carried out by individual cooperating partners. These parallel evaluations and assessments created an additional administrative burden for GRZ.

The root causes of imperfect harmonization and alignment

- 6) *Differences of objectives, the role of underlying assumptions and the unfinished harmonization agenda have all hindered a more effective utilization of the instrument of budget support.*

Financing poverty reduction versus promoting institutional reforms: according to one possible interpretation, budget support is primarily an instrument for channelling resources through a recipient country's budget into sectors that are most relevant in reducing poverty in order to fund poverty reduction policies in the most effective and efficient way. Alternatively, budget support can also be interpreted as a set of incentives that combine financial and non-financial components in a way that stimulates institutional change in favour of sound public policies and democratic accountability. While the common intervention logic assumes that these goals can be mutually reinforcing, this parallel achievement is not a given. Cooperating partners, especially in times of crisis, have to rank the relative importance of these two goals in order to send credible and coherent signals to the recipient government. In Zambia, the relative priority given to governance promotion as opposed to financing poverty alleviation has varied from partner to partner. This has complicated any possible joint approach of the PRBS group in the dialogue process.

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The different levels of importance the various cooperating partners have given to the underlying principles is also related to the disparities regarding the strategic goals of budget support. For some cooperating partners, the underlying principles are the most important part of a *de facto* conditionality. For cooperating partners that give high priority to promoting governance, every disbursement has, at least implicitly, to be made against an assessment of these principles. For these cooperating partners, indicators of the PAF play only a supplementary role, while the fulfilment of the underlying principles is essential for triggering disbursements. For others, the order of priorities is the other way around.

Harmonization versus consistency with head office policies: The Zambian experience also reveals that it has been difficult for cooperating partners to reconcile the objectives of harmonization at country level and headquarters' policy priorities. Individual cooperating partners still prefer to define the terms for analytical work according to their specific interpretations of the instruments' intervention logic. But these interpretations are not necessarily identical to those of other cooperating partners. Because local officials from aid agencies have to respond to their headquarters' demands, they will eventually introduce a plurality of interests into the local dialogue and harmonization structures, thereby substantially reducing the collective action capacities of the PRBS group.

In the Zambian case, this challenge became evident in a number of situations. In donor countries where parliaments and supervisory institutions have shown a higher level of

scepticism with regard to the instrument of budget support, head offices have become more sensitive to questions of corruption and potential misappropriation of funds. Accordingly, they tend to give more weight to the underlying principles and prefer performance-oriented disbursements to predictable disbursements. Consequently, political changes in the respective donor countries may have an impact on attempts to establish a harmonized approach within the PRBS group in Zambia. This may put aid managers on the ground in a difficult position. While they are supposed to jointly implement a harmonized and aligned approach, they are at the same time receiving orders from their head offices that can easily change over time as a result of political changes at home. It also undermines the effectiveness of budget support because these changes have a negative impact on the predictability of future disbursements.

Given these circumstances, one can interpret it as a relative success that cooperating partners have managed to maintain a certain level of harmonization over the past two years. Yet, the problems of incoherent disbursement mechanisms, overloaded PAF and differences about the hierarchy of objectives will only then be reduced to a level, where budget support in Zambia will develop its full potential if the different agency's head offices (involving their respective constituencies and oversight institutions) embark on another round of yet further-reaching harmonization efforts. This political dimension of harmonization and alignment often remains untouched.

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Recommendations

Recommendations for cooperating partners who provide budget support

- 1) *Ensure that PRBS partners send coherent signals to the Zambian government, consistent with the PRBS MoU.*

The evaluation concludes that the potential impact of budget support has been weakened by the inconsistent policies of PRBS partners and the conflicting signals they send out. One of the causes of this is a fundamental difference of opinion over the main goal of the aid modality: financing poverty reduction versus the promotion of institutional reforms. The intervention logic assumes that both goals can be mutually reinforcing while, in practice, their complementarity cannot be taken for granted. When progress on one of the goals is at stake, PRBS partners may send conflicting signals to the government, thereby weakening their own position. PRBS partners do not need to have the same objectives or priorities, but their actions should not be conflicting and they should ensure a joint position (consensus) on strategic issues. In line with this objective, it is advisable to streamline disbursement conditionalities for the fixed and variable tranches by simplifying and reducing the number of disbursement conditions and making them more transparent.

- 2) *Develop more pragmatism on the objectives of budget support.*

Discussions about budget support, particularly European discussions, focus too closely on continuity as opposed to complete withdrawal. The evaluation has challenged the

conclusions of the extremes of each position in the debate: the provision of budget support was effective and has accomplished a number of objectives, while at the same time expectations may have been too high and unrealistic. General budget support (GBS) potentially has greater political leverage than other aid modalities when there is a common understanding between governments and cooperating partners on development priorities and on strategies to realize these goals. The evaluation shows that budget support is effective if there is strong government ownership and if cooperating partners are able to influence the agenda through strong coherent incentives. Moreover, common goals must be measurable and attainable within a given time span.

3) *Do not think just in terms of alternative aid modalities – it is more effective to stress the complementarity of instruments and the right combination for a specific context.*

The evaluation has shown that GBS is not always the best modality for realizing cooperating partners' objectives. If there is no common understanding on priorities and strategies, and if partners are unable to influence the agenda through coherent incentives, other aid modalities may be more effective. Also, GBS may be more effective if it is supported by other aid modalities – and in return sector budget support (SBS), basket funding and project aid may be more effective if supported by GBS. This complementarity is not automatic, however.

4) *Improve the predictability of budget support and ensure timely disbursements.*

A simple way to improve the effectiveness of budget support is to ensure timely disbursements. While the situation is improving, the Zambian government is still faced with too many uncertainties about actual disbursements (and even commitments). Timely disbursement that is in line with the agreed disbursement schedules is crucial for budget support allocations to be used efficiently and effectively. Moreover, joint commitments can only put an effective incentive system into place if disbursements are predictable and consistent.

5) *Pay more attention to the demand side of domestic accountability.*

It appears that cooperating partners mainly concentrate on strengthening the supply side of domestic accountability (by improving public financial management, the position of the Auditor General, etc.). However, to make these measures effective and sustainable in the long run the demand for domestic accountability (by parliament, civil society and the general public) has to be strengthened simultaneously. So far, cooperating partners seem to lack the appropriate instruments (and incentives) for this. More effort needs to be put into developing such instruments.

6) *Be more realistic about the potential of budget support – and aid in general – to reduce income poverty.*

In many countries in Africa, cooperating partners had high expectations about how aid would be able to reduce income poverty. Almost without exception, results appear to be disappointing. While the reduction of poverty is the ultimate goal of aid, it is important to

acknowledge that resources are far too low and the time span too short to produce the desired results. Cooperating partners may hold the government accountable for taking action to reduce poverty and improve the quality of life of the poor, but expectations should be based on a realistic analysis, taking into account the point of departure, available resources and time needed to produce results.

Recommendations for the Ministry of Finance and National Planning (MoFNP)

1) *Strengthen the position of the department responsible for communicating with PRBS partners.*

In order to improve inter-ministerial coherence and strategic and cross-sector aid management, it is important to strengthen the coordinating role of the Economic and Technical Cooperation (ETC) Unit of the MoFNP as the focal point for the management of aid beyond the more technical and routine tasks. ETC should be involved in all GBS-related discussions. This may require some organizational re-arrangements to furnish the necessary capacity.

2) *Strengthen the position of the Monitoring and Evaluation Department of the MoFNP.*

| 26 | More coordination is needed on the monitoring and evaluation (M&E) function. Information about issues related to budget support is often fragmented and not directly available or is not available in a structured and consistent way. The current practice – with consultants asking for the same information again and again – is inefficient and leads to high transaction costs for the MoFNP. Apart from the need to enlarge the M&E Department, it is also advisable to appoint a specific PRBS focal point within that department.

3) *Ensure that government policies are more effectively oriented towards reducing poverty (particularly rural poverty) and improving the quality of life of the poor.*

While expectations about the reduction of poverty were overly optimistic, the evaluation also concludes that government interventions could have been more effective. It will be a challenge for the new, Sixth National Development Plan (SNDP) to translate objectives more effectively into concrete actions to improve the lives of the poor, especially in rural areas. The impact analysis of several sectors recommends the following:

- reconsider the Farmer Input Support Programme and ask the M&E department of the MoFNP to evaluate the effectiveness of the programme in the fight against (rural) poverty;
- give higher priority to public works such as water and sanitation programmes and road projects in rural areas;
- evaluate the effectiveness of financial incentives for health and education workers in rural areas;
- give high priority to the construction of houses for teachers in rural areas;
- evaluate the effectiveness of the primary reading programme and pay more attention to language challenges in rural areas; and
- carry out more analysis of the causes of regional imbalances, rather than just monitoring them.

Recommendations for GRZ and PRBS partners

1) Ensure that the PRBS dialogue and the PAF do not get overloaded with specific sector issues.

In the past, the contamination of the PAF with detailed sector-level issues has led to an overloaded PAF. This has also affected the PRBS dialogue. Instead, the dialogue should focus on more strategic issues, including general sector performance. While the new PAF is an important improvement on previous versions, one may still debate about whether the involved sector indicators are the most suitable indicators to measure sector performance.

2) Make the PAF more effective by ensuring that the PAF indicators and targets provide the right incentives.

Make a clear distinction between indicators that specify specific objectives at outcome and impact level and specific government targets. If a specific target is used, ensure that this target is:

- realistic, i.e. that the government will be able to realize the target (within the given time frame and under normal circumstances);
- measurable (in a fairly reliable way); and
- an adequate measure of the actual policy objective.

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PRBS partners should ensure that proposals for PAF indicators are assessed jointly by ETC, the M&E department and a technical advisor (see below). Their advice should focus on the feasibility and reliability of the indicator.

3) End the practice of calculating average PAF scores.

Every year, the MoFNP and cooperating partners calculate an average PAF score in order to be able to measure what progress has been made on the common objectives. However, this practice presupposes that indicators and targets have equal weights, and that the PAF does not change every year. In practice, this is not the case and, therefore, the overall indicator may be a biased measurement of overall progress. A significant improvement on the main indicators, for instance, may be much more important than a downward development of the overall score.

4) Develop reliable indicators for the measurement of (rural) poverty

While general budget support is associated with poverty reduction, the PAF does not include reliable indicators for the measurement of poverty. Poverty data depend on four-yearly household surveys (LCMS), and it is precisely because these surveys are held once every four years that the results become easily politicized (as the examples of the 2006 and 2010 surveys show). Another consequence of the four-yearly survey is that results may come as a surprise. Therefore, GRZ and cooperating partners should develop more reliable indicators that can be measured at shorter intervals. One possibility is the development of an annual or biennial household panel.

- 5) *Develop a comprehensive capacity development strategy jointly owned by GRZ and cooperating partners, and establish a formalized dialogue and coordination framework in line with the sector advisory groups' (SAG's) arrangement in the sectors.*

At the moment, there is no coherent and harmonized approach to capacity development under which a formalized coordination and dialogue process could be established. As a result, technical assistance is inefficient, potential synergies are not tapped, sustainability is not guaranteed and analytical capacity to support the PRBS process remains unused.

- 6) *Improve the planning and programming of evaluations and include the evaluation of PRBS and SBS in the relevant memoranda of understanding.*

The current monitoring and evaluation practice by cooperating partners is uncoordinated. This leads to an enormous overlap, inefficiencies and high transaction costs for the MoFNP and sector ministries. At the same time, there is currently no central unit that would be able to provide consistent data and information on budget support and related issues.

In order to reduce the high cost of gathering the same data again and again, it is advisable to create a permanent unit – preferably within the ETC – that would ensure that all monitoring information and all evaluations are brought together in a systematic way. The unit should be able to increase the number of more detailed evaluations that focus on specific challenges. Within this structure, or as a first step, PRBS partners should support the ETC and the M&E department with a liaison officer acting as a technical advisor. This advisor should be appointed for a four-year term at least.

The recent evaluation congestion also shows that there is a need for better evaluation planning. While there are already procedures in place, not all cooperating partners take these seriously. It would be much better if cooperating partners would agree on an evaluation agenda well in advance. The involvement of the evaluation departments of cooperating partners' head offices, as well as the M&E department of the MoFNP in these evaluations, would help to forestall the further proliferation of unplanned evaluations.

1

Introduction

1.1 Introduction

Over the past decade, donors and recipient countries have moved steadily away from a project-based approach to general and sector budget support (GBS and SBS). It was felt that budget support, because it contributes to the overall national development strategy and sector strategies, would enhance the effectiveness and efficiency of development cooperation.

Zambia is a typical example of this shift. In 2005, the Government of the Republic of Zambia (GRZ) and a number of cooperating partners signed a memorandum of understanding (MoU) for the provision of Poverty Reduction Budget Support (PRBS). The purpose was to contribute in a more effective way to the reduction of poverty and the realization of the Millennium Development Goals (MDGs). Those who signed the MoU expected the non-earmarked funds to facilitate improvements in the quantity and quality of public expenditure programmes delivered by and through GRZ systems. This move towards GBS was part of a harmonization process that culminated in 2007 in the joint Assistance Strategy for Zambia, and was in line with the GRZ's preference for general budget as an aid modality. It was also the logical consequence of a more coordinated aid approach, which started with the introduction of the sector-wide approach (SWAp), basket funding and SBS.

The growth of budget support created the need to evaluate its effectiveness and examine its contribution to the realization of the recipient country's development strategies. There is a demand from parliaments in donor countries to show the results of this support. Several cooperating partners have therefore developed a methodology for the evaluation of budget support. A specific 'Issue Paper', written under the auspices of the Unit of the Europe Aid Co-operation Office of the European Commission, forms the basis of this methodology. Later on, a specific methodology paper for the measurement of the effectiveness of budget support was added. This methodology is being applied in several countries and is used for an assessment of the effectiveness of this modality.

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This study reports the results of an evaluation of budget support in Zambia, using this common methodology. The evaluation assesses how GRZ and cooperating partners have applied the modality, how budget support and its instruments had an impact on relevant government policies, and how these policies contributed to economic development, improved service delivery and affected the eradication of poverty. The evaluation focuses on the years 2005–2010.

A warning is necessary here. The MoU for budget support was signed in 2005, with most commitments and disbursements starting in 2006. The evaluation started in 2010, mainly relying on data until 2009. Therefore, in many cases the effective time frame was about three years. Expectations about results must take into account this limited time span. Moreover, it must be noted that providers of budget support cannot claim specific (government) results. Budget support can only claim to have contributed to government policies, through funding, but also through the policy dialogue, conditionalities and technical assistance.

Chapter 2 starts with the research questions and methodology. Chapter 3 sketches the context and history of budget support in Zambia. The subsequent chapters analyse the direct effects (direct and induced outputs) of budget support. They focus on the strategies of cooperating partners to provide budget support; the process and structure of donor harmonization and alignment to government policies and systems (outputs) as well as the effects of budget support on induced outputs such as institutional performance; public financial management; and the allocative and operational efficiency of budget planning and execution. Chapter 4 analyses the financial and non-financial inputs and Chapter 5 analyses the direct outputs. Chapter 6 deals with governance issues, policy processes and public and financial management, and Chapter 7 examines the levels and composition of public spending.

Chapters 8, 9 and 10 report on the results of the sector case studies – health, education, agriculture, roads, and water and sanitation. Chapter 8 assesses the role of budget support in the development of resources for these sectors. Chapter 9 analyses the relationship between sector outputs, outcomes and impact. Chapter 10 gives an assessment of the poverty impact. Chapter 11 concludes by answering the evaluation questions.

2

Methodology

2.1 Rationale for budget support

Programme-based approaches, including sector budget support (SBS) and general budget support (GBS), are aid modalities that are strongly related to the core elements of the Paris-Accra Agenda for more effective aid, namely ownership, harmonization, alignment, management for results and mutual accountability (Second High Level Forum on Aid Effectiveness, Paris 2005). This agenda emerged as a result of the intense international debate that began in the mid-1990s about which modalities and instruments were best suited to improving the effectiveness of international development aid (Leiderer, 2010).

Therefore, budget support in its modern form is thought by many to be the most suitable form of aid to implement these principles in practice (Michel, 2008, 22). Although the way aid agencies define and use budget support differs from agency to agency, they all share the notion that budget support is a direct financial contribution to a recipient country's budget that provides flexible funding for country-led poverty reduction efforts (Koeberle et al., 2006, 7). The way in which the term 'budget support' is used now – although conceptually incomplete – refers to predictable, usually annual, aid flows that are disbursed in response to a low-income country's progress in implementing a national poverty reduction strategy (PRS) (Koeberle et al., 2006, 5). This notion presupposes effective country ownership.

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As a financing instrument, budget support promises to contribute to the:

- promotion of government ownership and accountability using recipient systems and procedures and strictly aligning the support to recipient governments' own development strategies and programmes;
- reduction of transaction costs of aid delivery;
- harmonization of donor procedures by establishing joint mechanisms for monitoring, disbursement, etc.; and
- improvement of aid predictability in order to strengthen the ability of governments to plan realistically.

However, it is important to remember that development partners do not use budget support exclusively as a financing instrument to support country strategies to reach the Millennium Development Goals (MDGs). In providing budget support, cooperating partners also aim to strengthen ownership, alignment, results orientation and mutual accountability through a formalized policy dialogue between donors and partner governments. It is also expected to provide donors with better political leverage to bring about improvements in transparency, effectiveness and corruption control in the administration of public funds (Leiderer, 2010, 2). Because of this, many donors also understand budget support as a way of contributing to key reform processes that are geared towards building more effective public institutions. In particular, they hope to use budget support to improve transparency, accountability, and the effectiveness and efficiency of public administration and public financial management. Moreover, many bilateral aid agencies also associate budget support with the promotion of human rights, democratic participation, and the rule of law and gender equality (BMZ, 2008, 8).

Besides aiming to implement the Paris–Accra Agenda, donors formulate different objectives for their budget support. Germany, for instance, has identified three objectives for its budget support: a governance objective, an effectiveness and efficiency objective, and – only in third place – a financing objective (BMZ, 2008, 8). Consequentially, while the definition of budget support as a direct financial support to a country's budget is appropriate to distinguish budget support from other modalities of financial cooperation, for an evaluation of the effectiveness of budget support, one clearly needs a more explicit conceptualization of how budget support is expected to work.

In practice, budget support entails much more than the mere transfer of financial resources to the recipient government's treasury. It also involves important non-financial contributions. Typically, budget support aimed at reducing poverty links transfers of financial resources to a range of conditionalities, an intense policy dialogue and capacity building measures that are aimed at strengthening the recipients' policies as well as implementing capacities (Hammond, 2006, 92). At a conceptual level, budget support can thus be interpreted as an attempt to combine financial and non-financial inputs in a mutually reinforcing manner in order to increase the effectiveness of external support of development processes in recipient countries.

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While theoretically this interaction logic of budget support makes good sense, from an evaluation perspective it significantly complicates matters. This is because the various feedback loops that are expected to render budget support more effective than other forms of development aid preclude evaluations that follow simple linear causal chains along a one-dimensional intervention logic. It should be noted that this logic is often implicit and seldom made explicit in budget support programme documents. We do, however, believe it is helpful to do so in order to frame the main challenges for evaluating budget support.

2.2 Intervention logic of budget support programmes

In practice, budget support programmes commonly encompass much more than just financial support of government budgets. More specifically, aid agencies' inputs to budget support operations also include:

- policy dialogue;
- conditionality; and
- technical assistance (TA) and capacity development.

The core ingredient of budget support is evidently the financing that is provided with the aim of supporting the implementation of a comprehensive national development programme such as a poverty reduction strategy. Poverty reduction strategies aim to reduce poverty and foster economic development, mainly through providing public goods and services that are funded through the national budget.

However, the impact that budget resources have on reducing poverty and on economic development is determined by the quality of national strategies and policies, the

government's commitment to actually pursue these policies, and the government's political and administrative capacities to efficiently and effectively use the resources to implement these policies. Because government systems for strategic planning, policy formulation, and budget planning, formulation and execution tend to be weak in most recipient countries, donors combine the financial contribution with non-financial inputs aimed at strengthening these government systems.

Box 2.1 Ownership

The Paris Declaration defines ownership as 'effective leadership over development policies, and strategies and the coordination of development actions'. Ownership exists through:

- the exercise of leadership in developing and implementing national development strategies through broad consultative processes;
- the translation of these national development strategies into prioritized results-oriented operational programmes as expressed in medium-term expenditure frameworks and annual budgets; and
- taking the lead in coordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector.

In the same way, the IMF defines ownership as 'a willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country's interest'.

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In this evaluation, we use these concepts of ownership. Ownership is not limited to national priorities, but explicitly includes leadership over prioritized programmes as expressed through budgets and expenditure. If, through budget support, a partner country and cooperating partners succeed in achieving the same objectives, budget support contributes to ownership in the sense that it enhances ownership (increasing the power to achieve stated objectives) while cooperating partners exert influence in the sense that they affect events. However, when the objectives diverge, there is an inherent conflict between ownership and donor influence (Dijkstra, 2010).

By engaging in an intense policy dialogue with the recipient government, donors aim to improve policy content (while continuing to respect the principle of ownership) and the wider governance system, including the public financial management (PFM) system. An effective dialogue mechanism facilitates smooth coordination and better-structured communication within the government system, between the government and its cooperating partners, and among donors themselves.

Policy dialogue, as a non-financial input of budget support, is expected to contribute to better policy choices, to overall improved governance and, ultimately, to make donors' financial contributions and domestic budget resources more effective at achieving development results.

At the same time, by formulating conditions that link the funding to policies and policy outcomes, donors use their financial contributions to augment the effectiveness of this

dialogue by offering incentives for the recipient government to undertake governance reforms and pursue better policies.

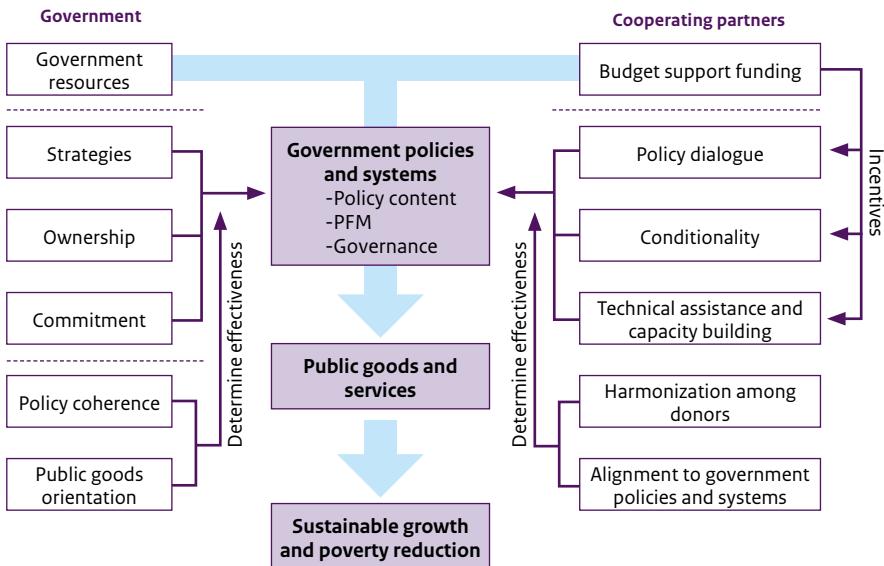
In addition, budget support donors complement financial contributions with specific technical assistance and capacity building programmes that are targeted at strengthening the government's capacity to manage available resources and to implement necessary reforms effectively and efficiently.

With this intervention logic, non-financial contributions to budget support programmes act as a lever to make the financial contributions more effective at achieving poverty reduction and development objectives. At the same time, by linking policy dialogue and conditionality to funding, the financial contributions also serve to strengthen the effectiveness of the non-financial inputs by creating incentives for governance reforms, improvements to policy content and stronger PFM systems.

Figure 2.1 illustrates this multi-dimensional mechanism of the mutual reinforcement of financial and non-financial budget support inputs.

Figure 2.1 *Interaction of budget support inputs*

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Source: Leiderer and Faust (2011).

Ultimately, the expectation is that this combination of inputs, under the right conditions, will contribute to the realization of specific government outputs, such as:

- improved fiscal discipline and macroeconomic management;
- strengthened (PFM) and procurement systems;

- improved and better designed public policies and policy processes;
 - increased funding for discretionary spending resulting in increased quantity and quality of goods and services provided by the public sector;
 - enhanced allocative and operational efficiency;¹ and
 - improved budget process, including better links between government and parliament.
- (Caputo et al., 2008, 14)

Cutting across this list of government outputs is the expectation that an ‘adequate’ mix of financial and non-financial inputs will create an incentive for the recipients to improve transparency and democratic accountability. Thus, the instrument not only aims to strengthen core supervisory functions with the state administrative body on the *supply side* of budget accountability. Moreover, by strengthening parliament’s and civil society’s engagement in the overall budget process, the instrument also aims to contribute to the *demand side of democratic accountability*.² At the same time, this intervention logic implies that factors such as corruption and a lack of macroeconomic discipline will impair the effectiveness of budget support.

Looking at budget allocations and expenditure management, there are two things that influence the effectiveness of budget support: allocative efficiency and operational efficiency. All three are closely related to the inherent fungibility of aid resources and the associated fiduciary risks of budget support (Box 2.2).

¹ Allocative efficiency represents the degree to which resources are allocated in accordance with the strategic priorities of the government. Operational efficiency is the rate at which resources allocated towards and spent on the government’s strategic priorities are actually translated into results, or in short the value for money of public expenditure (IDD and Associates, 2007).

² In fact, this part of the intervention logic is related to the participatory elements in the creation of PRSPs, which are supposed to go beyond a narrow concept of government ownership through the participation of civil society groups (e.g. Booth, 2003; Meyer and Schulz, 2008; Faust, 2010).

Box 2.2 Aid fungibility and efficiency: The fiduciary risks of budget support

In the context of budget support, fiduciary risk is the possibility that the funds provided may be used inefficiently or for purposes other than those intended by donors. This latter risk stems from the fact that aid resources, and in particular budget support resources, are fungible and thus cannot be effectively earmarked.

In the context of budget support, fungibility matters mainly at two levels:

- First, the provision of budget support may reduce the incentive for recipient governments to mobilize adequate levels of domestic revenue to finance goods and services aimed at implementing the national poverty reduction and development strategies. Where this is the case, budget support may simply crowd out domestic revenue (taxes) instead of providing resources for additional expenditure and hence cannot be expected to produce any positive effects through the provision of public goods and services. (Obviously, it can still have positive or negative, intended or unintended effects through the reduction of the tax burden on certain sectors, firms, activities or individuals).
- Second, recipients may use the provided resources for purposes other than those intended by the donors – usually the production of public goods and services in pursuit of a national poverty reduction strategy. What matters for the effectiveness of budget support with regard to supporting the achievement of poverty reduction and development goals is thus the allocative efficiency of public expenditure

Beyond these fungibility-related risks, there is also the obvious risk that resources might be used inefficiently by the recipient. Therefore, the operational efficiency with which public goods and services are produced is also crucial for the effectiveness of budget support.

Source: Leiderer and Faust (2011).

2.3 Necessary conditions for effective budget support inputs

Following the intervention logic described above, the effectiveness of budget support clearly depends on a complex interaction between financial and non-financial donor contributions as well as the recipient government's own capacities and dispositions.

On the recipient side, it is important that governments show a sufficiently high level of policy coherence and public good orientation, both of which impact positively on ownership, the quality of development strategies and the commitment to reforms.

In this regard, important preconditions for the effectiveness of budget support include:

- a commitment to improve transparency and democratic accountability;
- an agreement between donors and the recipient government on policies and budget priorities;
- a demonstrated commitment and capacity to implement reform programmes;
- a clear strategy for prioritizing pro-poor expenditure; and
- a transparent budget and a commitment to strengthen the PFM system.

Whether the financial resources provided will effectively contribute to achieving the goals formulated in the PRS also depends on a number of factors on the supply side of the aid relationship. It is essential that the financial resources are provided in a cost-efficient, timely, and above all, predictable way that enables the recipients to strategically plan the use of all available resources. Whether the non-financial contributions are effective in strengthening government capacities to make good use of the provided financial contributions mainly depends on two conditions:

First, and most importantly, the effectiveness of non-financial contributions depends on the way in which they are provided. More specifically, their effectiveness is determined by:

- how well donor contributions are coordinated and how well procedures and requirements are harmonized; and
- to what extent these contributions are aligned to the partner government's priorities, systems, and procedures.

Second, the effectiveness of non-financial budget support inputs depends on whether the leverage of the financial contributions is strong enough to create an effective and coherent incentive structure. The recipient government's ownership – and thus its receptiveness to capacity development measures, for example – depend on how well these measures match government priorities and the institutional context in which they are provided. The effectiveness of the conditionality that is tied to budget support largely depends on how well conditions are coordinated among donors and how clearly these are linked to the provision of financial resources. The same applies to the transaction costs involved in negotiating these conditions: budget support-related policy dialogue can be expected to be more effective if donors agree on joint objectives and priorities and provide a harmonized and credible set of incentives.

2.4 Implications of a non-linear intervention logic

The non-linear intervention logic underlying the rationale for budget support renders an evaluation of the instrument's effectiveness extraordinarily complex. The important factors that add to this complexity, and which need to be taken into account when evaluating budget support, were identified in *Evaluation of General Budget Support – Note on Approach and Methods* (IDD and Associates, 2007):

- The initial inputs are themselves complex – a combination of funds with associated dialogue and conditionality, technical assistance and capacity development, harmonization and alignment. In addition, it can be difficult to distinguish between non-financial components of budget support programmes and other aid modalities.
- The desired ultimate effects are complex (poverty reduction in various dimensions) and changes in outcome and impact indicators will be partly (and sometimes dominantly) the effects of other causes (deliberate effects of non-budget support inputs, or exogenous factors).
- The assumed chain of causality is long, both conceptually and temporally. This applies particularly to the effects expected from processes of institutional change. Also, many of the intermediate effects postulated are not in themselves straightforward to measure, let alone

to attribute proportionately to multiple causes, particularly in a dynamic context where budget support is only one of the influencing factors in continuously changing systems.

- The logic of causation itself is often controversial (for example, even if it could be demonstrated that budget support led to the adoption of a particular policy designed to reduce poverty, the appropriateness and efficacy of the policy – either generally or in a particular country context – might well be disputed).
- Last, but not least, the choice and the construction of appropriate counterfactuals (for example, what would have happened if budget support had not been given?) is both difficult and controversial.

2.5 Evaluation framework and evaluation questions

In order to deal with the complexity of the presumed effects of budget support described above, this evaluation is based on a comprehensive causality map that was developed by a group of cooperating partners as part of a GBS/SBS comprehensive evaluation framework (Annex I).

Following the intervention logic, the framework includes five groups of evaluation questions:

| 42 | 1 INPUTS:

- 1.1 Which inputs have been provided by budget support and to what extent do they correspond to the envisaged GBS/SBS support inputs?
- 1.2 To what extent are the budget support operations put in place consistent with Zambia's strategic and policy framework and with the overall development partners' (DPs') development strategies?
- 1.3 How well was the design of GBS/SBS support inputs adapted to the specific political, economic and institutional context of Zambia?

2 DIRECT OUTPUTS:

- 2.1 To what extent has budget support contributed to an increased share of external funding subject to the government's budgetary process and improved the predictability of overall flows of external assistance?
- 2.2 To what extent has budget support contributed to the establishment of a framework of policy dialogue focused on key government strategies and priorities?
- 2.3 To what extent has budget support contributed to the provision of non-financial inputs, such as technical assistance and capacity building, which are considered to be strategic government priorities?
- 2.4 To what extent has budget support contributed to the harmonization and alignment of external assistance, and reduced transaction costs over time?

3 INDUCED OUTPUTS:

- 3.1 To what extent did budget support contribute to the improvement of fiscal discipline and macroeconomic management?
- 3.2 To what extent did budget support contribute to an improvement of budget management and overall PFM?

- 3.3. To what extent did budget support contribute to an improvement of policy processes and policy implementation (including ownership and transparency)?
- 3.4. To what extent did budget support contribute to the level and composition of public spending?
- 3.5. To what extent have there been improvements in governance and democratic accountability, particularly regarding the relative roles of parliament and civil society in relation to the budget?
- 3.6. To what extent did the rule of law improve in the country?

4 OUTCOMES:

- 4.1 How did the economy perform and interact with the economic and institutional environment?
- 4.2 How did the overall livelihoods (impact), including citizens' security and access to services (outcome), of the target groups change over time (for example, with respect to the key social sectors, in particular health and education and/or justice for entrepreneurs, all citizens and especially the low-income population)?
- 4.3 To what extent have there been changes in the income of the citizens and the income distribution, with a special focus on the poorest part of the population?

5 IMPACT:

- 5.1 To what extent can changes in the performance of the economy be related to changes in macroeconomic and fiscal management and/or changes in other government policies or policy processes, and/or to other external or internal factors?
- 5.2 To what extent can changes in the overall livelihoods, including citizens' security and access to and use of services, be related to changes in government policies or policy processes, and/or to other external or internal factors?
- 5.3 To what extent can changes in the income of citizens and in the income distribution be related to changes in government policies or policy processes, and/or to other external or internal factors?

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The first part of the evaluation tackles the first three groups of questions: on inputs, outputs and induced outcomes. The second part assesses induced government outputs, outcomes and impacts, with a focus on the five sector case studies. Induced outcomes provide the link between the first part and the second part of the evaluation. The evaluation gives an assessment of the outcomes and impacts of government interventions, to which budget support has contributed (through funding, dialogue, conditionalities and technical assistance).

For reasons of readability, the report does not always exactly follow the evaluation questions. For instance, a description of the economic development is part of question 4.1. However, this description is important for an understanding of the development of budget support in Zambia and therefore part of one of the first chapters. Moreover, literally following the evaluation questions in every chapter would involve a lot of repetition: new classrooms are an induced output, important for the improvement of access to education (outcome) and have an impact on learning achievements.

2.6 Data collection and methodology

2.6.1 Inputs, outputs and induced outcomes

This first component of the overall evaluation relies mainly on data from four sources:

- semi-structured interviews with key stakeholders and experts held during two field visits (February–April 2010 and June 2010);
- existing evaluation reports, reviews, other official documents and academic literature;
- information on financial flows; and
- micro- and macroeconomic data and indicators.

In addition, this report also contains elements from background reports delivered by Oliver Saasa. Where appropriate, evidence was taken from the sector reports of the overall evaluation.

Most of this evaluation on the political economy and policy processes of budget support in Zambia has been qualitative in nature. Given the challenges of qualitative research, the acquired data was coded using Atlas.ti®, a software package for textual analysis. This allowed the incorporation of all available information in the evaluation team's assessments and helped to sustain the objectivity of judgments as much as possible. For this, key documents, interview minutes, the background report of the main consultant and sector reports were coded in accordance with judgment criteria and sector indicators. Overall, the codes are linked through an 'analytical grid' (Annex II). This grid corresponds to the evaluation questions at the input and output level within the intervention logic described above, with a particular emphasis on context and political economy factors.

| 144 | This systematic coding process allowed for the triangulation of relevant findings. Once the coding was finalized, the software made it possible to identify and compile all statements made on any coded issue. Moreover, Atlas.ti® allowed analytical codes that were developed according to occurrences in the sources to be attached to text segments in documents and interview minutes. Therefore, it was possible to see all statements and comments that stakeholders have made or that were found in analysed documents on any particular issue. This allowed for a systematic and detailed comparison of statements and quotes. The quotations for every code were looked at in synopsis and compared with each other. At the same time, it was still possible to go back to the original transcript and see in which context a particular statement was made (Leiderer et al., 2007).

The attribution of the direct and induced outputs of budget support inputs was then established based on the coded information, the background reports and the analysis from sector teams. Where possible, attribution is based on contribution analysis using performance measures as described in Mayne (1999).

The analysis is then embedded in the overall intervention logic, where possible also distinguishing between GBS and SBS contributions. Where appropriate, potential alternative explanations are discussed in order to reduce the risk of wrongly attributing observed effects. This approach explicitly acknowledges the attribution problem that arises

'when one believes or is trying to claim that a program has resulted in certain outcomes and there are alternative plausible explanations' (Mayne, 1999, 13).

In addition to considering alternative explanations for observed effects, another step that was taken to avoid misattribution was to establish appropriate counterfactuals. The 2006 joint evaluation of general budget support argued that for most budget support-related interventions, alternative aid modalities feature strongly among possible counterfactuals (IDD and Associates, 2006, 6). While this is certainly true when the research question is whether budget support is more or less effective than other forms of aid, it is not necessarily appropriate in all cases where the main interest is to learn about whether budget support was effective in achieving its objectives. Accordingly, the note on methodology for the 2006 evaluation also stresses that, (a) the appropriate counterfactual is a matter of conjecture rather than an alternative scenario that can be reconstructed in detail; (b) a complete substitution of one modality for another is rarely seen as a realistic option; and in any case; (c) many of the more interesting observations are about the interactions between different aid modalities.

In line with these latter arguments, the dominant approach of this evaluation is not to evaluate budget support against other aid modalities, but against an explicit intervention logic that specifies objectives and theoretical arguments for conditions that are necessary for it to be effective. At the same time, in a pragmatic approach, this study does not establish a hypothetical counterfactual for each and every sub-enquiry that forms part of the overall study. Instead, where deemed necessary the analysis is limited to explicit counterfactuals for selected key issues. The sector case studies (see below) analyse the impact of induced government interventions.

2.6.2 Induced outputs, outcomes and impacts

As was mentioned before, the evaluation does not directly measure the ultimate impact of budget support. Rather it assesses the impact of the government actions to which budget support has contributed. The impact of government interventions (step II) was first of all assessed through an analysis of the sector dialogue (interviews, literature review and document analysis) and the development of sector budgets. To this end, the evaluation included five sector case studies. These studies are:

- budget support and health (AIID); ³
- budget support and education (IOB, MoE, Chikwekwe).
- budget support and infrastructure, including roads and water and sanitation (WSS) (KfW); and
- budget support and agriculture (OPM).

Moreover, the evaluation includes an analysis of the potential Dutch Disease effects.

The sector case studies combined quantitative techniques with more qualitative approaches, such as interviews, focus group discussions, field visits, and a document and

³ The health section also builds on an analysis of the policy dialogue in the health sector written by Oliver Saasa.

literature review. The second step involved a description of the translation of sector budgets into sector programmes and investment and an assessment of the impact of these investments. Here sector programmes, sector plans, budget plans, budget reviews and annual reviews were extremely helpful. The sector analyses were also combined with a benefit incidence analysis, focusing on the distributional effects of government spending across the population (including gender differences) and across regions (including urban–rural differences).

The five sector case studies include statistical or econometric techniques for measuring impact in these sectors (Compernolle and De Kemp, 2009). These techniques include fixed effects regressions, difference-in-difference regressions, and propensity score matching. For data, the evaluation relied on a combination of administrative and survey data. The analysis showed strong impacts of socioeconomic variables (for instance in the education sector).

At the sector level, a counterfactual of the government policies normally exists, as the implementation of government policies is normally phased and uneven. While schools and hospitals will be built, drinking water facilities will be improved, teachers will be trained and doctors and nurses will be appointed, these will not occur everywhere at the same time. As a result, there are differences between schools, hospitals, districts, etc., and it is precisely these differences that provide the counterfactual (Elbers et al., 2008). For instance, comparing regions that have received access to improved drinking water facilities with regions that do not allows an estimate to be made of the effect of these facilities.⁴ The sector analyses (Chapter 9 and Chapter 10) are also combined with *benefit incidence analyses* that focus on the distributional effects of government spending across the population (including gender differences) and across regions (including urban–rural differences).

The statistical analyses and benefit incidence analyses use administrative data as well as household surveys, especially the Living Conditions Monitoring Surveys (LCMS) and Zambia Demographic and Health Surveys (ZDHS). These representative surveys include information about the use of public services as well as information about household characteristics.

The *health* analysis uses two data sources, sometimes in linked form: administrative health data and household survey data. The Ministry of Health maintains a health management information system. This contains data at the level of health facilities (health posts, clinics and hospitals) for the period 2000–2009. The second source of data is the Zambia Demographic and Health Surveys for 2001–2002 and 2007. The statistical methodology relies on linking local differences in outcomes to local differences in policy.

The *education* case study uses a combination of methods, including qualitative research as well as quantitative impact analysis. The impact that budget support and the policy dialogue had on the budget and policies of the Ministry of Education (MoE) was evaluated using existing evaluations and (sector) reviews, the documentation of cooperating partners and

⁴ In practice, all case studies use more rigorous techniques, analysing the impact of changes in the availability of public services.

GRZ, analysis of budget allocations and through interviews. The main data sources for the beneficiary incidence analysis and the impact analysis are:

- the MoE, *Educational Statistical Bulletins 2000–2009*;
- the *Annual School Census* for 2000–2010. This database contains information about school inputs (teachers, classrooms, books and other school facilities, school characteristics, enrolment details and pupil characteristics);
- examination data (Grade 7 and Grade 9) from the Examinations Council of Zambia for 2001–2009. These data provide information on learning achievements; and
- the *Zambia Demographic and Health Surveys* (especially the *ZDHS EdData Survey 2002*). Relevant variables from the ZDHS include household survey data including educational attainment, school attendance, repeated school years, drop-out information and literacy levels.

Field visits to Eastern Province (Chipata and Chadiza) and Southern Province (Kalomo and Sinazongwe), focus group discussions in Southern Province and an extensive workshop with MoE officers and the Examinations Council of Zambia were part of the more qualitative approach.

For the two *infrastructure* case studies, the evaluation also relied on qualitative and quantitative research. The qualitative findings for the sectors are the results of reviews of previous studies on the sectors and relevant policy documents as well as the interviews held and field studies. Field visits also took place to the peri-urban areas of Lusaka as well as the Eastern Province (Chipata District), which also included visits to local government institutions. Furthermore, field visits to Southern Province (Siavonga and Choma districts) were undertaken, which included assessments of the quality of rural roads and were used as background information for the set-up of a study on the socio-economic impact of roads.

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The quantitative analyses for the roads and the WSS sector are based on the LCMS and ZDHS surveys. The 1998 and 2006 LCMS, and the 2007 ZDHS were used for descriptive statistics, comparisons over time and econometric analyses aimed at assessing the impact of access to roads and improved WSS, respectively. To this end, two estimation techniques were used: fixed effects panel regressions and propensity score matching.

The *agriculture* case study involved three interrelated activities: stakeholder interviews, a literature review and an econometric analysis. Central to the evaluation was an extensive process of stakeholder interviews. The literature review included an evaluation of the Food Security Programme (World Bank, 2009) and other evaluations and policy and project documents, research papers, etc.

The econometric analysis was conducted using data that was already available, mainly drawing on the Supplementary Survey produced by the Food Security Research Project (FSRP) and Zambia's Central Statistical Office (CSO). The analysis was conducted by a team of two econometricians, supported by a peer-review team to ensure both its technical quality and its relevance to the local conditions in Zambia. The team cooperated closely with the staff of Michigan State University and the FSRP.

Methodology

Finally, as a contribution to the evaluation, the Amsterdam Institute for International Development (2010) conducted a simulation of the macroeconomic effects of aid inflows in Zambia using a general equilibrium model developed by Clausen and Schürenberg (2009). The authors developed several scenarios, with different assumptions for capital and labour in the copper sector.

The separate monographs explain the methodology in more detail.

3

Context and history of aid in Zambia

3.1 Introduction

This chapter sketches the context and history of aid in Zambia. It starts with a description of economic development (3.2), followed by a brief outline of political developments (3.3). The chapter then proceeds with a sketch of the history of aid in Zambia (3.4). The final section gives a brief summary (3.5).

3.2 Economic background

Four decades ago, Zambia was one of the most prosperous countries in sub-Saharan Africa. When it became independent in 1964, Zambia's rich mineral resources were well developed and up to the early 1970s, world market conditions were generally favourable. During this period, the pattern of government expenditure reflected the country's steady export receipts from copper.

Zambia's fortunes were adversely affected by external shocks that came in quick succession first in 1973, when oil prices quadrupled and then in 1974, when copper prices dropped considerably. Because the country depended on copper for more than 90% of its export revenue, the economy experienced severe difficulties adjusting to these shocks. By 1975, Zambia was faced with a sharp decline in government revenue and a serious balance of payments problem. Unsustainable budget deficits also set in. Declining ore reserves, inadequate foreign exchange earnings and accelerating domestic inflation prevented the mining companies from reinvesting in order to sustain output levels. In spite of these difficulties, public spending remained high, financed by massive external borrowing. By the early 1980s, the economy was under serious stress.

Despite a major political regime shift in 1991, Zambia continued to register a poor economic record throughout the 1990s. The economy had remained undiversified and continued to exhibit heavy dependence on mineral resources – particularly on exports of copper. The country's long-term growth prospects were depressing. GDP growth fell from an average of 1.5% in the 1970s to 1.4% in the 1980s and 0.3% in the 1990s. Other economic indicators also pointed to downward trends. Inflation, for example, had been increasing steadily over the years, rising, on average, from around 10% in the 1970s to about 70% in the 1990s. This increase in inflation, coupled with population growth (which was higher than the GDP growth rate during the 1990s), resulted in a reduction in real per capita income. The government's fiscal deficit had averaged about 2% of GDP during the late 1990s. By 2000, it stood at about 5.4%.

Since 2000, Zambia has started to register a more encouraging macroeconomic trend. Following the sale of Zambia Consolidated Copper Mines Limited (ZCCM) and with a GDP growth rate of 3.5% in 2000 and 5.2% in 2001, a brighter economic outlook emerged for the economy. According to Zambia's Central Statistical Office, end-year inflation dropped from 30% in 2000 to 18.7% at the end of 2001. However, in 2002, a region-wide drought dampened the positive prospects when the rise in food prices sent inflation back up to

26.7%. More recently, the macroeconomic development showed further improvements. Between 2006 and 2008, real GDP growth improved from 5.2% in 2005 to 6.3% in 2006 and dropped slightly to 5.7% in 2008 before recovering to 6.3% in 2009 (Table 3.1). Consequently, substantial investments have been recorded in some of the major sectors, particularly in mining, manufacturing, tourism and, in some years, in agriculture.

Table 3.1 Selected macroeconomic indicators for Zambia, 2000–2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP growth (annual%)	3.6	4.9	2.7	5.7	5.4	5.2	6.3	6.2	5.7	6.3
GDP per capita (US\$)	309	339	339	390	473	610	890	937	1,165	986
Population growth (annual%)	2.6	2.4	2.3	2.2	2.2	2.3	2.4	2.4	2.5	2.5
Inflation (annual%)	26.0	21.4	22.2	21.4	18.0	18.3	9.0	10.7	12.4	13.4
Exports of goods and services (% of GDP)	27.1	28.0	27.7	28.7	38.3	34.7	38.5	41.6	35.8	29.8
Copper price (US\$ per metric ton)	1,815	1,580	1,560	1,779	2,864	3,677	6,731	7,132	6,964	5,165
Exchange rate (ZMK per US\$)	3,111	3,611	4,399	4,733	4,779	4,464	3,603	4,003	3,746	5,046

Source: WDI and IFS.

The performance of the monetary and financial sector over the last three years has been mixed with fluctuations recorded in inflation and exchange and interest rates. Single digit inflation was achieved in 2006 at 9.0%, which still was above the Fifth National Development Plan (FNDP) target of 5%. Inflation rose again in the following years to double digit figures, reaching 13.4% in 2009. Interest rates also remained high, averaging above 20%.

External sector performance has generally remained favourable, with external debt servicing being kept within sustainable levels and overall balance of payments remaining positive. The balance of payments position improved remarkably in 2006 with an overall surplus of US\$821.6 million, compared to the deficit of US\$115.8 million the previous year. Export earnings grew by over 100% to US\$4.9 billion in 2008 from US\$2.2 billion in 2005. In this regard, the build-up of gross international reserves improved from 1.5 months of import cover in 2005 to 2.2, 2.5 and 2.8 months of import cover in 2006, 2007, and 2008, respectively. The favourable export earnings performance was a positive step in achieving the FNDP strategy of promoting export development as one of the economic growth drivers. Nevertheless, instability in the exchange rate has been adversely impacting the export sector.

Notwithstanding the positive macroeconomic trends, it is important to take a closer look at the structure of the Zambian economy. Starting from an undiversified economy based on the extraction of mineral resources, Zambia, to a certain degree, managed to diversify its sources

of economic growth. Today, the mining sector still accounts for 70% of exports and 4% of GDP (AfDB/OECD, 2008, 618 ff.). While copper remains vital for the Zambian economy, other sources of productivity have been tapped. The major source of GDP in 2006 was service industries, which provided 55.9% of GDP. While industry put in another 29.5%, agriculture's contribution has been decreasing from 18.3% in 2000 to 14.6% in 2006 (World Bank, 2008b, 22). The diminishing weight of the agricultural sector is a result of its relative underperformance. It showed negative growth rates in 2001 and 2002 followed by marginal improvements up to 2006. Reasons for the stagnant situation are a continuous low level of productivity caused by the sector's high dependence on weather, farmers' limited access to agricultural inputs and credit, and outstanding land reforms (EIU, 2008, 18). In the period between 2001 and 2006, the Zambian economy grew by 5.6% on average, with industry being the driving force. The three industry sub-sectors – construction, mining and manufacturing – accounted for 1.2, 0.7, and 0.6 percentage points, respectively (World Bank, 2008b, 23).

3.3 Democracy and political change

In the last two decades, Zambia experienced several major political changes. In 1990 and 1991, reformists headed by the Movement for Multi-Party Democracy (MMD) peacefully led the country to democratic order, thus ending the regime of President Kaunda. In its first few years, the new regime under President Frederick Chiluba showed strong democratic elements. But during the second half of the 1990s, democratic accountability began to deteriorate. Political rights and civil liberties were curtailed.

In 2001, civil protest proved effective again, and Chiluba could not gather sufficient support for a third presidential term. After hotly disputed elections in 2002 – which external observers did not consider fair and free – the MMD candidate, Levy Mwanawasa became president. Despite concerns that the MMD government would consolidate an undemocratic one-party dominant regime, the 2006 presidential elections were deemed free and fair. This was also the case for the 2008 elections, when the new head of state, Rupiah Banda, achieved another victory for the MMD. Accordingly, since 2006, the country has been ranked as an electoral democracy by Freedom House. Still, most studies agree that severe deficiencies remain under the current administration. These deficiencies relate mainly to two core issues. First, a relatively low degree of checks and balances. According to the recent country report from the Bertelsmann Transformation Index (Bertelsmann Stiftung, 2009; Freedom House, 2010), the dominance of the executive 'clearly extends beyond the stipulations of the constitution'. Second, continuous problems of patronage and corruption persist, even though there is some disagreement among external observers with regard to the dynamics of these challenges.

Overall, Zambia's political development is typical of many African countries. It has been ranked only slightly above the regional average if one considers the Freedom House scaling on political rights and civil liberties. The 1990s reflected a typical combination of the breakdown of an ancient authoritarian rule occurring alongside structural economic reforms and the emergence of democratic order. However, just like many other countries of the region, democratic progress did not speed up after the 1990s, rather it showed some worrying

stagnation. So, while Zambia is nominally an electoral democracy, its citizens are still far from enjoying a satisfying level of political rights and civil liberties. Instead, Zambia can be counted as one of a growing number of developing countries whose political regimes are characterized by both democratic and authoritarian elements (Simon, 2007).

3.4 Aid history and the evolution of budget support

3.4.1 Aid dependency

After a period of financial autonomy during its first decade of independence (Wohlgemuth and Saasa, 2008, 1), the Zambian government had to resort to financial assistance from external donors in the 1970s. The undiversified economy in combination with severe external shocks caused serious problems with the balance of payments. In order to cope with the lack of revenue from the tarnished copper industry, Zambia entered into numerous financing agreements in the late 1970s. The aid boom of the late 1970s and mid-1980s suddenly ended after the government shifted its political focus in 1987, abandoning the reform agenda prescribed by the International Monetary Fund (IMF). The governing United National Independence Party's (UNIP's) refusal to adhere to the regulations of debt servicing made by the IMF led not only to Zambia being ineligible for further IMF loans, but made almost all bilateral donors refrain from providing any more urgently needed external finance. After the fruitless attempt of the government to detach itself from international finance institutions, the MMD – after winning the 1991 elections – resumed the reform model of structural adjustment and tried to re-attract the donors' attention and goodwill. Indeed, the MMD government's renewed commitment to structural adjustment disposed the donors to massively increase aid flows (White and Dijkstra, 2003, 402). In the early 1990s, donor support rose to an unprecedented level, averaging US\$951 million annually between 1990 and 1994 (Wohlgemuth and Saasa, 2008, 3).

Notwithstanding substantial fluctuations, Zambia received remarkable amounts of aid over the last 20 years, with heavy loans leading to an increased debt burden. Already in 1984, resulting from extensive non-concessional borrowing from the IMF and the World Bank, Zambia was the country with the highest debt-to-GDP ratio in the world (Fraser 2009, 305). After the 1991 elections, massive aid inflows were registered in support of the democratically elected reformist MMD government. After two years of broad and rapid liberalization, programme aid seemed to abate, partly because of bilateral donors' fatigue with the MMDs waning commitment to reform (White and Dijkstra, 2003, 406 ff). In 2000, after the government finally completed the privatization of the principal copper company ZCCM, Zambia was declared eligible for debt relief under the Highly Indebted Poor Countries (HIPC) Initiative. In March 2005, when Zambia reached the HIPC completion point, its total foreign debt was reduced from US\$7.1 billion to US\$4.5 billion. Under the Multilateral Debt Relief Initiative, Zambia's debt stock was further reduced to around US\$0.5 billion by the end of 2006 (Wohlgemuth and Saasa, 2008, 2).

In recent years, aid relations have evolved substantially. After debt forgiveness in 2005 and 2006, the share of aid in the national budget dropped to 30% between 2006 and 2007,

followed by further reductions to 28% in 2007 and 24% in 2008 (Wohlgemuth and Saasa, 2008, 3). In 2009, the downward trend continued, reducing the share of foreign assistance in the government budget to around 20% (Chigunta and Matshalaga, 2010, 8). Similarly, the share of foreign aid as percentage of gross national income (GNI) has decreased significantly since 2004, as Table 3.2 shows.

Table 3.2 Total net aid to Zambia 2000–2008, US\$ million										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Grants	523	589	699	931	974	1,909	4,565	910	1,032	955
Loans (net)	272	-18	113	-157	156	-737	-3,116	98	84	
Total	795	571	811	775	1,130	1,172	1,449	1,008	1,116	1,269
Aid (% of GNI)	25	17	23	19	25	20	20	11	9	10
Aid per capita (US\$)	76	53	74	69	99	100	151	82	88	98

Source: OECD-DAC Stats and World Development Indicators.

This decline in aid dependency in recent years can largely be explained by debt relief after the country reached the HIPC completion point, rising copper prices and strong economic performance (Chigunta and Matshalaga, 2010, 8). According to the World Development Indicators, GDP doubled between 2005 and 2008. Similarly, the government budget increased and, because of their relative stability, the importance of external donor funds to the budget decreased accordingly. In addition, the appearance of non-traditional donors, the limiting effects of the global financial crisis and the flourishing external sector have recently influenced aid relations between international donors and the government of Zambia.

3.4.2 Development of sector support

As a result of the economic developments in the 1980s and the 1990s, the government had been forced to cut expenditure. In the education sector, for instance, average real government expenditure per capita dropped by 40% between 1980 and 1995. Other sectors faced the same fate. The underfunding led to a substantial decline in non-salary recruitment expenditure and investment. In infrastructure, very limited maintenance work was actually carried out as a result of a shortage of foreign currency for spare parts and repair services, the absence of a stable budget for covering the running costs and lack of motivation by the public force account units to do the work. The lack of funding and the neglect of road maintenance had led to a steady deterioration of road conditions. By 1991, only 20% of the road network was in good condition (Leiderer et al., 2010, 127). In health, the country faced a dilapidated infrastructure, chronic shortage of drugs and medical supplies and demoralized health workers. There were epidemics of cholera, tuberculosis, HIV/Aids and endemic malaria. Zambia's HIV/Aids crisis had a huge impact and caused a dramatic increase in the number of orphaned children. The agricultural sector stagnated as well, partly as a result of counterproductive government interventions (Bonaglia, 2008, 16).

In this environment, the government and cooperating partners started to work more closely together with the introduction of sector-wide approaches (SWAps). In 1993, they developed a SWAp for the health sector in response to negative experiences with project aid. It was felt that project assistance contributed to inefficiencies and fragmentation and undermined national efforts to develop the health sector. Six years later, the Ministry of Health (MoH) and cooperating partners signed a memorandum of understanding (MoU) to coordinate external assistance within the framework of the National Health Strategic Plan which was to run from 2001 to 2005. With that plan, Zambia intended to gradually transform the funds going into district baskets into a general health sector basket.

The agricultural sector also belonged to the pioneers in sector cooperation. At the beginning of the 1990s, agricultural production stagnated, partly as a result of the distortionary interventions of the government in the sector, with a high reliance on subsidies. In the first years of the decade, the government moved gradually towards a more market-oriented approach. As part of the Agricultural Sector Investment Programme (ASIP) between 1996 and 2001, GRZ, aided by cooperating partners, formulated a strategy for the transition to a market economy in agriculture. The plan was not successful, and as a result of this disappointment coupled with the lack of a clear agricultural policy and implementation strategy, several of the cooperating partners scaled down their support to the sector (Bonaglia, 2008, 19).

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At that time, sub-sector programmes such as those for basic education and roads, proved to be more successful. By the end of the 1990s, sector cooperation had started in education with the Basic Education Sub-Sector Investment Programme (BESSIP). As had been the case with health, basic education had been almost entirely ‘projectized’, with only loose donor coordination. By and large, BESSIP brought about improved coordination and harmonization of donor activities. By the end of the programme in 2003, fourteen development agencies were involved. BESSIP was only a first step, but was important for the development of a new plan – the Ministry of Education Strategic Plan (MoESP) for 2003–2007. This plan covered the whole education sector. Based on the MoESP, the Ministry of Education and nine development agencies signed a MoU. The sector pool became the main funding modality, although the MoU also recognized other funding categories such as financial assistance through the treasury and project support.

At the same time as BESSIP, sector cooperation started in the road sector. In 1998, GRZ, with support from the cooperating partners, formulated the Road Sector Investment Programme (ROADSIP), an ambitious 15-year programme for the improvement of Zambia’s roads. ROADSIP included the sector strategy and targets for 2013. In 2003, the second phase started with ROADSIP II. The sector reforms and implementation of ROADSIP were strongly supported by the World Bank, the Danish International Development Agency (DANIDA) and the European Commission (EC), which is the lead donor in the road sector. The EC provided sector budget support in support of ROADSIP II.⁵

⁵ This budget was channelled through the Bank of Zambia and earmarked for the National Road Fund Agency (NRFA).



Water kiosk, sponsored by the Devolution Trust Fund, in Lusaka's Kanyama Township during the rainy season.

Donor support under ROADSIP was conditional on institutional reforms in the sector. Following the 2002 Transport Policy and the 2002 Public Roads Acts, three agencies were created: The National Road Fund Agency (NRFA), responsible for the coordination and management of road financing, the Road Development Agency (RDA) which plans, manages and coordinates the road network, and road works on the core road network, and the Road Transport and Safety Agency (RTSA) being responsible for traffic management and road safety (Terberger et al., 2010, 6).

3.4.3 The Joint Assistance Strategy and evolution of budget support

Sector cooperation was instrumental in the development of a harmonization process that was beginning to take shape in 2002. This process aimed to enhance the effectiveness and efficiency of development cooperation by promoting cooperation and alignment. Seven cooperating partners agreed to join forces in support of harmonization and alignment. This marked the beginning of what became known as the Harmonization in Practice (HIP) initiative. The donor group commissioned a study in late 2002 to advise on aid harmonization (Saasa and Claussen, 2003). This study formed the basis of the Joint Statement of Commitment by Donors and GRZ to increase aid effectiveness and reduce transaction costs. In 2003, the GRZ and the cooperating partners signed the Harmonization in Practice (HIP) Framework for Action. Following the decision of all the remaining major donors in Zambia to join the HIP initiative, it was expanded in 2004 to create the Wider Harmonization in Practice (WHIP) group. HIP was initially donor driven, though the government gradually took a more leading role.

In October 2005, GRZ and cooperating partners officially agreed to work out a Joint Assistance Strategy for Zambia (JASZ). The purpose of the JASZ was to focus and organize development assistance and reduce transaction costs for GRZ. This was to be done in line with the five pillars of the Paris Declaration: ownership, harmonization, alignment, management for results and mutual accountability. The JASZ 2007–2010 was signed in May 2007. It is the donors' response to the government policies in the Fifth National Development Plan 2006–2010. It includes a country context analysis as well as a strategy to enhance ownership, alignment and improved donor coordination. The document has been signed by all bilateral and multilateral agencies in Zambia. One of the agreements within the JASZ is to work on a division of labour to 'decongest' sectors that have many cooperating partners (sectors such as education and health) and spread them more evenly, including to 'orphan sectors' that do not receive much support.

Table 3.3 Policy agreements for Harmonization

Year	Policy Agreement
2003	HIP
2004	WHIP
2005	PRBS MoU
2006	Zambia Aid Policy and Strategy
2007	JASZ

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Source: Saasa (2010b).

During the JASZ negotiations, GRZ indicated its preference for general budget support as the main aid modality. Several cooperating partners supported this initiative. In April 2005, GRZ and four cooperating partners (the European Commission, the World Bank, the UK Department for International Development [DFID] and the Netherlands) signed an MoU on the provision of Poverty Reduction Budget Support (PRBS). Later, Sweden, Norway, Germany, Finland and the African Development Bank followed suit. The MoU sets out the jointly agreed terms and procedures for direct budget support to the National Development Plan and serves as a coordinating framework for consultation with the government. The signatories have committed themselves to:

- enhancing ownership and effective implementation of the National Development Plan;
- increasing the predictability of aid flows;
- allowing allocative efficiency in public spending;
- strengthening domestic accountability;
- increasing GRZ's institutional capabilities;
- reducing the administrative burden on the government; and
- reducing transaction costs.

3.4.4 Sector cooperation under the JASZ

The JASZ and the FNDP were instrumental in the further evolution of sector cooperation. Sector plans, such as the National Health Strategic Plan IV and the National Implementation Framework for the education sector had the FNDP as their starting point. Economic growth allowed budgets to be increased, while sector cooperation also contributed to a more effective and efficient allocation of resources. These developments allowed the formulation and

implementation of ambitious sector plans that aimed at a restructuring and revitalization of the dilapidated sectors. In accordance with the Zambian Aid Policy and Strategy, the JASZ gave major responsibilities to GRZ and requested donors to collaborate to improve funding predictability and alignment with Zambia's own financial management systems. An important consequence of the JASZ was the move to a better division of labour. Cooperating partners moved out of sectors and tried to reduce the number of donors active in any one sector.

Table 3.4 Division of labour in selected sectors*

	Lead	Active	Background	Phasing out
Situation 2005/2006				
Health	UN, Sweden, the United Kingdom	European Commission, World Bank, Canada, Japan, the Netherlands, the United States		Denmark, Ireland
Education	Ireland, the Netherlands	European Commission, UN, World Bank, Denmark, Japan, Norway, the United States, the United Kingdom	AfDB, BADEA	Canada, Finland
Transport	European Commission	AfDB, World Bank, Kuwait Fund, OPEC, Denmark, Japan	Norway	Germany
Water and sanitation	Denmark, Germany	AfDB, UN, World Bank, Ireland, Japan	European Commission, the Netherlands	
Agriculture	World Bank, Sweden, the United States	AfDB, European Commission, the UN, Finland, Japan	Norway	the Netherlands
Situation 2009				
Health	UN, Sweden, the United Kingdom	European Commission, World Bank, Canada, Japan, the United States	AfDB	Denmark, Ireland, the Netherlands
Education	Ireland, the Netherlands	UN, World Bank , Denmark, Japan, the United States,	AfDB, BADEA, European Commission, Germany, Norway, the United Kingdom	Canada, Finland
Transport	European Commission	AfDB, World Bank, Kuwait Fund, OPEC, Denmark, Japan		Germany, Norway
Water and sanitation	AfDB, Denmark, Germany	AfDB, UN, World Bank, Ireland, Japan	European Commission, the United States	the Netherlands
Agriculture	AfDB, World Bank, Sweden, the United States	European Commission, the UN, Finland, Japan, Norway		

* PRBS partners in bold type.

Sources: for 2005–2006: Wohlgemuth and Saasa (2008); for 2009: Chigunta and Matshalaga (2010).

In the *education sector*, the MoE and cooperating partners signed a new MoU in 2008. In accordance with the JASZ, the new MoU also includes general budget support and sector budget support as funding modalities for the sector. At present, funding modalities include direct budget support, pool funding, project support and technical assistance. In addition, other international non-governmental organizations (INGOs) and local civil society organizations support the sector through projects and/or by providing technical assistance.

In the *health sector*, the MoU had already been renewed for three years in 2006 under the 2006–2010 National Health Strategic Plan IV. In 2009, the MoU was revised with an addendum that had the objective of scaling up support for achieving the MDGs and strengthening country-owned strategies. External support was provided through basket funding, projects, sector budget support and general budget support. The EC provided sector budget support. DFID had moved from sector support to general budget support, with part of the PRBS earmarked for the health sector.

In the *agriculture sector*, the Agriculture Commercialisation Programme 2002–2005 did not develop as anticipated. A new impetus came from the National Agricultural Policy 2004–2015 and the Fifth National Development Plan. The FNDP recognized the agricultural sector as an engine for rural growth and poverty reduction and included a target of 90% household food security by 2015. Eight cooperating partners are active in the agricultural sector. These interact with the agricultural sector through the resources they provide either directly or indirectly via budget support. They also interact with GRZ's agricultural policy through dialogue and they interact with the process of agricultural spending through harmonization efforts and technical assistance.

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In the *roads sector*, increased contributions of cooperating partners reflected the renewed interest of donors for infrastructure as an important condition for economic development (Terberger et al., 2010, 17). Contributors included the European Commission, Denmark, KfW, Japan and Norway, while the World Bank, AfDB and Kuwait provided loans. New donors, such as China, are also increasingly active in the roads sector. The Joint Donor Forum for the roads sector aimed to harmonize the activities of cooperating partners (see also chapter 8 and Leiderer et al., 2010).

Aid to the *water sector* is mainly in the form of projects. A large number of cooperating partners are active in the water sector, as are non-governmental organizations (NGOs) such as Water Aid, Care International, World Vision, etc. As a result of the JASZ, coordination, harmonization and alignment to GRZ policies have made progress in recent years. Almost all multilateral and bilateral cooperating partners have been aligning their activities under national policies. However, despite increased coordination, harmonization and alignment, a variety of different modalities regarding procurement, tendering, the role of consultants, etc. is still in place.

3.5 Summary

This chapter sketched the development of sector and budget support in Zambia during the 1990s and, especially, during the first years of this millennium. The chapter started with a brief description of economic development. After many years of low economic growth, the economy, aided by macroeconomic reforms, recovered from 2000 onwards. Politically, there were major shifts, although regime change in Zambia was always peaceful. From 2005 onwards, electoral democracy ruled again.

In the last thirty years of the previous millennium, Zambia received large amounts of aid, although with substantial fluctuations. Moreover, a large part was in the form of loans, leading to a high debt burden. In 2000, Zambia was declared eligible for debt relief under the Highly Indebted Poor Countries (HIPC) Initiative and in March 2005, its total foreign debt was reduced from US\$7.1 billion to US\$4.5 billion. Under the Multilateral Debt Relief Initiative, Zambia's debt stock was further reduced to around US\$0.5 billion by the end of 2006.

In recent years, aid relations have evolved substantially. The 1990s already witnessed increased cooperation in a number of sectors in order to enhance aid effectiveness. Sector cooperation developed through Sector Wide Approaches (SWAp) and this contributed to harmonization and alignment, culminating in 2007 in the Joint Assistance Strategy for Zambia. In April 2005, GRZ and four cooperating partners signed an MoU on the provision of Poverty Reduction Budget Support (PRBS). Later, other cooperating partners followed suit.

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While several cooperating partners started to provide budget support from 2005 onwards, they continued to provide aid through other aid modalities such as projects, basket funding and sector budget support. Other cooperating partners do not provide budget support, but deliver aid solely through projects and basket funding. The result is a heterogeneous aid landscape with cooperating agencies active in different sectors and with different aid modalities. The role of new donors, such as China and private foundations, may have important repercussions for the policy dialogue between GRZ and the traditional cooperating partners because the new donors do not necessarily participate in the agreed dialogue structures.

4

Inputs: Implementation of budget support

4.1 Introduction

This chapter provides a description of budget support inputs in Zambia. It focuses on the first three evaluation questions:

- 1.1 Which inputs have been provided by budget support and to what extent do they correspond to the envisaged GBS/SBS inputs?
- 1.2 To what extent are the budget support operations put in place consistent with Zambia's strategic and policy framework and with the overall development partners' development strategies?
- 1.3 How well was the design of GBS/SBS inputs adapted to the specific political, economic and institutional context of Zambia?

Section 4.2 gives a broad description of the financial inputs. Section 4.3 sketches the structure of the policy dialogue, conditionalities and technical assistance and capacity building. And Section 4.4 summarizes. The following chapter assesses how these inputs were provided – that is, to what extent the budget support programme in Zambia is in tune with the principles of ownership, harmonization and alignment.

4.2 Financial inputs

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First and foremost, budget support involves the provision of direct, untargeted funding in support of the general budget or specific sector budgets. Cooperating partners in Zambia provide budget support in both forms: general Poverty Reduction Budget Support (PRBS) is provided by the PRBS group of six bilateral donors (Finland, Germany, the Netherlands, Norway, Sweden and the United Kingdom), the European Commission (EC), the African Development Bank (AfDB) and the World Bank. Sector budget support is provided by the EC for roads, health and in support of the Public Expenditure Management and Financial Accountability (PEMFA) reform programme (Section 4.3.3), and by the United Kingdom in the health sector.⁶ The EC undertook a pilot SBS programme that ran from 2006 to 2008, and since 2009 the EC has been implementing a larger SBS programme. DFID earmarked some (US\$5 million) of its GBS allocation for the health sector between 2006 and 2007, although between 2008 and 2010 it had only broad earmarking for the Ministry of Health (MoH) and did not target any specific sub-programme in the sector.

⁶ The PEMFA programme is otherwise funded through a joint basket mechanism (Section 4.3.3.1). The EC's financial contribution to the PEMFA programme (2005: US\$3.125 million, 2007: US\$1.95 million) is not included in the further analysis of financial inputs, as they are dealt with in the same fashion as the basket funds. Even if the EC gave up formal earmarking of this PEMFA funding, a *de facto* earmarking still seems to be taking place, although there is somewhat contradictory information on how this sector budget support is exactly channelled to the PEMFA secretariat: while the EC claims that it is disbursed as budget support through the Bank of Zambia (BoZ) to the Treasury (that is, through the Control 99 Treasury Account) and from there transferred to the PEMFA secretariat, BoZ claims the EC disburses directly into the separate PEMFA account (interviews with BoZ and EC representatives).

While the bilateral donors and the EC provide their PRBS (and SBS) in the form of grants, AfDB and the World Bank give loans. Budget support is provided in annual instalments following an n-1, n+1 scheme, which is based on annual appraisals. In year n, cooperating partners make commitments for the forthcoming period (n+1) based on their assessment of government performance in the previous year (n-1). In addition to its annual performance tranche, the EC also provides tranches within the framework of its MDG contract scheme. In 2009, the EC disbursed an additional €30 million (US\$38.4 million) through its V-FLEX mechanism.⁷

Since 2007, the PRBS cooperating partners have not only made annual commitments but also established a disbursement schedule with monthly commitments in order to improve predictability and facilitate cash flow planning for GRZ (Section 5.2.2). Table 4.1 gives the consolidated data.

As for the amounts of budget support funding in Zambia, it has to be noted that it is surprisingly difficult (if not impossible) to obtain consistent data on budget support flows in Zambia, and figures from the various available sources tend to differ substantially. In fact, it proved impossible to determine the exact figures for all flows of funds even for recent years.⁸ Table 4.1 combines information from many different sources, and the evaluation team trusts these figures represent the most reliable picture of actual budget support flows to Zambia to date.

Table 4.2 compares the projections of the Fifth National Development Plan (FNDP) and the Medium Term Expenditure Framework (MTEF) to actual outturns of budget and project support. When the FNDP was formulated, the overall funding need for achieving its targets was estimated at a total of ZMK 62,623.22 billion (US\$17.4 billion) for the 2006–2010 period (GRZ 2006, 354). The FNDP fiscal targets include projections of the expected inflow of external aid resources in the form of budget support and projects.⁹

⁷ The Vulnerability FLEX mechanism (V-FLEX) is a short-term instrument supporting the most vulnerable ACP countries in their effort to cope with the impact of the global financial and economic crisis and to mitigate its social consequences (European Union, 2009).

⁸ The MoFNP does not keep records of budget support inflows. Data provided by cooperating partners was clearly erroneous in some cases (e.g. figures not adding up to totals or apparently providing commitments instead of actual disbursements), with contradictions between sources. From the annual PRBS reviews, only data for the past three years could be extracted and except for 2009, these do not contain information on SBS. Moreover, as information provided to the evaluation team by individual cooperating partners shows, figures in the annual reviews are partly incomplete. Data provided by BoZ on disbursements for most years is only preliminary or estimated, not actual. It seems that exchange rate effects and even a variation in definitions cannot explain all the discrepancies and that there are serious shortcomings with regard to reporting, record keeping and information sharing on budget support flows on both sides of the aid relationship.

⁹ To estimate the resource gap for meeting its objectives, the FNDP identifies two scenarios: a baseline extrapolating actual resource flows from 2005; and projections of revenue and expenditure outlining the financial requirements of the FNDP. One criticism of the FNDP is the lack of a detailed macro-fiscal framework, which made it difficult to analyse the realism of the assumptions and spending proposals *ex ante* (Bird, 2009, 9).

Table 4.1 Budget support disbursements by donor (US\$ million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Grants:									
Finland						6.7	6.8	6.5	6.5
Germany						6.7	6.8	12.9	9.8
The Netherlands					7.5	13.6	13.6	12.9	13.0
Norway		0.1		6.1	12.8	19.0	27.1	25.1	28.3
Sweden				0.5	6.9	14.2	17.2		
United Kingdom	0.1			28.3	41.1	49.5	51.7	48.6	48.2
o/w PRBS					36.1	44.5	51.7	48.6	48.2
o/w SBS Health*					5	5			
European Com.	65.3	32.8	52.1	65.4	63.1	48.9	87.5	109.6	
o/w PRBS				31.9	39.5	39.7	37.9	86.9**	54.8
o/w SBS Roads				30.5	23.6		46.0		
o/w SBS Health						7.2	3.6	16.9	
o/w PEMFA				3.0		2.0		5.7	
Total PRBS grants	65.4	32.8	52.1	66.8	102.8	141.5	163.6	192.9	152.5
Total GBS/SBS grants	65.4	32.8	52.1	100.3	131.4	155.7	213.2	215.6	152.5
PRBS loans:									
AfDB				9.0	8.8		30.6	23.0	48.9
World Bank								9.6	19.5
Total PRBS loans				9.0	8.8		30.6	32.6	68.4
Total Budget Support	65.4	32.8	52.1	109.3	140.2	155.7	243.8	248.2	220.9

Note: This table is the result of extensive cross-checking of many different sources. Minor discrepancies are explained by different exchange rates applied in different sources; *because DFID gave up the traceability requirement for its health sector budget support in 2008 and provides it within its PRBS contribution without any specific arrangements for conditionality or technical assistance, it is considered part of DFID's PRBS funding from 2007 on. For 2006 and 2007, US\$5 million is notional SBS; **including US\$38.4 million V-FLEX;

Sources: OECD-DAC; MoFNP; CPG; BoZ; Gerster and Chikwekwe (2007); Whitworth (2010); EC (2007); EC/Republic of Zambia (2008).

As a share of gross domestic product (GDP), GBS was expected to average 1.8% (2.1% including budget support loans) between 2006 and 2010 (1.6% for 2006–2009). FNDP projections were based on an assumed annual growth rate of 7% during the implementation period. Given that actual growth rates in the first four years of the implementation period were considerably lower (2006: 6.2%, 2007: 6.3%, 2008: 5.7%, 2009: 6.3%),¹⁰ this implies that budget support as well total aid resources fell significantly short of the levels deemed necessary to fund the FNDP.¹¹

¹⁰ Sources: MoFNP; IMF.

¹¹ In fact, budget support levels remained much closer to the level of the FNDP baseline scenario extrapolating current funding levels in 2005. The FNDP also includes projections for budget support loans at 0.3% of GDP for all years except 2006. Outturn was 0.08% (2006), 0% (2007), 0.21% (2008) and 0.25% (2009).

Table 4.2 Budget support targets and outturn as a percentage of GDP

		2006	2007	2008	2009	2010	Average 2006–2009
FNDP target	Budget Support	0.8%	1.3%	2.0%	2.2%	2.5%	1.6%
	Project Support	3.3%	3.3%	3.6%	3.9%	4%	3.5%
MTEF projection	Budget Support	N/A	1.26%*	1.21%*	1.35%** (1.25%)*	1.30%*** 1.23%** (1.17%)*	1.27%**
	Project Support	N/A	2.42%*	2.62%*	3.64%** 2.30%*	2.96%** 2.27%*	2.89%
Outturn	Budget Support	0.94%	1.23%	1.11%	1.48%	N/A	1.21%
	Project Support	3.50%	3.29%	2.59%	3.22%	N/A	3.07%

Sources: Projections, GRZ (2006); actual projects and GDP, Whitworth (2010); GBS outturn, same as Table 4.1;

*MTEF 2008–2010; ** MTEF 2009–2011; *** MTEF 2010–2012; project figures include SWAps; budget support targets are GBS grants only; authors' calculations

4.3 Non-financial inputs

4.3.1 Policy dialogue

According to the intervention logic on which this evaluation is based, policy dialogue as a non-financial input of budget support is an important contribution to better policy choices, to overall improved governance and, ultimately, to making donors' financial contributions as well as domestic budget resources more effective in achieving development objectives. An effective dialogue mechanism should facilitate coordination and communication within the government system, between the government and the cooperating partners, and among the cooperating partners themselves.

The formal dialogue architecture for budget support policy dialogue in Zambia involves different actors, fora and mechanisms. The dialogue mechanisms directly related to PRBS have their formal origin in Part 5 of the PRBS MoU, which states that 'regular consultation among the Signatories is considered critical to continued engagement by the PRBS group and effective implementation of the National Development Plan and subsequent reform strategies' (GRZ, 2005b, 9).

The main fora for the regular PRBS dialogue are the Joint Steering Committee (JSC), the Joint Executive Committee (JEC) and the bi-annual meetings that take place as part of the Joint Annual Review (JAR) process.

Joint Steering Committee: The JSC is the main steering body in the PRBS dialogue architecture driving the joint PRBS agenda of GRZ and the cooperating partners. The JSC is composed of

representatives from both the government and the cooperating partners, with the cooperating partners being represented by three lead donors on a rotational basis.

The JSC is co-chaired by GRZ and cooperating partners and meets quarterly to:

- discuss progress made with respect to the performance indicators as agreed in the Performance Assessment Framework (PAF);
- prepare for review meetings;
- act as a forum for dialogue as specified in Part 5 of the MoU; and
- mediate in dispute settlement as specified in Part 11 of the MoU.

According to the PRBS MoU, any signatory ‘may at any time identify an issue which that Signatory feels is relevant to the implementation of the MoU and is permitted to notify the JSC, through the Secretary to the Treasury, of its wish to enter into dialogue on that issue’ (GRZ, 2005b, 13).

Joint Executive Committee: The work of the JSC is coordinated by a small Joint Executive Committee consisting of three representatives from GRZ and two PRBS group members. The members of the JEC are selected by the members of the JSC from among themselves and they rotate annually. The JEC is responsible for routine coordination activities as well as for preparing joint reviews and for managing follow-up activities. Should any MoU signatory wish to raise an issue for dialogue, the JEC will convene a meeting between both sides to agree on the dialogue process on the issue in question.

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Joint Annual Review: As well as the quarterly JSC and JEC meetings, GRZ and the PRBS signatories meet twice a year as part of a structured annual review process. The JAR meetings are called jointly by the government and the cooperating partners and are open to participation by parliamentarians and representatives of civil society. The MoU provides for these meetings to take place in June and October every year.¹²

According to the MoU, the focus of the June meeting is the signatories reaching a joint view on performance – which will serve as the basis for commitments for the following budget year. The main reference for the performance assessment is the jointly agreed PAF (Section 4.3.2.2); the assessment itself is to be based on the National Development Plan’s Annual Reviews; the annual PEMFA progress reports; Quarterly Budget Execution Reports; national audits; and any other prior analytical work agreed upon in relation to the PAF (GRZ, 2005b).

The October meeting focuses on dialogue on forward planning and budgeting. It serves to update the PAF and to agree which indicators should be included in the PAF for the coming year. According to the MoU, this dialogue is to be based on the government’s ‘annual financial reports of the previous budget year, the annual PEMFA evaluation and the ceilings in the annual budget for the next budget year’ (GRZ, 2005b, 11).

¹² The MoU also states that ‘the Signatories aim to merge the two review meetings into a single annual review meeting’ (GRZ, 2005b, 10).

The JAR provides a close link to other dialogue fora, which do not cover only the PRBS process. Most importantly, the review process builds on the sector dialogue conducted in the sector advisory groups (SAGs), which were set up as part of the National Development Plan formulation process (Chapter 8). In this function, the performance of the individual SAGs is crucial to the quality of Policy Dialogue (Gerster and Chikwekwe, 2007, 11ff.) and also for other processes such as the MTEF.

In addition, the PRBS policy dialogue is closely linked to the annual High Level Policy Dialogue (HLPD) meeting between the government and the Group of Cooperating Partners (CPG) that are signatories to the Joint Assistance Strategy (JASZ).¹³ The HLPD is chaired by the Minister of Finance and National Planning. The CPG is subdivided into two sub-groups, namely, the Heads of Cooperation (HoC) and the Heads of Mission (HoM).

While the HoM are responsible for the general strategic and political dialogue at the highest level, the HoC mainly address operational multi-sector issues as well as strategic development policy issues. The HoC is led by a troika consisting of two bilateral donors and one multilateral agency.¹⁴ The troika members convene at least once a month and also meet on a monthly basis with the Secretary to the Treasury at the Ministry of Finance and National Planning (MoFNP) to discuss a diversity of issues (usually brought up by the troika).

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The overall purpose of the HoC is to facilitate regular and open policy dialogue within the CPG between cooperating partners and government, thereby promoting overall coordination and aid effectiveness.¹⁵ The HoC group also coordinates and prioritizes the cooperating partners' policy positions for the HLPD with government.¹⁶ Invited representatives of civil society can attend the annual HLPD meetings. In addition to the continuous dialogue process taking place in the regular meetings of the JSC and the JEC and within the framework of the JAR and the HLPD, the PRBS MoU also makes it possible for any signatory to initiate a dialogue process on particular issues of concern at any time. The MoU does not prescribe a particular process for this non-routine dialogue, but allows substantial flexibility as to how to frame this issue-driven dialogue (GRZ, 2005b, 13).

Importantly, the MoU does not formulate any requirement for consensus or a majority among PRBS cooperating partners to initiate such a dialogue. For SBS operations, there are no similar dedicated dialogue structures. SBS-specific issues are routinely dealt with either bilaterally or within the formats of PRBS policy dialogue or within the dialogue structures

¹³ All PRBS donors are members of the CPG. It currently includes Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom, the United States, the African Development Bank, the European Commission, the IMF, the United Nations System and the World Bank. Other cooperating partners may attend as observers.

¹⁴ In order to ensure continuity, each donor or agency in the troika is allowed to be a member for 18 months: six months as an incoming member, six months as chair and six month as an outgoing member.

¹⁵ See CPG website, www.cpg.org.zm.

¹⁶ In preparation for the annual HLPD meetings, both the government and cooperating partners prepare position papers with the latter's usually a response to the former's submission.

linked to SWAs. This might be related to the fact that SBS is provided by only two cooperating partners in the health sector (the United Kingdom and the European Commission), and only by the European Commission in the road sector. To a certain extent, it could also be an expression of the fact that SBS is provided mainly with the aim of providing funding to specific sector activities and puts less focus on improving overall GRZ governance and policy making.¹⁷

4.3.2 Conditionality: Underlying principles and Performance Assessment Framework

Closely interlinked with the PRBS policy dialogue is the conditionality that is attached to the provision of budget support funding. In Zambia, budget support conditionality is applied on two levels, namely the underlying principles that frame the general mutually agreed basis for budget support, and the PAF, which serves to assess the government's (and more recently also cooperating partners') performance in implementing the programme.

4.3.2.1 Underlying principles

According to the MoU, PRBS is provided on the precondition of GRZ's commitment to 'fight poverty, including through a pattern of public expenditure consistent with poverty reduction priorities as identified in the National Development Plan' as a basic principle (GRZ/PRBS Group, 2005, 5). In addition, the MoU identifies three underlying principles for the provision of direct budget support:

- GRZ's commitment to peace, democratic principles, the rule of law, good governance and integrity in public life, including the fight against corruption;
- GRZ's commitment to public financial management reforms; and
- GRZ's commitment to pursuing sound macroeconomic policies, as evidenced by a positive IMF assessment of overall macroeconomic performance.

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The violation of an underlying principle is understood as being above and beyond any concerns raised about under-performance against indicators and targets expressed in the PAF (Section 4.3.2.2). In the case of a perceived violation of an underlying principle, the MoU prescribes an escalating dialogue process. If despite this dialogue process the PRBS group feels that the government is still making no serious attempt to improve the situation, the PRBS group may consider suspending the disbursement of agreed instalments, reducing the levels of budget support for future years or terminating the agreement completely (GRZ/PRBS Group, 2005, 19).

The underlying principles are subject to continuous monitoring by the PRBS group as part of the annual review process. It is important to note that the process for assessing the underlying principles (in particular the 'commitment to good governance' principle) is based to a large degree on the judgement of each cooperating partner. This means that a perceived violation of the underlying principles is enough to initiate the High Level Policy

¹⁷ For a more extensive discussion of cooperating partners' different objectives in providing budget support, see Chapter 7.

Dialogue prescribed by the MoU.¹⁸ At the same time, a positive assessment of the underlying principles is a precondition for cooperating partners' PRBS commitments within the framework of the annual review process. The underlying principles thus constitute the core of the PRBS conditionality and provide a key starting point for cooperating partners in the dialogue with GRZ on the overall reform agenda.

4.3.2.2 Annual Performance Assessment

In addition to adhering to the underlying principles, cooperating partners condition their budget support commitments and, up to a point, their disbursements on progress attained by GRZ in the implementation of the National Development Plan. This progress is to be measured through jointly agreed performance indicators as described in the PAF, which the MoU defines as 'a multi-annual matrix of priority milestones, targets and indicators based on the National Development Plan, Public Expenditure Management and Financial Accountability reforms under the PEMFA programme and related initiatives over time, other components of public service reform, macroeconomic stabilization policy and debt sustainability' (GRZ/PRBS Group, 2005, 4).

The PAF is a centrepiece of the PRBS conditionality because cooperating partners link their commitments as well as their disbursements of budget support to it (Section 5.3.2.2). The PAF that was developed in Zambia is a mixture of policy measures and outcome indicators. Progress on PAF targets and indicators is at the centre of the joint GRZ-cooperating partners' annual PRBS review.¹⁹ The PAF is thus updated annually with the formulation of new targets and the elimination and/or introduction of new indicators.

Since 2006, the PAF has evolved into a framework of targets and indicators, with the recent 2009–2011 and 2010–2012 PAF covering four main areas: (a) public sector reform (covering decentralization, public sector management, public finance management, domestic taxation and financial sector development); (b) wealth creation (agriculture, infrastructure including roads, energy and water and private sector development); (c) social equity (health and education); and (d) issues that cut across sectors (HIV/Aids and the environment).

The distribution of targets across these pillars is given in Table 4.2. The 2009–2011 PAF initially contained 38 targets.²⁰ Although there has been no major shift in the sector focus, which from the beginning was mainly on the first two pillars (public sector reform and

¹⁸ For the macroeconomic stability requirement, cooperating partners rely on a third-party (IMF) assessment. The assessment of progress with regard to financial management reforms is in practice based on the progress in implementing the PEMFA programme, which can be argued to be a comparatively objective measure. The commitment to poverty reduction is mainly assessed based on PAF performance and FNDP implementation progress.

¹⁹ Apart from the PAF reports, the reviews include *inter alia*, the National Development Plan's Annual Reviews, the annual PEMFA progress reports, quarterly budget execution reports and results of national audits.

²⁰ The target for the third of three private sector development indicators on labour productivity was to be determined during the first quarter of 2009. It turned out later that no common definition could be agreed on, so the indicator was not assessed and recommended to be dropped in the June 2010 Review (For this reason Table 4.2 only shows 37 indicators for 2009).

wealth creation), the number of targets measuring GRZ's performance has increased steadily since 2006. The 2010–2012 PAF was revised in late 2009 and narrowed down to 25 indicators. The number of indicators for public sector reform was reduced from 15 to 10, and for wealth creation the number of indicators was brought down from 10 to 5.²¹

Even though all PAF indicators can be argued to be in line with these FNDP pillars, they do not all have an equivalent among the key performance indicators (KPIs) identified in the FNDP for monitoring purposes. For instance, of the 37 indicators measuring GRZ performance in the 2009 PAF, only 19 have a more or less direct equivalent in the FNDP KPIs (Section 5.3.2.2). Based on the assessment of each indicator, an overall PAF score is computed as an aggregate measure of GRZ performance.

Table 4.3 Number of PAF targets and indicators 2006–2010

	2006	2007	2008	2009	2010
Public sector reform	13	11	11	15	10
Decentralization			1	2	1
Public service management	3 (1)	4	3	3	1
Public finance management	4 (1)	4 (1)	4(1)	7	6
Macroeconomic	3				
Domestic taxation		1	1	1	1
Financial sector development	1 (1)	1	1	1	
Public service pension fund	2	1	1	1	1
Wealth creation	9	9	10	10	5
Agriculture	3	3	3	3(1)	2
Infrastructure	4	4	4	5(2)	3
Private sector development	2	2(1)	3	2(1)	
Social equity	7	8	8	8	6
Health	4	4	4	4	3
Education	3	4	4	4	3
Cross cutting	2	3	4	4	4
HIV/Aids	2	3	3	3	3
Environment			1	1	1
Total indicators GRZ	34	33	34	41	25
Total targets GRZ performance	31	31	33	37	25
Targets cooperating partners		3	3	3	3

Notes: Monitoring indicators with no target in brackets.

Source: PAF Progress Reports.

²¹ The next chapter discusses the consequences of this reduction.

Since 2007, the framework has also included a Donor PAF, which assesses the cooperating partners' performance with regard to alignment and the predictability of their support to GRZ.²²

The indicators linked to measuring the government's progress in achieving the set targets can be divided into process indicators and outcome indicators. The majority of indicators and targets in the PAF are outcome oriented and quantitative in nature. They set quotas and benchmarks or milestones that are to be reached by the government without prescribing any specific policy actions. Yet, process indicators have also been integrated from the very beginning, primarily in the areas of public service management, public financial management and agriculture.

Overall, the number of process indicators remained relatively constant at a low level. Starting with seven in the 2006 PAF, the number of such policy measures was reduced in 2007 and 2008. The PAF for 2009 contains an increased number of indicators, of which seven are policy measures.²³

4.3.3 Technical assistance and capacity building

In conjunction with the provision of budget support, cooperating partners acknowledge the importance of effective government institutions, legislation and regulations that facilitate improved management of national resources and external funds. In order to assist GRZ in improving the quality, efficiency, cost-effectiveness and delivery of public services to its people, cooperating partners have engaged in a number of programmes and initiatives of technical assistance and capacity development. These activities, partly conducted as accompanying measures of budget support, were embedded in the context of the government's own reform agenda. GRZ has been implementing the Public Service Reform Programme (PSRP) since 1993, which was recently re-formulated as PSRP II.²⁴ In line with the GRZ-owned programme, the majority of budget support donors provide funding in support of the Public Expenditure Management and Financial Accountability (PEMFA) programme, the first component of PSRP. This funding is provided through a dedicated basket mechanism.²⁵ In addition, a number of cooperating partners support the government in building capacities at the Office of the Auditor General (OAG) as well as in

²² The targets in the Donor PAF are: (a) proportion of ODA given as budget support (showing an alignment with the government's preferred aid modality); (b) amount of PRBS disbursed as a percentage of commitment; (c) the weighted average deviation of the months of disbursement against the months of commitment, (MoFNP, 2008, 15).

²³ Section 5.3.2.2 analyses the PAF process more extensively with regard to the principles ownership, alignment and harmonization.

²⁴ The PSRP II encompasses three distinct areas of reform: (a) the Public Expenditure Management and Financial Accountability (PEMFA) Programme that is implemented by the MoFNP; (b) Public Service Management (PSM) implemented by the Cabinet Office (CO) under the Management Development Division; and (c) decentralization, which entails fiscal devolution through the development and consolidation of intergovernmental fiscal architecture that focuses on different transfer modalities of grant funds to the local level. Decentralization is implemented by the Ministry of Local Government and Housing (PEMFA, 2010, 1).

²⁵ Formally, the EC supports the PEMFA programme through sector budget support; yet the BoZ and GRZ treat these funds like basket contributions too (Section 4.2).

parliament or engage in other budget support-related technical assistance. A selection of budget support-related capacity building activities is listed in Box 4.1.

Box 4.1 Budget support related capacity building activities

The United Kingdom Department for International Development (DFID):

Providing support to the Anti-Corruption Commission

Strengthening political parties

Offering technical assistance to the Secretary to Cabinet

Supporting the professionalization of the public service.

Millennium Challenge Account:

Providing support to the Anti-Corruption Commission and Zambia Revenue Authority

Helping government to implement the provisions of the National Corruption Prevention Policy and Strategy (setting up integrity committees in a number of ministries)

Re-engineering work processes in the Department of Immigration, Patents and Company Registration, the Zambia Revenue Authority and the Ministry of Lands

The United States Agency for International Development (USAID), DFID, the European Union and others:

Providing support for the implementation of parliamentary reforms

Norway and the Netherlands:

Supporting the Office of the Auditor General in implementing reforms in auditing practices and effectiveness

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Norway, UNDP, Denmark and others:

Supporting access to justice and judicial reforms

Building courts and supporting the recently established Governance Secretariat

European Union:

Supporting capacity development in civil society organizations

Supporting the government in electoral reforms

Consortium of donors:

Providing financial and capacity development support to the Task Force on Corruption.

Source: World Bank (2008).

4.3.3.1 The Public Expenditure Management and Financial Accountability (PEMFA) programme

The objective of PEMFA is to contribute to government efforts to improve efficiency, effectiveness and accountability in the management and use of public financial resources. It aims to do this at both central and sub-national levels in order to improve public expenditure management, and to strengthen financial accountability. With regard to budget support, positive results from the programme would boost cooperating partners' confidence in GRZ's own country systems and the PFM systems (Hedvall et al., 2007, 6). The programme is supported by all those who signed the PEMFA MoU, which includes all nine PRBS donors: Norway, the Netherlands, Germany, Sweden, Finland, Ireland, Denmark, the United Kingdom, the European Commission, the World Bank (IDA), the United Nations, the

African Development Bank (AfDB) and the Government of the United States of America. GRZ is also providing counterpart funding to meet recurrent costs (PEMFA, 2010, 1).²⁶

4.3.3.2 Technical assistance and capacity building at the Office of the Auditor General (OAG) and in parliament

One particular element of PEMFA is the strengthening of oversight systems. On the basis of the National Governance Baseline Survey Report published in August 2004, measures were introduced to reduce the occurrence of corrupt practices, including a process to strengthen the Office of the Auditor General (OAG). In 2004, the government approved the restructuring of the OAG, which included the decentralization of the OAG to all districts in the country.

Norway and the Netherlands engage in a programme to assist the OAG, which is de-linked from the wider PEMFA programme in order to guarantee the independence of the Auditor General (NORAD, 2007, 56). Moreover, budget support cooperating partners are involved in a variety of anti-corruption activities that are not necessarily part of the PEMFA programme (NORAD, 2007; DFID 2008).

Over the past ten years, a number of donors including USAID, the EC, Finland, Germany and the United Kingdom have targeted capacity building projects at members of parliament (MPs) in order to strengthen the demand side of democratic accountability with regard to the budget process. USAID operates a five-year support programme through the Economic Association of Zambia (EAZ). The EC programme consists of three phases: phase one provides capacity building for MPs, phase two provides hardware and office construction and phase three will establish constituency offices. For the last five years, MPs have received regular capacity building through technical assistance and training. For instance, the EAZ has developed budget literacy guidelines, conducted training courses and advised MPs and relevant parliament committees before, during and after budget execution every year. MPs are also entitled to issue calls for expert assistance from the public. In addition, parliamentary committees were enabled to adopt different consultation forms in order to attain different opinions from the public in the decision-making process. The problem with the support for MPs however, is the high turnover rate of MPs in elections with only a minority of MPs staying in parliament long enough to gain experience.

²⁶ The PEMFA programme was initially a five-year programme (2005–2009) with 13 components, namely: (1) Commitment Control System (CCS) and Financial Management System (FMS); (2) IFMIS (Integrated Financial Management System) implementation; (3) Improved Fiscal Policy and Economic Planning; (4) Reformed Budget Preparation and Budget Execution; (5) Improved Debt Management; (6) Improved Internal Audit; (7) Better External Finance and Coordination; (8) Legal and Regulatory Framework; (9) Strengthened External Audit; (10) Enhancing Parliamentary Oversight; (11) Accountancy Training and Regulation; (12) Public Procurement Reform; and (13) Centralized Computer Services Department (Hedvall et al., 2007, 6). The contribution to the budget for the programme for the five-year period by cooperating partners amounts to US\$72.2m. By March 2009, 55% or US\$39.7m, had been used (MoFNP, 2009, 3). The PEMFA Programme was (cost-neutrally) extended for one year and will end in 2010 (PEMFA, 2010).

Another important technical assistance programme – which is not directly linked to but is highly relevant for the PRBS programme – is the assistance provided by Germany to the MoFNP through GIZ. This programme, which has been running since 2006, aims to support the MoFNP in incorporating the poverty reduction strategy into the budget process by providing technical assistance to various MoFNP departments (including Monitoring and Evaluation, the Central Statistics Office, Planning and Economic Management and the Budget Office). In addition to building capacity around the national budget processes, this programme contributes to PRBS processes by generating and improving data for the monitoring and evaluation of government performance (Larizza, Marten and Pain, 2009)

4.4 Summary

This chapter gave a description of the development of budget support inputs. Cooperating partners have provided general budget support and sector budget support. Between 2002 and 2009, budget support increased from US\$65 million to US\$248 million. The policy dialogue structure around budget support is outlined in the joint memorandum of understanding (MoU) signed by all PRBS donors and GRZ. There are no specific dialogue mechanisms related to sector budget support. The conditionality attached to the provision of budget support funding is applied on two levels: the underlying principles and the PAF. PRBS partners have also engaged simultaneously in a number of programmes and technical assistance and capacity development initiatives. However, it appears that these programmes were mainly supply driven.

5

Direct outputs

5.1 Introduction

The previous chapter described the budget support inputs provided by PRBS cooperating partners in Zambia. This chapter analyses the direct outputs produced by budget support and asks the following evaluation questions:

- 2.1 To what extent has budget support contributed to an increased size and share of external funding subject to the government's budgetary process and improved predictability of overall flows of external assistance?
- 2.2 To what extent has budget support contributed to the establishment of a framework of policy dialogue that focused on key government strategies and priorities?
- 2.3 To what extent has budget support contributed to the provision of non-financial inputs, such as technical assistance and capacity building, which are considered to be strategic government priorities?
- 2.4 To what extent has budget support contributed to harmonization and alignment of external assistance, and reduced transaction costs over time?

Section 5.2 analyses the role of budget support for aid transparency and predictability. Section 5.3 proceeds with non-financial contributions. Section 5.4 concludes.

The conclusion in this chapter is that budget support has increased the size and share of aid subject to GRZ's budgetary processes, facilitating, planning, accounting and reporting procedures for the government with regard to aid inflows. However, this did not occur at a level that would lead to a substantial reduction of overall transaction costs of development cooperation. Budget support flows are slightly more predictable than project aid flows. The comprehensive dialogue structures have provided a strong institutional shield against the fragmentation of the dialogue process. The established mechanisms also gave cooperating partners and GRZ a platform to deal with highly controversial issues. Nevertheless, GRZ and cooperating partners lacked the capacity and/or political will to manage these dialogue structures in an effective and efficient manner. Coordination with activities of cooperating partners not directly linked to the provision of budget support is not sufficiently developed to have a substantial effect on the harmonization and alignment of aid beyond activities that are directly PRBS-related.

5.2 Budget support's role for aid transparency and predictability

5.2.1 The size and share of aid

The extent to which budget support increased the share of external support that is channelled through GRZ's own budget planning, execution and control processes varies according to the source of data. An analysis by DFID conducted in 2010 (Whitworth, 2010), using IMF data on GRZ receipts of grants and budget support puts the proportion of budget support in total grants at an average of 29% in the period between 2005 and 2009, compared to 19% for the years 2002–2004 (Table 5.1).

Table 5.1 Budget support as share of total grant receipts, ZMK billion								
	2002	2003	2004	2005	2006	2007	2008	2009
DFID analysis, based on IMF data								
Grants	1,350	1,424	1,433	1,825	1,797	2,104	2,069	2,790
Budget support	324	229	258	543	423	582	642	879
BS/ grants	24%	16%	18%	30%	24%	28%	31%	32%
MoFNP and authors' data on budget support disbursements								
Grants	-	-	1,668	1,880	699	1,461	1,503	-
PRBS grants	288	155	249	298	370	566	613	973
Budget support grants	288	155	249	448	473	623	798	1,088
PRBS grants / Total grants	-	-	15%	16%	53%	39%	41%	-
Total budget support/ total grants	-	-	15%	24%	68%	43%	53%	-

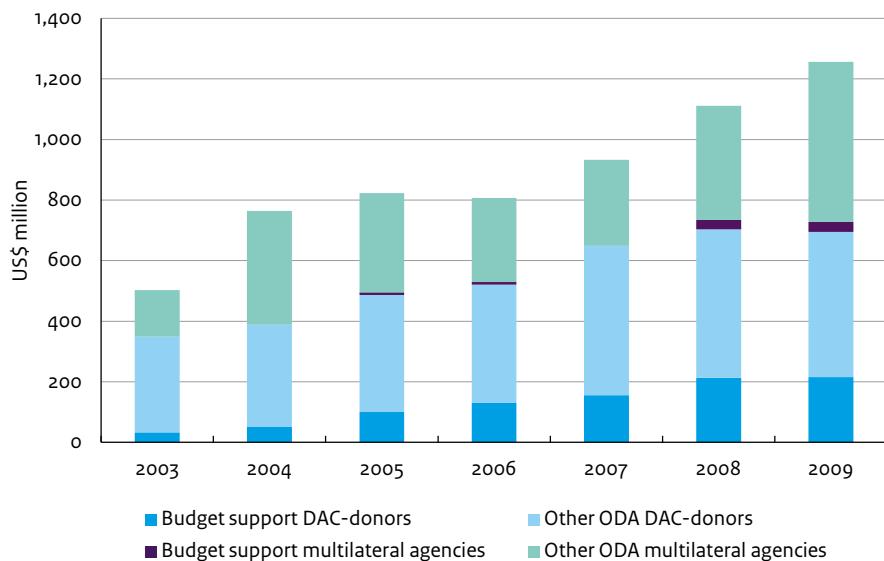
Source: Whitworth (2010); MoFNP, cooperating partners and others.

MoFNP data on grants from the annual financial reports and the figures on budget support disbursements collected from various sources (Table 4.1) show a significantly higher share of budget support in total grants. According to this data the share of budget support in grants peaked in 2006 when PRBS grants accounted for 53% of total grants and total budget support grants (including SBS) for 68% of grant receipts (Table 5.1). In the following two years, the share of total budget support fell to 43% and 53% of grant receipts.

However, these figures overestimate the relative role of budget support in total aid receipts, as they include only aid flows that are recorded in the government budget. OECD-DAC data on official development assistance (ODA) flows since 2003 puts the relative importance of budget support in a more realistic perspective. As a proportion of total ODA receipts (excluding debt relief), budget support has continuously risen, from 6.5% in 2003 to 21.9% in 2008, before falling again to 19.7% in 2009. For OECD-DAC donors only, the share of budget support in total ODA (excluding debt relief) rose from 9.4% in 2003 to 31% in 2009.

The share is even higher for the PRBS donors alone. The 2010 Performance Assessment Framework (PAF) Progress Report (see Table 5.2) provided data on the share of PRBS disbursements in total ODA for the last three years. According to this data, for PRBS cooperating partners the share of budget support (including sector budget support) as a proportion of ODA disbursements to GRZ has increased from 40.2% in 2007 to 58.7% in 2008. However, it fell to 53% again in 2009 for PRBS donors.

Figure 5.1 Budget support and other ODA, 2003–2009



Source: OECD-DAC; budget support figures based on various sources (Table 4.1).

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Table 5.2 Budget support as a proportion of ODA disbursements for PRBS donors

	2007	2008	2009
Grants			
EC	72%	67%	57%
Finland	40%	47%	35%
Germany	24%	24%	34%
The Netherlands	25%	17%	37%
Norway	40%	67%	75%
Sweden	21%	33%	0.0%
UK	84%	74%	92%
Credits			
AfDB	61%		53%
World Bank	0%		0%
Total	40%	59%	53%

Note: the budget support figures underlying this analysis are not the same as those reported in Table 4.1, as some disbursements were not recorded in the PRBS reviews, for instance a World Bank disbursement of US\$9.6 million in December 2009.

Source: MoFNP (2010a).

These figures show that budget support increased the share of aid resources subject to GRZ's own planning and budgeting processes and therefore had the potential to improve the allocative efficiency (Box 2.1) of public expenditure in Zambia. At the same time, no substantial reduction of transaction costs on either side of the aid relationship could be expected from this as there is still a substantial amount of off-budget aid requiring parallel planning, administration and reporting.²⁷

5.2.2 Predictability of aid flows

Aid predictability in Zambia in general is fairly poor, seriously undermining the effectiveness of GRZ planning and cash-flow management. This applies especially to project-based aid. According to the internal analysis of one cooperating partner, for instance, in 2007 only 58% of the planned donor-funded investments recorded in the budget were actually disbursed. However, as Figure 5.2 shows, PRBS predictability has been relatively poor as well: in 2007, actual disbursements reached a mere 77% of commitments, while in 2008, disbursements were 15% higher than what had been committed. This finding is in line with the 2008 PEFA assessment, which graded direct budget support predictability in Zambia with a D+.²⁸

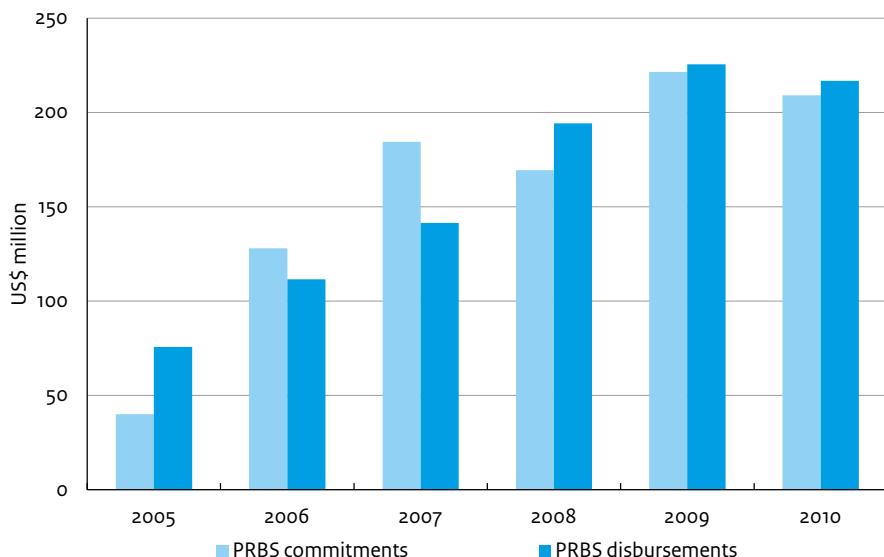
Even though Figure 5.2 may suggest that PRBS predictability in 2009 had improved significantly, the aggregate figures mask substantial variance between cooperating partners' individual commitments and disbursements. That year, Sweden responded to a corruption case in the health sector (see Chapter 7) by not disbursing its PRBS (against a commitment of US\$18.3 million), whereas the EC (adding a €30 million V-FLEX allocation) and the AfDB (disbursing US\$23 million against a commitment of US\$11.5 million) disbursed considerably more than they had committed. As a result, the amount disbursed was even slightly higher than the amount committed, which helped to maintain some form of predictability for the national budget (MoFNP 2010a, 21).

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²⁷ In this study we use the term 'off-budget' aid in the sense of 'off-treasury', i.e. for all aid that is not administered through the GRZ's budgetary systems. It thus includes donor-funded programmes that are reported for information in the national budget (Yellow Book) but are administered through the GRZ's own expenditure and reporting systems. The difficulties posed by aid provided directly to sector ministries for MoFNP planning, implementation and reporting procedures has been stressed by various GRZ interview partners.

²⁸ The PEFA (Public Expenditure and Financial Accountability) performance measurement framework grades government performance based on 28 high-level indicators in six dimensions of public financial management and donor performance on three indicators, including the predictability of direct budget support. The grades given for each indicator range from A (best) to D (worst); see PEFA (2005).

Figure 5.2 Predictability – PRBS commitments and disbursements, 2005–2010



Note: 2007 included a small portion of the DFID's sector budget support (health). PEFA figures on commitments for 2007 differ from PAF progress reports (US\$193.9 million versus US\$184.52 million).

Source: 2005–2006: 2008 PEFA Assessment, 2007–2010: PAF Progress Reports; various sources on disbursements.

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According to MoFNP officials, the main problem for predictability over the past three years from the ministry's perspective had more to do with timing than with amounts disbursed. Late disbursements affect budget implementation as unused funds have to be returned from line ministries to the treasury.²⁹ Until 2007, cooperating partners submitted reports on their disbursements of budget support semi-annually, not quarterly. Cooperating partners have agreed to provide monthly estimates from 2008 onwards (GRZ, 2008, 38). In that year, cooperating partners negotiated a disbursement schedule with GRZ that is being used for GRZ's annual cash-flow plan as well, which underscores the importance of timely disbursements. Since its introduction in 2007, the 'Donor PAF' (see Section 4.3.2.2) includes an indicator measuring the delay of budget support disbursements against the commitments made at the annual review in October (see Section 4.3.1). The average in-year delay of disbursements per donor as well as the total average is given in Table 5.3. The figures show that donor performance varies substantially between donors and also varies over the years.

²⁹ According to the same official, the Cabinet can allow sector ministries to keep unused funds if they are for capital expenditure. Nonetheless, in the health sector, for example, insufficient and delayed releases from MoFNP have led to problems with the implementation of programmes.

Table 5.3 Average delay (months) of budget support disbursements, 2007–2009

	2007	2008	2009	2010
Finland	0.0	0.0	4.0	0.0
Germany	6.0	2.0	3.0	4.0
The Netherlands	1.0	0.0	1.0	0.0
Norway	3.3	1.0	0.0	0.0
Sweden	3.0	0.0	8.0*	
UK	1.4	0.3	0.6	1.0
EC	6.6	3.0	5.6	9.0
AfDB	12.0*	0.0	0.0	3.0
World Bank	12.0*	--	--	4.0
Total	5.0	0.8	3.1	3.7

*No disbursement.

Source: MoFNP (2010a).

A number of agencies experienced important delays in releasing resources. The cooperating partner with the largest delays among those who actually disbursed was the European Commission (on average 5.6 months in 2009, 3.0 in 2008 and 6.6 in 2007). Finland performed best in 2007 and 2008, with no delays, while in 2009 (when some cooperating partners withheld disbursement after the scandal in the health sector) only the United Kingdom, Norway and the AfDB disbursed without delay.

The reason for most delays in the PRBS's first years was administration related on both sides of the aid relationship (Annex IV). This could be regarded as an unavoidable learning process on both sides. As Table 5.3 shows, in 2008, the total average delay improved significantly, suggesting that PRBS processes had begun to run more smoothly. This positive development, however, was disrupted by various corruption-related issues in 2009. Preliminary data for 2010 suggest that some cooperating partners disbursed either on schedule or even early in the first three quarters of 2010, whereas the EC delayed the disbursement of a fixed and variable tranche totalling US\$42.7 million scheduled for March until October. Germany, in turn, withheld the disbursement of €10 million at the time of writing, pending a decision on how to assess recent developments with regard to GRZ's demonstrated commitment to fight corruption.

5.3 Non-financial contributions: Ownership, alignment and harmonization

As elaborated in Chapter 2, the effectiveness of non-financial contributions to budget support programmes does not depend solely on the quality of the individual contributions (input level). To an important degree, their potential effectiveness is also determined by the extent to which the provided inputs respect the principles of the Paris agenda for more

effective aid, in particular the principles of ownership, harmonization and alignment (direct output level). Accordingly, the following sub-sections assess to what extent the provision of non-financial contributions has been guided by these principles. Where relevant, it is also assessed whether these budget support inputs have promoted the principles of ownership, harmonization and alignment beyond budget support contributions, affecting the effectiveness of other aid modalities as well.

5.3.1 Policy dialogue

As described in Chapter 4, over the last couple of years, a comprehensive dialogue structure has been established around the budget support process, in continuation of previous efforts to harmonize and align development aid to Zambia. In doing so, cooperating partners and GRZ have laid the basis for a regular and structured policy dialogue. The effectiveness of this dialogue, however, also depends on whether it is structured and conducted in line with the principles of ownership, alignment and harmonization (Chapter 2).

The evaluation team's assessment of whether this has been the case in the past is ambiguous: on the one hand, the structures described above certainly helped to get the discussion on conflicting interests on conditionality and funding underway. In this regard, the established dialogue structure has provided strong incentives against further fragmentation of the negotiation process. Even though there have been differences in the intensity of the dialogue, there is evidence that the budget support-related policy dialogue has promoted alignment and harmonization (Gerster and Chikwekwe, 2007). Importantly, the dialogue structures showed some institutional stress resistance in times when their operational effectiveness was put to a test during the crisis in 2009.

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For this reason, the established dialogue provided a valuable firewall against further fragmentation because the established mechanisms gave cooperating partners and GRZ a platform for dealing with highly controversial issues. In this regard, the dialogue mechanisms were indeed fruitful in preventing attempts at harmonization and alignment from imploding during times of crisis because they at least partly provided an institutional and organizational backing for the intervention logic of budget support. This often implicit value of the dialogue structure should not be underestimated, despite all the deficiencies of the dialogue process itself, which will be described in the following paragraphs.

On the other hand, however, the dialogue process has been plagued with lingering deficiencies mainly related to persistent fragmentation on both sides of the dialogue process. Setting up complex dialogue structures with important functions for an ambitious aid instrument such as budget support requires strong capacity and the political will to manage these dialogue structures in an effective and efficient manner. While cooperating partners and GRZ continuously have expressed their intention to manage the structures in an efficient and effective way, the *de facto* capacity on both sides has been limited.

As for GRZ, its overall ownership of the dialogue process, which almost all the interviews and previous assessments on this topic attest to, is still weak, and the level of fragmentation within GRZ has made it difficult to provide strong incentives for aligning cooperating

partners. While the MoFNP has relatively strong ownership of the overall PRBS dialogue, the ownership of other GRZ agencies has been rather weak, as has been the participation of civil society and parliamentarians, which at best have only partly been able to fulfil their democratic oversight functions in the budget process:

- The MoFNP, given its mandate as the focal point for the development planning function within government, has emerged as the actor within GRZ with the strongest ownership of the dialogue process. The reason for this appropriation is related to the MoFNP's preferred dialogue structure. MoFNP perceives the policy dialogue as a means to strengthen its coordinating function within the government and reduce transaction costs when it has to individually negotiate with a dispersed set of actors both within the government itself and within the community of cooperating partners. At the same time, however, the capacity and the political strength of the ministry to fulfil its coordinating functions within the dialogue process has been limited (MoFNP, 2007, 6). Budget support or other forms of aid have not been sufficiently effective to alter this situation substantially. In addition, MoFNP's coordinating capacity has been constrained in the past by its own organizational structure as well. Until the end of 2009, the main organizational logic of MoFNP's Economic and Technical Cooperation (ETC) unit, whose prime responsibility is to engage and coordinate with cooperating partners, had been along donor desks (some also having a particular sector responsibility). This setup evidently did not facilitate coordination or issue-oriented engagement with PRBS cooperating partners as a group, even after a Donor Coordination Unit was created in 2008. In particular, there is no well-equipped PRBS secretariat or similar entity that could effectively prepare, structure and follow up on the policy dialogue. A desk officer was assigned to each sector and line ministry in early 2010 to facilitate dialogue and communication between cooperating partners and the government. At the time of writing, it was unclear whether this had significantly strengthened MoFNP's coordinating capacity.
- With regard to other central government agencies, ownership of the existing dialogue structures has been heterogeneous, and the collaboration between MoFNP and sector ministries has been weak during the dialogue process. The participation of sector ministries in the core dialogue mechanisms of budget support has been uneven at best.³⁰ Aside from the ministries' lack of the capacity to fulfil their roles in the complex dialogue structure, political interests also contributed to this unevenness. From a sector ministry's perspective, accepting the dialogue structure and the underlying intervention logic of

³⁰ Even in the relatively well-performing education sector, cooperating partners have recently become more critical of the effectiveness of cooperation in the education sector. There is a strong sense that the current sector dialogue mechanisms are not effective, because meetings are regularly delayed or cancelled and because there is inadequate representation at the necessary levels. An example of this is the move towards targeted budget support (sector budget support), as proposed by the Fast Track Initiative assessment. In 2008, it was agreed that Zambia would receive US\$60 million from the Fast Track Initiative Catalytic Fund. In 2009, US\$30 million was disbursed. However, by the end of 2010, cooperating partners expressed serious concern about the lack of progress in the introduction of targeted budget support. They were also alarmed by possible irregularities in the education sector, which are under investigation by the Auditor General, and therefore suspended their contributions to the sector pool as well as the second tranche of the Catalytic Fund.

budget support would also have meant accepting the finance ministry as the core state agency in regulating the distribution of external and domestic funds – with serious implications for the existing formal and informal distribution mechanism that increased the clout of these ministries’ leadership. Accordingly, any sector ministry aligning itself with the logic of budget support would have had to relinquish its privileged negotiating position and ability to receive resources directly from cooperating partners.³¹ Therefore, the sector ministries had plausible reason to not make a serious effort to overcome the collective action problem of organizational fragmentation within GRZ.

- The lack of an incentive structure to overcome deeply rooted collective action problems within GRZ has resulted in a poor division of labour across the sector advisory groups (SAGs) and between the SAGs and the PRBS group. There is consensus among observers that the dialogue at sector level has not been working well. SAGs have not been significantly involved in reviewing sector outcomes and performance. The SAGs have made only a minor contribution to the preparation of the annual reviews. SAG meetings are supposed to take place three times a year, but in practice they are only held once or twice (OPM, 2010). There is a constant carousel of participants, which, together with the absence of key personnel, erodes the substance of the discussions. Reports are often circulated months after meetings take place, and key background papers written before the meetings are handed out too late or not at all (OPM, 2010).³² Consequently, many technical issues related to the assessment of sector performance could not be clarified prior to the PRBS review. As a result of this, the SAGs as well as the annual joint SAG conference have not managed to adequately build a link between specific sector issues and the core mechanisms of the budget support dialogue.
- The SAG’s weaknesses have implications for the government’s capability to steer the dialogue processes. The SAGs, unable to properly coordinate the annual reviews, have impeded the government’s capacity to take ownership in a setting that has established new sector targets for the PAF. In principle, the processes are organized and chaired by GRZ with cooperating partners, who take on what is essentially a support role. In real terms, however, frequency, content and agenda-setting is primarily influenced by cooperating partners. The SAG’s weaknesses provided cooperating partners with an incentive to burden the PRBS’s strategic dialogue fora with specific sectors issues, often overloading the core mechanisms of budget support dialogue.

³¹ For instance, in the health sector there is growing resentment that the presence of donors in otherwise routine government decision-making processes threatens national ownership. On the other hand, the general perception of the Ministry of Health (MoH) staff is that sector and general budget support have eroded their ownership as a result of the shift away from the direct receipt of funds (as is the case under MoH-controlled SWAp/basket funding) to receipt of donor support through the Ministry of Finance and National Planning. In particular, MoH officials have expressed fears that basket funds will be severely depleted as a result of a shift to GBS.

³² On the positive side, the smaller working groups function better. In education, for example, overall harmonization and ministry leadership have advanced considerably from where the sector found itself ten years ago (OPM, 2010).

- Political issues, including the topics covered by the underlying principles, often have not been subject to open regular discussion framed by the policy dialogue structure. Politically sensitive topics have been dealt with in an ad hoc manner.
- Beyond the level of central government, the participation of parliament, sub-national entities and civil society in budget support mechanisms has also been uneven or even absent. Thus, while much effort has been devoted to strengthening the quality of central government participation in this process, there has been no corresponding participation by those actors, who represent the demand side of accountability.
- Another weakness in the design of the policy dialogue in Zambia has to do with the low level of third-party integration into the process. Civil society organizations, parliamentarians and private actors are not participating in the SAGs on a regular basis, and the same groups have been poorly represented with regard to the PRBS review. In this regard, one has to acknowledge that a broad participation of parliamentarians, representatives of sub-national entities and civil society organizations can easily overburden the dialogue process, thus creating a tension between inclusiveness and efficiency. However, in the Zambian case, these actors' level of involvement has certainly not obstructed the dialogue process. Sub-national actors have been mostly absent from the dialogue process, reflecting the overall (political) weakness of sub-national entities with regard to their coordinating mechanisms, such as the Local Government Association of Zambia. Similarly, participation of members of parliament in the dialogue process has been modest at best.

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As for cooperating partners, they have made regular attempts to strengthen the dialogue process, but lingering fragmentation among themselves has created several challenges for harmonization, alignment and mutual accountability:

- Moreover, while cooperating partners perceive PRBS as an important modality in Zambia, most of them only consider it a complementary mode of aid delivery. As can be seen from the relative weight of budget support (Section 5.2.1), the instrument is still far from being the dominant mode of aid delivery. This has created a situation, where cooperating partners not only have to coordinate a complex and demanding instrument of budget support but also have to ensure – individually – that their traditional project or sector interests are made compatible with budget support – and vice versa. This situation of managing two different worlds of development aid delivery – one aimed at harmonization and alignment, the other at individual visibility and project success – has increased the transaction cost of dialogue extensively as donor agencies have to maintain full capacities for both forms of aid.³³ Moreover, the potentially conflicting logic of these two different approaches to aid has been

³³ At the same time, in the education sector, for example, MoE officials and cooperating partners feel that the Joint Assistance Strategy for Zambia and the move towards PRBS have reduced transaction costs and have enhanced harmonization and coordination in the sector. However, there also appears to be agreement amongst cooperating partners that the division of labour system has levied high costs on the lead donors (OPM, 2010).

a characteristic of almost all cooperating partners involved in PRBS and therefore has come at the expense of transparency and mutual accountability of the dialogue process. It has been almost impossible for GRZ to identify which of the incentives has been driving many of the cooperating partners' dialogue strategies – was it the incentive to provide harmonized and aligned aid or the incentive to generate individual visibility and maintain aid projects that are separated from the official budget structure?

- Another reason why the transaction costs of the dialogue process are perceived as increasingly burdensome by many cooperating partners is the absence of a joint knowledge management of the PRBS process. In this regard, cooperating partners have failed to compensate for the MoFNP's inability to build an effective control and knowledge management instrument. Even if progress has been made, this problem is evident in the fact that something as simple as maintaining a consistent database of actual budget support disbursements has proven to be a real challenge (Section 4.2). This lack of a joint knowledge management system negatively affects the dialogue process, making two structural challenges of joint aid management even more relevant. First, the high turnover of managers at aid agencies tends to have a negative impact on the continuity and long-term perspectives of the process. Second, the heterogeneity of the various cooperating partners' analytical capacity tends to reduce the dialogue's technical quality and could potentially obstruct the *de facto* division of labour among cooperating partners.

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These deficiencies on the donor side have made it difficult to compensate for GRZ's weaknesses. Moreover, these deficiencies infused a degree of volatility into the process, which is typical for management structures that exhibit weaknesses in terms of delegation and division of labour.

Despite the fact that all actors in the dialogue process were aware of the structural challenges described above, they still spend most of their resources on tackling rather specific and technical issues. Thus, partly because the SAGs and the more strategic dialogue have not been linked up well, the existing dialogue process has not (yet) developed the potential to be an effective instrument for discussing strategic challenges at the political level. For instance, the content of the annual reviews is mainly driven by the discussion of targets and indicators integrated in the PAF. This results in a policy dialogue, dominated by operational issues, centred on the cost of a real political dialogue that focuses on strategic issues related to governance or systematic topics, such as PFM or decentralization. In times of open crisis, however, cooperating partners tend to change their position, focus on core political issues and tend to 'gang up' in response to issues of conflict during times when structural challenges are silently accepted.

This point is illustrated by the policy dialogue following the misappropriation of funds in the health sector, which arguably represented the biggest recent challenge for donor coordination and harmonization in Zambia (Annex V). This scandal has caused cooperating partners and government, as well as among many stakeholders, to reflect deeply on how aid should be generally managed in Zambia. On the one hand, the 2009 crisis led – at least temporarily – cooperating partners to adopt a more strategic approach vis-à-vis GRZ. After

the misappropriation of funds in the health sector, the PRBS group was able to respond almost uniformly in signalling their unease about the corruption cases and the overall slow pace of reforms. By temporarily suspending PRBS disbursement and basket funding to the health sector and by jointly initiating a High Level Policy Dialogue (HLPD) on the underlying principles as stipulated in the MoU's PRBS, cooperating partners were able to bring outstanding reforms back to the table. In the same vein (though arguably easier due to the smaller number of donors involved), cooperating partners dealt with the recent problem in the roads sector. In response to high unit rates for contractors and over-commitments of ZMK 1 trillion in 2008, cooperating partners suspended disbursements and requested an audit by the Auditor General to look into the sector's financial, technical and procurement behaviour (Terberger et al., 2010, 13). In his report, the Auditor General pointed to severe procurement deficits, linked to weak supervision by the Road Development Agency. Cooperating partners suspended disbursements of on-going funding and negotiated a common Remedial Action Plan with GRZ that focused on the implementation of corrective measures to address the audit findings and guarantee that similar shortcomings would not be repeated.

This kind of dialogue during testing times between GRZ and cooperating partners had a warning effect and some of the recent reform steps – such as the approval of the Decentralization Implementation Plan and, to a lesser degree, the Reform of the Budgetary Cycle – can be at least partly attributed to the recent dialogue process. Another example is the approval of the public service pay reform by the Cabinet, one day before the PRBS review in November 2009. Therefore, the ability to set up an emergency dialogue and to handle pressing issues in the aftermath of the corruption scandals has shown to a certain extent that the established policy dialogue structures have been capable of providing a valuable platform for dealing with tense situations.

At the same time, however, the 2009 governance crisis has clearly revealed weaknesses concerning the effectiveness of current dialogue mechanisms. As such, the crisis has shown the need to improve the efficiency of dialogue as well as the division of labour in order to lift dialogue to a higher (i.e. more political) level and enable the government to take ownership of the consultation processes.

Finally, getting cooperating partners to find common ground has not always been easy. Indeed, cooperating partners had widely diverging interpretations of the recent health and roads scandals.³⁴ The more sceptical cooperating partners argued that the scandals were unacceptable as a matter of principle. They should have resulted in a (temporary) suspension of budget support, a demand for full clarification and increased pressure on GRZ to implement pending structural reforms in key areas. These more sceptical cooperating partners felt that the procedures and agencies in Zambia dealing with the scandals did not adequately solve the problems, nor did they act according to the law. As a result, these cooperating partners advocated a more interventionist approach. Other

³⁴ See also Section 5.3.2.1 on the different interpretations of the underlying principles.



Health post in Sinazongwe, Southern Province.

cooperating partners, however, took a more moderate position on these issues. They, too, demanded full disclosure, but they saw the scandals as an opportunity to strengthen national supervisory bodies, namely the Auditor General. These cooperating partners were at least partly convinced that the procedure for dealing with the scandals was slow and bumpy, but they felt that overall it was moving in the right direction and driven by improved national procedures and agencies. These different interpretations have led to certain conflicts of interests within the PRBS groups on how to adequately respond to the misappropriation of funds in the health sector and irregularities in the roads sector. Moreover, these different interpretations have also highlighted differences among cooperating partners regarding the critical level of ownership of GRZ, which is an underlying principle for the provision of PRBS.

5.3.2 Conditionality

As explained in Section 4.3.2, there are two levels to budget support conditionality in Zambia: the underlying principles (UPs) and the Performance Assessment Framework (PAF). However, not everyone agrees on how these two elements of conditionality should be used and cooperating partners have different views on how important the UPs are. Some believe the UPs – referring to the general reform process and governance context – are the key element of a *de facto* conditionality that determines financial contributions. For others, the relative priority of UPs and PAF indicators is the opposite. Finally, there are also differences regarding the relevant indicators in the PAF as several donors link their individual disbursement only to a selected number of indicators.

It seems that these differences can at least partly be attributed to the somewhat different emphasis individual cooperating partners put on the different objectives of the budget support programme: while some cooperating partners apparently understand budget support primarily as a poverty reduction-oriented financing instrument, other cooperating partners seem more keen to use budget support as an instrument to promote public administration and governance reforms.

To establish a clearer picture of whether budget support conditionality has been implemented in line with the Paris Declaration principles of ownership, alignment and harmonization, and how this affected the effectiveness of the conditionality, the subsequent sections assess the two levels of conditionality individually.

5.3.2.1 Underlying principles

The MoU's relatively open formulation of the role of the UPs as the core conditionality for the budget support programme has two main implications, in particular with regard to harmonization.

For one, the MoU's formulation of the role of the UPs gives individual members of the PRBS great autonomy and flexibility to determine their disbursement decisions. Some | 90 | cooperating partners link their disbursement exclusively to their overall assessment of government performance and governance dynamics, while others have made the PAF, with its individual indicators, their central reference point for disbursement decisions.

Moreover, since the MoU does not identify objective criteria for assessing the UPs, the decision of whether the UPs are being respected is left to the individual judgement of each cooperating partner. This has led to substantial heterogeneity within the PRBS group regarding their explicit or implicit criteria and interpretation of whether the UPs are being respected. This flexibility of interpretation has to a certain extent impeded the harmonization and coordination processes among cooperating partners.

The variety of coping strategies adopted by cooperating partners in the aftermath of the 2009 corruption crisis revealed the heterogeneity of the PRBS group. The different ways that cooperating partners have dealt with the government has shown a lack of a coherent strategy regarding the government's non-compliance with the UPs. Cooperating partners have not developed a harmonized or joint fallback scenario or 'plan B' in case these principles are not adhered to. This has hindered an effective joint approach in times of crisis and in light of the (perceived) lack of results. Notwithstanding cooperating partners' ability to establish an HLPD following the corruption cases in the health sector, discussions within the PRBS group and the policy dialogue related to the recent irregularities also demonstrated that the harmonized approach remains fragile. The recent misappropriation may have prompted cooperating partners to make substantial efforts to maintain a harmonized approach, but these events have also highlighted frictions among cooperating partners providing PRBS. The different notions of what the fundamental conditionality is have been evident in the difficulties of engaging in the dialogue process with a common position at times.

This is well illustrated by the different responses Sweden and the EC had to the 2009 misappropriation of funds in the health sector. The Swedish decision to suspend disbursements was based on the interpretation that the underlying principles had been violated. In contrast, the EC took into account that members of the administration brought the case to the attention of the Office of the Auditor General and interpreted this as a positive sign that domestic institutions were intent on fighting corruption. In fact, the EC even augmented its disbursements through the Vulnerability FLEX Support in 2009.

These different reference points with regard to the underlying principles caused some conflict between cooperating partners during the dialogue process. This makes it difficult for the Zambian government to anticipate the response of the donor community as one entity.

5.3.2.2 Performance Assessment Framework

The PAF represents the focal point for PRBS policy dialogue on GRZ's performance and the related conditionality. It also provides a good measure of how well these non-financial budget support inputs are aligned to government priorities and processes.

For each indicator, the PAF document explains its relation to the Fifth National Development Plan (FNDP) as GRZ's central strategic framework, which cooperating partners, in turn, intend to support with their PRBS. Judging from the explanations given in these documents, the PAF is therefore fairly well aligned to the FNDP. However, the FNDP's broad scope means that it would in fact be rather difficult to find indicators that are not in line with any of the areas identified in the FNDP. In addition, the majority of PAF indicators are rather 'weakly aligned' in the sense that one could argue that even though they are roughly in line with FNDP priorities, they are not included in the list of FNDP key performance Indicators (KPIs) and thus require separate monitoring. In fact, among the 41 indicators included in the 2009 PAF, 37 of which formulate targets, a mere 19 are either identical to FNDP KPIs (albeit some with different targets or in different formulations or aggregations) or at least do not require separate monitoring processes.,

This seemingly weak alignment evidently cannot be explained exclusively by the fact that the FNDP indicators were partially outdated by 2009. Certainly, some of the KPIs, particularly those for the agriculture sector, focus solely on government inputs and do not meaningfully reflect the GRZ's performance. In these cases, it can be argued that the more appropriate PAF indicators reflect progress that has been made since the FNDP formulated meaningful performance targets, partly as a result of the PRBS-related policy dialogue. However, as early as the 2006 PAF, the share of indicators with a more or less direct equivalent in the FNDP was roughly similar with 15 out of 34 PAF indicators (31 targets) identical to individual KPIs or arguably not requiring separate monitoring processes.³⁵

Of course, this does not imply that the remaining PAF indicators were not aligned with GRZ's priorities at all, nor that they required additional monitoring and assessment in all

³⁵ It is worth noting that alignment in this sense works best with regard to the indicators for performance in health, education, and HIV/Aids.

cases. The FNDP itself explicitly provides for the inclusion of process indicators not included in the list of KPIs (GRZ, 2006, 376); and a number of PAF indicators are in line with indicators monitored in other frameworks than the FNDP, for instance as part of the Poverty Reduction and Growth Facility monitoring process or sector strategies such as the ROADSIP programme for the road sector.³⁶

It can thus be argued that the PAF is sufficiently well aligned to government priorities and monitoring processes, even if individual indicators have been – at least in part correctly – criticized for being unrealistic or not measurable. In principle, this should have provided for substantial GRZ ownership of the activities and outcomes underlying the PAF. Nonetheless, judging from overall scores since 2006, GRZ's performance as measured by the PAF score has weakened over the years. As Table 5.4 shows, overall PAF scores have diminished continuously from 70% in 2006 to 58% in 2009. In 2010, it increased again, moving up to 62%. It must be noted, however, that the significant changes of indicators, makes a fair comparison impossible.

Table 5.4 Trends in PAF performance (2006–2010)

	2006	2007	2008	2009	2010
Targets met	19	17	15	16	14
Targets partly met	4	6	12	10	3
Targets not met	7	7	5	10	8
Performance (%)	70%	67%	66%	58%	62%

Source: MoFNP (2011).

This declining performance has raised serious concerns among cooperating partners, who expressed doubts about GRZ's commitment to reform and poverty reduction. Cooperating partners were particularly concerned, following the 2008 review, about the deteriorating performance and the low PAF score of 65.6. The weak performance in service delivery to the rural areas – where GRZ repeatedly missed the PAF targets in 2007 and 2008 – caused particular dissatisfaction in the PRBS group.³⁷

While these concerns have to be taken seriously, some caveats against simple comparisons of PAF scores over time as a measure for improving or deteriorating GRZ's ownership and reform orientation are in place:

First, some of the indicators included in the PAF, as well as the respective targets, change from year to year. In other words, a similar overall score in two different years does not necessarily imply the same degree of effort by GRZ. Nor do differences in the score necessarily

³⁶ Specific sector indicators are assessed in Chapter 8.

³⁷ In 2007, only 36% of the rural targets were achieved. Rural performance increased slightly to a score of 40% in 2008 and improved further in 2009. Despite these slight improvements, the poor performance in rural service delivery is a major concern for cooperating partners (MoFNP, 2010, 18).

mean that GRZ's commitment or efforts changed. The poor results for the health indicators in 2009 were mainly the result of incidental factors that were partly related to the corruption scandal in the sector (see Chapter 9). In 2010, the sector had a much higher score. However, results hardly improved for one indicator (immunization), but the target had been lowered. A third indicator, which was not met in 2009, was deleted in 2010. Only the last indicator (on district releases) made real progress. For education, the only indicator that was not fully met in 2009 was deleted in 2010. Moreover, while the PRBS indicators for education had a score of 100%, several cooperating partners decided not to disburse because of a lack of progress in the sector (see Chapter 9). For the environment, the results improved from 50% to 100%, because the (single!) target that was initially set for 2009 was subsequently transferred to 2010 (MoFNP 2011, 38). On the other hand, results for PFM were not as good in 2011 as in 2010. The main reason is the large expenditures on the purchase of the record maize surplus (see Chapter 8). At the same time, results for agriculture improved, mainly because unrealistic indicators (such as those for irrigation) were removed from the PAF.

Second, the examples show that the PAF consists of a heterogeneous set of indicators. Given the dynamics that led to their inclusion, it does not go without saying that if one indicator is equal in weight to another they are necessarily equally important for measuring government commitment (Chapter 8).

Third, the assessment of indicators as having been 'met', 'partly met' or 'not met' leaves a great deal open to interpretation. The assessment of an individual indicator in any given year may to an extent depend on the wider policy dialogue agenda and the cooperating partners' perceptions of issues other than those measured by the indicator.

Notwithstanding these caveats, there is some evidence that GRZ's ownership of the PAF has indeed weakened in some respects. In part, this seems to be due to GRZ's perception (as well as some of the cooperating partners) that individual indicators have been imposed rather than negotiated in the past.³⁸ In addition, in some instances the inclusion or exclusion of specific indicators seems to have followed a rationale to use the PAF as a tool to control fiduciary risks rather than a GRZ-owned instrument to assess its performance against FNDP-related indicators.

The former perception in particular is linked to the fact that there is no real consensus among cooperating partners, nor between cooperating partners and GRZ as to the appropriate size and substance of the PAF. Clearly, cooperating partners have not managed to harmonize their different expectations under this central PRBS monitoring tool. Despite cooperating partners' awareness of the PAF's shortcomings and their general willingness to move forward in harmonizing their approaches, the prevalence of diverging preferences amongst cooperating partners regarding the focus of the PAF indicators is contentious:

³⁸ A characteristic of the PAF target for water supply in rural areas, for instance, is that many of the projects are (directly) funded by cooperating partners and foreign NGOs. GRZ's contribution to the sector is modest. This raises the question what this indicator assesses. Given the relatively limited domestic resources reserved for safe water and sanitation in rural areas, and the slow pace of improvements, GRZ ownership does not seem to be high.

- Some cooperating partners argue that the PAF indicators should focus mainly on core reforms, in particular in the area of PFM, leaving the measurement of progress in specific policy areas to the sector working groups. The idea behind this approach is to increase policy leverage by earmarking the disbursement of funds and the amount of further commitments to a reduced number of performance indicators.
- Others, however, consider the PAF to be an instrument derived from an wider development plan and therefore conclude that the PAF should also include sector indicators. This argument seems to gain additional weight when the sector advisory groups perform in an unsatisfactory way, so that including sector indicators of the PAF secures cooperating partners' visibility and some level of political leverage on sector performance.

One important reason for this divergence relates to a similar collective action problem that has been identified in GRZ (Section 5.3.1). This collective action problem has to do with the specific sector interests of individual cooperating partners. A strong shift towards harmonization and alignment that is compatible with the intervention logic of budget support would weaken many cooperating partners' special relations with sector ministries and would subordinate their sector interests to a coherent national planning system with the MoFNP as the prime player.

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The weak performance of the SAGs could give individual cooperating partners the incentive to introduce specific indicators into the PAF, thus side-lining the formal structures in place for sector policy dialogue, in the belief that this would generate political leverage for achieving their individual sector-related (project) targets. The possibility of raising issues to a higher level may strengthen cooperating partners' sector interest (Chapter 7), but contaminating the PAF with specific (detailed) sector issues will overload the PAF.

Presumably even more problematic than the mere number of indicators and targets in the PAF is the cooperating partners' incoherent use of these indicators to determine the disbursement of their individual PRBS tranches. The mechanisms by which the individual cooperating partners link their disbursements to the PAF vary substantially:

- *Germany and Finland* disburse their budget support as a fixed tranche based on an overall positive assessment of PAF performance as a measure for the underlying principle of government commitment to poverty reduction.
- *The Netherlands* disburses a fixed tranche based on overall positive PAF performance and commits an additional 'incentive tranche' to be disbursed if the overall PAF score exceeds 80%.³⁹
- *The United Kingdom* also disburses a fixed tranche based on overall positive performance and commits an additional performance tranche linked to overall PAF performance, but with different thresholds: no performance tranche is disbursed for overall PAF scores below 50%. A linear disbursement rule is applied (rounded off to the nearest £0.5

³⁹ For 2009, the incentive tranche would have been €3 million, on top of a €10 million fixed tranche. So far, however, this incentive tranche has never been disbursed due to PAF performance below the threshold.

million) for PAF scores between 50% and 80%.⁴⁰ The full variable tranche is disbursed when PAF scores exceed 80%.⁴¹

- Sweden and Norway also work with a fixed and variable tranche. While the fixed tranche is based on overall PAF performance, the variable tranche is linked to performance against selected PAF indicators (with performance in year n-1 determining disbursement in n+1).
- The European Commission, in addition to its fixed tranche, works with two variable tranches linked to specific PAF indicators: an annual performance tranche that is determined by the annual performance assessment; and a performance tranche under the 6-year MDG-Contract scheme, where performance over the first three years of the arrangement determines disbursement in years four to six.
- The World Bank and the African Development Bank do not use a fixed tranche. Rather, both work with floating tranches, which are disbursed once a set of selected PAF indicators (prior actions) is met.

The share of the variable tranche as part of cooperating partners' overall commitments also differs: Norway and Sweden reserve 50% of their commitments for variable tranches, whereas the United Kingdom reserves only 13%. In 2009, the Netherlands could have disbursed an additional 30% in the form of an incentive tranche. The European Commission, in turn, has reduced its performance tranche continuously from an initial 91% to 25% in 2010. In 2009, no variable tranche was foreseen by the Commission. In 2007, the combined fixed tranches made up 84% of the overall PRBS commitments (Gerster and Chikwekwe, 2007, 17).⁴² But not only do cooperating partners apply very different approaches in determining their PRBS disbursements, more importantly they spread the conditionality linking variable and floating tranches to indicators widely across the entire PAF.⁴³ Prior to the PRBS inventory exercise conducted in 2010, there was evidently no clear understanding on the part of GRZ and not even within the PRBS group of how exactly the individual cooperating partners linked their tranches to the PAF.

On balance, PRBS conditionality is thus not fully in tune with the notions of ownership, alignment and harmonization. The main weakness is the result of insufficient harmonization of the various cooperating partners' approaches. This leads to a weak and inconsistent incentive structure for GRZ at both levels of conditionality (UPs and PAF). Despite recently improved transparency, the overall complexity of disbursement arrangements remains high, and GRZ is confronted with weak and inconsistent incentives from individual cooperating partners. This is more likely to generate confusion than foster ownership and commitment.

⁴⁰ For example, a PAF score of 65% would trigger a disbursement of 50% of the variable tranche.

⁴¹ The United Kingdom has been applying this approach since 2009. In both 2009 and 2010, the variable tranche accounted for 13% of its budget support commitment. In 2009, 62.5% of the variable tranche was disbursed.

⁴² See Annex III.

⁴³ Annex III shows the use of the PAF indicators for disbursement decisions by individual cooperating partners, based on a PRBS inventory compiled by cooperating partners in early 2010.

The reason for this inconsistent application of conditionality seems to be rooted in the co-existence of different interpretations within the PRBS group of the interconnections and hierarchies between PRBS's various objectives or functions. In particular, there seems to be a fundamental (albeit not explicit) disagreement about whether PRBS should be understood primarily as a funding instrument or as an instrument to promote governance reforms and good policy making.⁴⁴

5.3.3 Technical assistance and capacity building

Building on the Joint Assistance Strategy for Zambia, the Cooperating Partners Group developed and signed a Code of Conduct on Capacity Development in 2008 that aims to improve '*the effectiveness, efficiency and impact of technical assistance from both project support and direct budget support to Zambia*' (CPG, 2008, 1).

Budget support-related technical assistance (TA) and capacity building activities in Zambia focus on key capacity constraints that are crucially relevant to the effectiveness of financial contributions (Section 4.3.3). In particular, the Public Expenditure Management and Financial Accountability (PEMFA) programme and the support to the Office of the Auditor General helped to develop crucial capacities to strengthen the use and control of aid resources channelled through the government's budget system. What is more, in line with the principles of the Paris Declaration, the PEMFA programme is using a multi-donor basket funding mechanism managed by a dedicated secretariat within MoFNP, which – in principle – should ensure adequate ownership, alignment and harmonization of the capacity building.

Notwithstanding this generally positive assessment of the non-financial inputs, budget support-related TA and capacity building in Zambia have been less effective than one would have hoped for, given how they are provided. Among the main factors restricting the effectiveness of budget support-related TA inputs is the fact that – despite the joint PEMFA programme framework and the provision of inputs through country systems – the principles of ownership, alignment and harmonization are adhered to only to a limited extent. Referring in particular to the PEMFA programme, various interlocutors stressed that while it was a comprehensive programme with a large number of components and activities, the main rationale behind launching the programme was that it was conceived by cooperating partners as a (formal) prerequisite for the provision of budget support. As such, much of the capacity building has been supply oriented, rather than demand oriented. The PEMFA programme is perceived by some as being primarily an avenue for PRBS donors to control fiduciary risks, rather than a genuine capacity development programme, owned and led by GRZ. In particular, while MoFNP – a natural ally for most of the reforms supported by the PEMFA programme – may actually exhibit sufficiently strong ownership at top management level, this is not necessarily true at all lower levels and in all

⁴⁴ For a more comprehensive elaboration of this interpretation, see Chapter 6.

parts of government.⁴⁵ At the same time, some interview partners also argued that the programme design may have been too ambitious in terms of coverage to be effectively managed by MoFNP.⁴⁶

In a certain way, the poor coordination with other TA activities is related to the PEMFA programme's comprehensiveness: while PEMFA provided a strong framework for donor coordination and harmonization within the programme and for PFM dialogue with GRZ, cooperating partners seem to have lost sight of coordination with other TA outside PEMFA (and provided through other aid modalities).⁴⁷

As a consequence, no formalized coordination and information exchange mechanisms with other TA activities have been established. In the case of a project run by Germany's GIZ that provided two advisors to MoFNP (Section 4.3.3), for instance, this almost certainly meant that potential synergies – not only with the PEMFA programme in particular, but the wider PRBS processes in general – were not tapped. The analytical capacity and knowledge generated by this project could have supported PEMFA and PRBS processes in various cases without necessarily compromising the project staff's role as neutral advisors to GRZ.

The root of this problem is that – beyond the above-mentioned Code of Conduct on Capacity Development (CPG, 2008) that formulates 15 principles on how to provide TA⁴⁸ – there is no coherent and harmonized approach to capacity development under which a formalized coordination and dialogue process could be established.⁴⁹ One way suggested by some interview partners to remedy this could be to develop a joint GRZ–Cooperating Partner Capacity Development Strategy and to establish a formalized dialogue and coordination framework in line with the SAG arrangement in the sectors.

⁴⁵ To a certain extent, of course, this is not specific to TA in Zambia in any way, but applies to PFM reforms in general, independent of the country context. A case in point seems to be the slow progress in introducing the integrated financial management information system (IFMIS) in all MPSAs (ministries, provinces and spending agencies). According to a number of interview partners, there are strong reservations about this reform in parts of the public administration, either out of fear of becoming obsolete or of losing control over resources as result of the IFMIS.

⁴⁶ This view also emerged from a comprehensive evaluation of all components undertaken in 2010. To be fair, it needs to be stressed that cooperating partners in general seem to share the criticisms raised and were discussing avenues for improving the next phase of joint PFM support to GRZ at the time of writing.

⁴⁷ At the same time, according to one cooperating partner representative, most individual projects (GIZ support for MoFNP, USAID support of the single treasury account reform, Norway and the Netherlands' support to the Office of the Auditor General) all benefited from resources going into the PEMFA programme.

⁴⁸ Linked to this, cooperating partners have reached agreement on the use of harmonized scales for allowances and salaries in programmes funded by cooperation partners, although occasionally cooperating partners and GRZ have to be reminded of the agreement (OPM 2010, 31).

⁴⁹ It does not seem as if the Cooperation Partner Capacity Development Working Group, established as an ad-hoc working structure in 2007 (CPG 2007, 1), has developed into an effective mechanism to ensure this coordination and joint discussion of TA-related content.

Naturally, such a strategy and dialogue framework would not solve by itself all the problems related to ownership and the alignment of budget support-related TA and capacity building. But better coordination and information exchange could certainly contribute to a better understanding of reform impediments and thus contribute to a better design of reforms and more effective TA in support of these reforms.

5.4 Conclusions

Despite the positive developments in the harmonization and alignment of development policies in Zambia during the last decade, the provision of non-financial inputs of budget support to Zambia is not completely in line with the Paris principles. The analysis of the policy dialogue design, conditionality, and technical assistance and capacity building has revealed deficiencies in how the aid instrument was set up, which might blunt the instrument's effectiveness:

- The *alignment* of budget support processes to the national development plan and policies is widely provided for. As the preferred aid modality, budget support is consistent with the Zambian Aid Policy and Strategy, and the indicators used for the PRBS assessment along the PAF tie in with the key performance indicators of the FNDP progress assessments. Nevertheless, the share of budget support in total official development assistance (ODA) flows to Zambia is still comparatively low (accounting for 22% of ODA in 2008).
- With respect to *harmonization*, the non-financial inputs do not meet the requirements as set out in the conceptual framework. According to the basic assumptions on the effectiveness of budget support, Zambia belongs to the group of countries where the policy and political dialogue as well as performance assessment and disbursement mechanisms are mainly coordinated and harmonized by cooperating partners. Cooperating partners have made progress by setting up structures and coordination mechanisms necessary for a truly harmonized budget support approach. Despite a severe lack of harmonization in some key areas such as the PAF conditionality, at a general level cooperating partners have even managed to more or less maintain a harmonized approach in times of crisis. Yet, the recent events in the health sector and the irregularities in the road sector have also shown the limits of harmonization. The variety of individual cooperating partners' goals and political necessities undermine the potential of sending out a coherent signal to GRZ as a donor group, thereby weakening the potential of the aid instrument to create incentives to strengthen development orientation from within the Zambian system.
- With regard to *ownership*, there are clear signs that the dominance of cooperating partners differs in intensity across the three non-financial inputs. There is clearly an asymmetrical relationship between donors who are signatories of the PRBS, on the one hand, and the government, on the other, with the former commanding overbearing influence over the latter. The asymmetrical relationship in the PRBS MoU has not facilitated clear opportunities that allow the government to be in the driver's seat. In this respect, budget support has demonstrably been ineffective in pushing the country ownership agenda.

6

Governance, policy processes and PFM

6.1 Introduction

This chapter analyses the impact of budget support on several induced outputs, that is government outputs that have been influenced by budget support. These outputs include changes in the institutional framework and in PFM systems, for example. Chapter 7 analyses changes in public spending, while Chapter 8 focuses on the impact budget support has on changes in resources for the five case study sectors. Chapter 8 analyses the effects of changes in service delivery.

The analysis in this chapter is guided by the following research questions:

- 3.2. To what extent did budget support contribute to the improvement in fiscal discipline and macroeconomic management?
- 3.2. To what extent did budget support contribute to an improvement of budget management and overall public financial management (PFM)?
- 3.3. To what extent did budget support contribute to an improvement of policy processes and policy implementation (including ownership and transparency)?
- 3.5. To what extent has there been an improvement in governance and democratic accountability, particularly regarding the relative roles of parliament and civil society in relation to the budget?
- 3.6. To what extent did the rule of law improve in the country?

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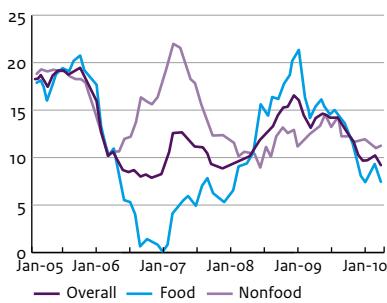
Section 6.2 describes the development of macroeconomic management. Section 6.3 proceeds with an analysis of the quality of policy processes and governance. Section 6.4 evaluates developments in public financial management. The conclusion in this chapter (Section 6.5) is that GRZ has performed fairly well on macroeconomic management and that while budget support was a minor contributor to this, it certainly helped to maintain fiscal discipline. PFM performance has improved across the board, but further improvements are necessary in terms of external budget oversight. In addition, the evidence suggests that budget support has had at least mildly positive effects on policy processes and overall governance quality. However, while there was an overall upward trend in the period between 2006 and 2010 regarding some core governance indicators, the ownership for improving core dimensions of governance seems to have diminished over the last two years.

6.2 Macroeconomic management

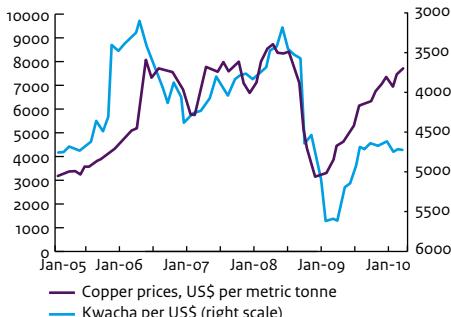
In recent years, GRZ has performed fairly well on monetary policy and fiscal discipline. However, these positive developments are predominantly due to strong economic growth (as a result of the resource boom) and debt relief, rather than budget support. Nonetheless, budget support certainly helped to maintain fiscal discipline, in particular during the 2008–2009 international financial and economic crisis, by funding 7.4% and 9.1% of public expenditure in 2008 and 2009, according to data provided by GRZ and cooperating partners (Section 7.2).

Figure 6.1 Macroeconomic management

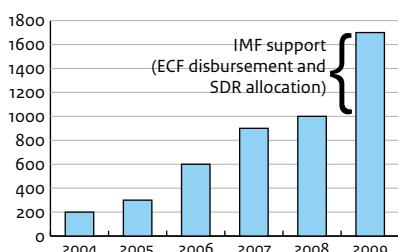
Consumer price inflation - Jan. 2005 - April 2010
12-month percent change



Copper prices and the exchange rate
Jan. 2005 - April 2010

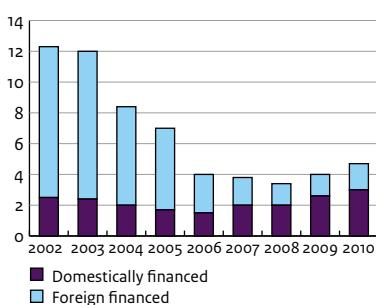


Gross international reserves
In US\$ million

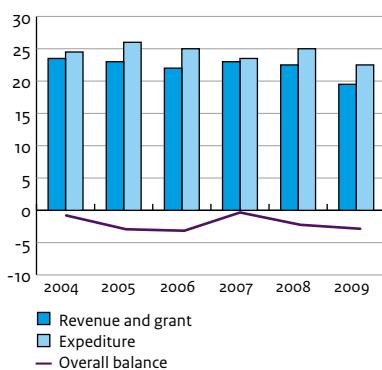


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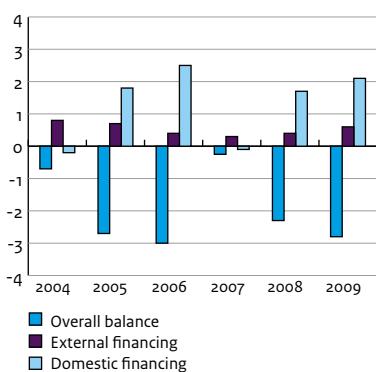
Central Government Capital Expenditure 2002-2010
In percent of GDP



Percent of GDP
In %



Domestic financing compensated for lower revenues in 2009, allowing budget execution of priority projects
In percent of GDP



Source: IMF (2010d).

According to the most recent IMF assessment, prudent macroeconomic policies and significant structural reforms associated with the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative sparked the economic turnaround seen in the last decade. External and domestic debt has been brought down to moderate levels and international reserves have increased significantly (IMF, 2010d, 10).

Inflation levels in 2006 and 2007 fell significantly compared to the 2005 level, but they rose sharply in 2008 due to the depreciation of the kwacha in the wake of falling copper prices during the economic crisis.⁵⁰ By the end of 2009, the inflation level had declined to single digits again, and has declined further in the first five months of 2010, despite a 15% domestic fuel price increase in January 2010 (IMF 2010d, 4). At the time of writing, inflation had been brought down towards the authorities' end of year target of 8% for 2010, and the Bank of Zambia is targeting a further reduction of inflation to the 7% level by end-2011 (IMF 2010c). Foreign reserves reached their highest level in years in 2010 and stood relatively strong at US\$1.9 billion by end-2010, the equivalent of about 3.3 months of imports (IMF 2010c; IMF 2010b).

After its most recent mission to Zambia, the International Monetary Fund (IMF) commended the Bank of Zambia for having managed monetary policy well with a view to reducing inflation, while at the same time maintaining conditions to facilitate economic growth (IMF, 2010c). The key macroeconomic policy challenge identified by the IMF assessment is to create fiscal space for spending to enhance economic diversification and reduce Zambia's dependence on copper exports. This will require mobilizing more revenue, from mining, for example; containing current spending, including the wage bill; and improving overall spending efficiency (IMF, 2010d, 16).

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With respect to the outlook in the near future, the IMF states that '*the 2011 budget is consistent with the maintenance of sound macroeconomic policies. The envisaged revenue enhancement is appropriately ambitious and stems from new tax policy measures, administrative improvements, and payments of tax arrears. The expenditure mix shifts clearly towards capital and social spending, though there is some residual upward pressure on wages despite tight limits on new hiring.* (IMF, 2010c).

All in all, the macro-economic outlook for Zambia looks rather positive, potentially further reducing the role of budget support in ensuring good macroeconomic management and fiscal discipline. In addition, the IMF also projects a reduction in external budget support, arguing that in the future an increased proportion of infrastructure spending (particularly in the electricity and road sectors) will have to and can be financed nonconcessionally, while preserving debt sustainability (IMF, 2010c).

⁵⁰ Copper prices declined by 60% between July 2008 and January 2009 but have recovered since. The nominal exchange rate depreciated by 42% between the end of June 2008 and the end of March 2009. It has since appreciated by 11% through June 1, 2010 (IMF, 2010d, 4).

6.3 Budget support and the quality of policy processes and governance

Most cooperating partners regard budget support not only as an instrument for financing pro-poor policies but also as a means of improving the overall quality of policy processes and strengthening democratic accountability, corruption control and the rule of law. This is made explicit in the non-financial components of budget support, namely in the underlying principles, which require an overall positive trend in these areas as a prerequisite for the provision of financial resources. As dialogue mechanisms and – at least partly – the content of the Performance Assessment Framework (PAF) are also related to governance reforms, budget support – because of its potential for harmonizing donor incentives and its combination of financial and non-financial components – is therefore often perceived as bearing a huge potential for effectively promoting democracy and good governance in general. Given these expectations, this section tackles the question, if and to which extent budget support in Zambia has had a positive effect on improving policy processes and the quality of core dimensions of governance.

6.3.1 Democracy and governance in Zambia

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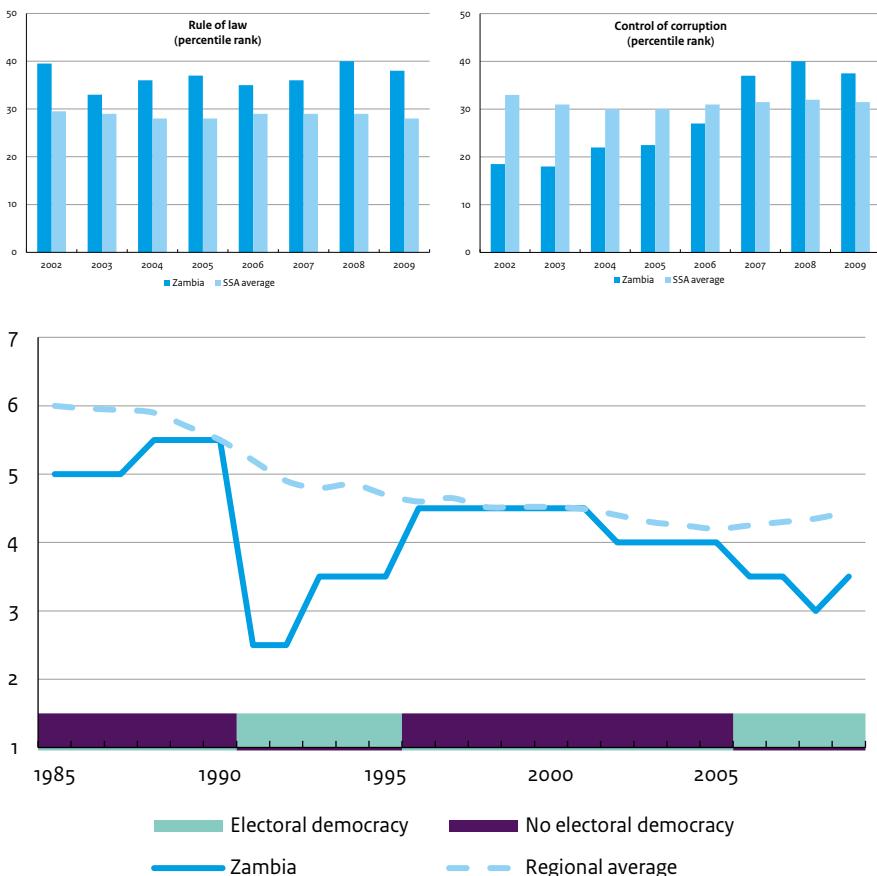
Zambia can be qualified as an electoral democracy. Accordingly, the political regime can be characterized currently by the core element of democracy – competitive and relatively free and fair elections. As selected indicators presented in Figure 6.2 show, Zambia is ranked slightly above the sub-Saharan African average. This also holds for two other governance indicators, namely corruption and the rule of law. With regard to corruption, the World Bank Governance Indicators also suggest an improving trend since 2004, which nevertheless has slightly reversed again since 2009.

Despite these relatively positive developments, Zambian democracy is fragile and overall governance is relatively weak. While there have been competitive elections, other key features of its democracy are fragile. There is a strong concentration of power in the hands of the executive vis-à-vis the legislature, the judiciary and civil society, all of the latter being relative weak in terms of their oversight and control capacities. Moreover, relatively weak in transporting the core interests of society to political decision makers, and the parliamentary parties have at best partly fulfilled their function of aggregating a diverse set of social interests into coherent political programmes (Simon 2007; Bertelsmann Stiftung 2009; Freedom House 2010).

The political influence of sub-national units (namely the district councils) is also limited, and the decentralization process has been slow at best, which also has hampered the emergence of vertical checks and balances. Most importantly, the constitutional engineering does not yet allow for the direct election of mayors and integrates members of parliament into the political decision-making system at the district level. Both factors tend to consolidate centralized policy making, and serve as a barrier to the emergence of strong and independent political figures at the local level that could function as a political counterweight against highly centralized policy making. The process of fiscal

decentralization has been slow, and attempts to establish a clear and transparent formula for transferring central resources to the sub-national level have often been undermined, thus giving the central government ample room for manoeuvre for discretionally allocating resources to the local level.

Figure 6.2 Governance and democracy development in Zambia



The two lines in the lower graph are based on the Freedom House Indices on political rights and civil liberties, which are ranked from 1 to 7, the lower values indicating a higher degree of rights and liberties, respectively. The scores in the two trend lines are the simple average of political rights and civil liberties. Freedom House also classifies regimes as electoral democracies if the executive is selected by free and fair elections. The lower bar shows the years during which Zambia was classified as an electoral democracy.

This lack of adequate checks and balances and the dominant position of the executive have created little incentive to strengthen democratic accountability and overall political transparency. In combination with a historical pattern of single-party rule organized by centralized patronage systems, the fragile system of checks and balances has created

incentives and opportunities for the ruling party to undermine electoral competitiveness when its feels its position is under threat by the opposition. This explains why GRZ has only shown limited ownership in advancing core governance reforms since 2009. Instead, in an increasingly politicized environment in which the opposition is gaining in popularity, several GRZ initiatives have attempted to constrain political transparency, reduce the influence of critical non-governmental organizations and shield politicians involved in corruption scandals from judicial prosecution. This limited ownership has also led to several controversies between cooperating partners and GRZ, the latter accusing the PRBS group of illegitimately intervening in domestic affairs.

6.3.2 Impact on policy processes and governance

When assessing the impact of budget support on the quality of policy processes and governance, one has to keep in mind the difficult political environment described in the previous paragraphs. Nevertheless, even with all caution being taken with the remaining attribution problems, the evidence suggests that budget support is having at least a mildly positive effect on policy processes and overall governance quality. However, the potential of the instrument has been constrained by three factors:

- First, while the period between 2006 and 2010 shows an overall upward trend regarding some core dimensions of governance indicators, ownership for improving core governance seems to have decreased over the last two years.
- Second, the internal construction of an effective overall incentive system comprising financial and non-financial components of budget support has been limited due to collective action problems within the PRBS group related to policy dialogue, conditionality and disbursement procedures.
- Third, one has to consider that the overall external incentive structure, in which budget support's financial and non-financial components are embedded, has limited the leverage of the instrument as a whole with regard to broader governance reforms. Overall, the resource dependence on external aid from DAC members has decreased due to the natural resource boom in tandem with China's increasing importance as an external partner of Zambia.

Despite these problems, budget support is one of the few remaining external factors that have managed to create leverage against the further deterioration of governance in the last two years. The PRBS group – despite substantial harmonization deficiencies – is still the most coherent external actor that has partly functioned as a substitute for weak domestic power-sharing arrangements. Moreover, the financial weight of budget support for the government is still considerable if it is measured in terms of the 'fiscal space' for development-oriented investments necessary for maintaining political support.

As mentioned, the quality of policy processes, especially transparent and accountable public financial management in Zambia, is still poor due to serious capacity shortages, coordination problems and a number of political challenges. Nevertheless, these processes slightly improved between 2005 and 2006, and in 2008, but since 2009 it has been difficult to maintain the momentum of this development. Nevertheless, it is worth mentioning that budget support has made at least a partial contribution to some reform processes:

- The *reform of the budget calendar* approved by the end of 2009 and implemented in 2010 can be partly attributed to the PRBS High Level Policy Dialogue. During the aftermath of the health scandal, the PRBS cooperating partners strongly emphasized the issue of budget calendar reform, and the subsequent reforms implemented by GRZ are likely to improve budget planning and policy implementation in the future. However, there is also evidence that the political costs of implementing this reform for GRZ were low (see Box 6.1).

Box 6.1 *The 2009 reform of the budget calendar: One reform, two interpretations*

In the context of the 2009 road map which followed the scandal in the health sector, the PRBS cooperating partners agreed to jointly demand the reform of the budget calendar, which had been pending for several years. Prior to the reform, the annual budget used to be approved only in March or April of a given year. Thus, in the first three to four months of a year, budget allocations could only be made by direct presidential approval. According to the interpretation of external observers, this procedure broadened the executive's discretionary room to manoeuvre on budget allocations even further, and it further weakened the parliament's role in the budget process. The reform is said to reduce this presidential leeway, because it forces the government to hand in its budget draft to the legislative body earlier in order to accelerate parliamentary approval. As a consequence, budget allocations are now supposed to concur with a parliamentary majority for the whole budget calendar and not – as was the case previously – only for eight to nine months.

According to sources from the administration, however, the delay of the reform was mainly related to GRZ's wanting to put all the reforms that needed constitutional amendments in one constitutional reform package, instead of submitting them one by one to the legislative body. According to these sources, the 2009 constitutional amendment related to the reform of the budget calendar was pushed through thanks to pressure by the PRBS group. However, the reform itself had little political weight given the strong overlap between executive and legislative bodies.

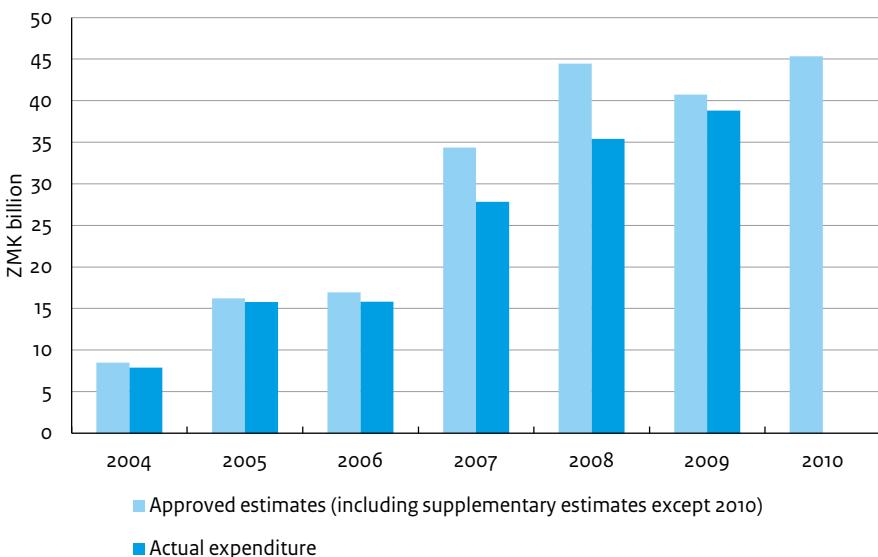
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- The *support of the decentralization process* was also an area where the PRBS group had some, albeit it very limited, success. The overall political and fiscal decentralization process in Zambia has been weak, and despite some initiatives by GRZ, the implementation process stagnated for several years. The constitutional reform needed to strengthen the political independence of local governments (direct elections of mayors) and the demand-side of decentralization seems currently politically unviable. Attempts to establish a transparent and non-discretionary fiscal transfer system have not been very successful either, mainly because of strong resistance from sector ministries. Even though the PRBS group and other cooperating partners have regularly complained about this lack of progress, the Decentralization Implementation Plan (DIP) was not approved by the Cabinet until early 2010. Prior to this, the pressure to pass the DIP through the Cabinet increased substantially in the context of the health scandal and emerging rumours that a further report by the Auditor General would reveal similar challenges in the road sector. Thus, the budget support HLPD was again helpful in achieving this reform step, because at least part of the PRBS group signalled to GRZ that they would consider a further delay another political sign of non-compliance with the underlying principles. Similar to the budget

calendar reform, however, the approval of the DIP by the Cabinet has not borne a significant political cost yet, because so far the implementation process has not gained strong momentum. All in all, while the 2004 Decentralization Policy and the 2010 Decentralization Implementation Plan are important formal political articulations, the actual implementation of political, administrative and fiscal decentralization measures has been slow, thus conserving the centralist character of policy making in Zambia.

- The *strengthening of the Auditor General's external auditing capacity* probably has been one of the more substantial achievements of the PRBS. While still faced with serious capacity problems, the Office of the Auditor General (OAG) has been strengthened in recent years in terms of the coverage, quality and timing of its reports. While there remain some problems with issues of independence – for instance, budget independence and the fact that the auditor has to deliver her report to the executive (president) before delivering it to the parliament – the *de facto* independence of the institution has increased. This positive development is also documented by the substantial increase of OAG's budget, which almost doubled from 2004 to 2005, and almost tripled since 2005 in current prices.

Figure 6.3 Budget and Expenditure Office of the Auditor General



Source: MoFNP financial reports and budget estimates, Fiscal Database.

In contrast to other political reforms, the major external and domestic players involved – the PRBS group and the MoFNP – displayed a clear interest in strengthening the OAG. From the PRBS group's perspective, the prime concern regarding the fiduciary risks of budget support made the OAG a crucial target of their governance support, which was difficult for GRZ to neglect. Moreover, the MoFNP – as the ministry with most ownership of the PRBS process – has also had an interest in strengthening the role of the auditor general



Budget documents.

as the MoFNP perceives this institution as an ally for better controlling other state agencies. In this regard, the role of the OAG during the health and road sector scandal has been crucial and followed the procedures established by the Zambian system. The PRBS group and other DAC cooperating partners have carefully observed these two processes, thus providing the process with a certain ‘watchdog’ function.

As the OAG confirms, the high level of attention devoted to its independence and performance by PRBS donors has significantly contributed to its standing and its capacity to exercise its external control function. At the same time, this increased attention has also lead to a certain ‘expectation gap’ between donors’ demands and the OAG’s mandate. This can in certain instances complicate the OAGs position vis-à-vis other actors, for example, when donors hope to circumvent the formal process and gain direct access to OAG reports, or when they push for audits in their particular areas of interest.

- Strengthening the parliament’s *oversight function* as a complementary process to the promotion of the OAG, however, has been much more difficult. Only minor improvements have been made in terms of strengthening the parliament’s oversight and control capacity. While – mostly anecdotic – evidence shows a slight increase in the parliament’s budget oversight activities, most of the underlying structural causes for a weak parliament remain. Given that almost 40% of the MPs have positions as ministers or deputy ministers in government, there is a great deal of overlap between the executive branch and the parliament, which has negatively affected the parliament’s independence.

Interfering with these affairs, some of which are regulated in the constitution, seems to have been politically too sensitive for the PRBS group. The fact that strengthening the parliament's political oversight function would have inevitably meant strengthening the role of the opposition made this topic even more sensitive. Thus, most cooperating partners have limited their support to mainly infrastructure support and some capacity building instead of tackling the root causes of the legislature's weakness. The overall imbalance between the executive branch and the parliament remains and the legislative branch has limited room for manoeuvre for demanding the appropriate political action in the context of corruption or misappropriation cases, which have been investigated by the OAG. Thus, while the OAG has been strengthened, increasing its potential to uncover illegal activities within the executive, the parliament's remaining weaknesses have been a major barrier to holding the responsible actors accountable in case of transgressions.

- The effectiveness of the PRBS process to *increase civil society participation* in the budget support process – in order to strengthen civil society's monitoring capacities – has also been limited. All civil society groups involved in poverty reduction and political monitoring depend heavily on external resources. Thus, the endogenous strength of these groups is weak, which has provided GRZ with an argument to question their legitimacy. Despite this general weakness, the involvement of these groups in monitoring the budget process has increased in recent years. While this heightened activity cannot be directly attributed to the PRBS process (since most of the capacity building was not financed by budget support-related activities), the process, with its formal emphasis on civil society participation, nevertheless provided legitimacy for their activities. However, the PRBS group has only made sporadic attempts to directly promote the inclusion of these groups in the different dialogue mechanisms, beyond general calls for civil society participation. As several interviewees of civil society organizations have suggested, PRBS members were sometimes cautious to push for more civil society inclusion as this might have complicated the nature of government-to-government negotiations between PRBS cooperating partners and GRZ.

Overall, the evidence suggests that the PRBS process has helped somewhat to improve policy processes and the overall quality of governance especially with regard to strengthening the supply side of state accountability. Yet, while the Auditor General's Office as the core institution on the supply side of accountability had been strengthened, the PRBS group did not coherently engage in strengthening civil society or the parliament on the demand side of democratic accountability. The latter resulted from the fact, that PRBS members did not have a common vision of the instrument's role in promoting these more ambitious governance goals and consequently were not able to develop a coherent incentive structure:

- In times of crisis and controversy, the PRBS group was able to promote some highly visible reform steps (e.g. budget calendar reform and approval of the Decentralization Implementation Plan). The PRBS pressed hard to achieve results in order to ensure that GRZ retained ownership of the underlying principles and to convey a credible message on the ongoing reform process to their head offices. However, these politically visible

achievements did not translate yet into a sustainable reform process on these issues, partly because GRZ lacked ownership, and partly because the cooperating partners failed to provide more sustained incentives. The latter is again related to the lingering differences among cooperating partners about whether to interpret budget support primarily as an instrument to support democracy and good governance, or as an instrument for financing poverty alleviation measures.

- Moreover, there has been little emphasis on crucial deficiencies of the political system related to an inadequate system of checks and balances in Zambia's political system. Because this overall inadequacy has deeply rooted political origins and would require substantial political reforms – including constitutional changes – such issues have been perceived by many PRBS members as being too sensitive to tackle with the instrument of budget support.
- The most continuous effort has been made with regard to strengthening independent state agencies that have oversight functions. In this regard, it is important to mention that PRBS cooperating partners themselves have a strong self-interest in strengthening the OAG in monitoring the budget process and uncovering illegal behaviour. Cooperating partners were mainly concerned about the fiduciary risks of budget support that could easily backfire on aid agencies if cases of corruption and/or misappropriation become evident in their home parliaments and oversight institutions. They therefore had a vested interest in strengthening the Auditor General's role and receiving potential information on illegal behaviour as soon as possible. This self-interest also partly explains the pressure exercised by some cooperating partners to access the Auditor General's reports before the Zambian Parliament did, thereby potentially disturbing formal procedures and ownership of the oversight process as core elements of domestic accountability.

6.4 PRBS and public financial management

Notwithstanding repeated delays in the implementation of reforms and the continued need to further strengthen the public financial management (PFM) system, the PRBS has contributed to substantial improvements in the management of public finances in Zambia. A broad consensus seems to exist between actors on both sides of the aid relationship as well as within civil society that these achievements were predominantly due to the general focus of the PRBS dialogue and underlying principles on PFM issues; in turn, PFM-related PAF conditionality is generally not perceived as a decisive factor in creating effective incentives for the government to strengthen its PFM.

Public financial management performance is among the key focus areas of policy dialogue, conditionality and capacity building within the framework of PRBS in Zambia. The progress of the PEMFA programme is one of the underlying principles of the PRBS MoU, and PEMFA

is supported by most PRBS donors through a joint funding mechanism.⁵¹ In addition, PFM indicators are included in the PAF and are thus assessed as part of the annual PRBS performance review.

Some PRBS donors also provide additional project support in the area of PFM – for example, Germany to the MoFNP and Norway to the Office of the Auditor General (Section 4.3.3.2).

The PAFs for the years 2006 to 2008 included five PFM indicators, four of which were included in the respective annual performance assessment.⁵² The 2009 PAF initially included eight PFM indicators, four of which were subsequently subsumed under the heading ‘oversight’, leaving four ‘core’ PFM indicators for the annual review.⁵³ Table 6.1 summarizes GRZ’s performance against these indicators over the years.⁵⁴ The results for 2010 deteriorated in comparison with 2009, although a fair comparison is not really possible because the indicators were not the same.

Table 6.1 PAF PFM indicator performance 2006–2010

	2006	2007	2008	2009 (PFM)	2009 (ov)*	2010 (PFM)	2010 (ov)*
Achieved	1	4	2	2	2	0	1
Partially achieved	1	0	1	0	1	1	1
Not achieved	2	0	1	2	0	2	1
Score (%)	38	100	63	50	88	17	50

* ov=oversight.

Source: annual PAF progress reports; own compilation.

6.4.1 Performance and recent dynamics in Zambia’s PFM system

Notwithstanding the remaining weaknesses, Zambia’s PFM performance has improved substantially since 2005. To date, two performance assessments of Zambia’s PFM system have been conducted using the PEFA set of indicators (PEFA, 2005b). The first assessment in

⁵¹ The MoU on external support for PEMFA was signed by the United Kingdom, the European Commission, the Netherlands, Ireland, Denmark, Norway, Sweden, the World Bank, Finland, Germany and the United Nations country team (Section 4.3.3.1).

⁵² In 2006, expenditure variance was reported but not considered in the performance assessment. In 2007 and 2008, the PFM-1 indicator, which measures the number of ministries, provinces and spending agencies (MPAs) whose budget releases are between 95% and 105% of their budget allocation, was included in the PAF merely for monitoring purposes and did not form part of the performance assessment. From 2008 onwards, PFM-1 was limited to non-personal emolument releases only. Together with the planned development of a quarterly expenditure allocation plan for each MPA (excluding releases for personal emoluments and grants), the stated intention of this limitation was to shift the focus of this indicator from assessing the credibility of the budget to measuring the regularity of releases.

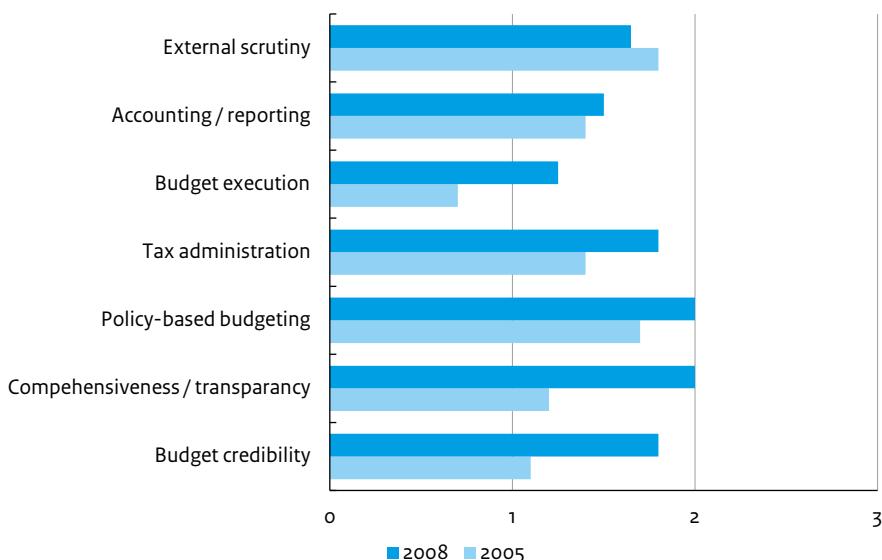
⁵³ Of these four oversight indicators, only one ‘proportion of audit queries acted upon’ was included to provide a baseline for future assessments, while all four PFM indicators were included in the 2009 assessment.

⁵⁴ The decline from 2007 to 2008, from 100% to 62.5%, respectively, is due to an unexpectedly high expenditure for the elections (PRBS Group, 2009b, 1).

2005 (GRZ, 2005a) served as a first-year evaluation of the PEMFA programme and a baseline for future assessments. The second PEFA assessment conducted in 2008 measured progress against this baseline. It notes significant improvements in various dimensions of PFM (GRZ, 2008, ix), in particular an improved basis for strategic budgeting, greater comprehensiveness of fiscal information (including systematic reporting of arrears), improvements in internal auditing and improved oversight (through better coverage and an improved external auditing method, and the granting of public access to the Public Accounts Committee hearings).

In fact, a comparison of average scores in the various dimensions of PFM performance indicates improvements on all fronts except external scrutiny of the budget (Figure 6.4). Yet, as the 2008 PEFA assessment confirmed, external budget oversight has been strengthened significantly in recent years too.⁵⁵

Figure 6.4 Comparison of average results from the 2005 and 2008 PEFA assessments



Source: GRZ (2008).

⁵⁵ Improvements were noted in two out of ten sub-indicators that measure external scrutiny; no change was recorded for seven indicators, and only one indicator (timeliness of submission of audit reports to legislature) saw a decline from A to B. This, however, was not because of the later submission of the Office of the Auditor General's (OAG) report to parliament (in early January) but because of an earlier submission of the Financial Statement by the Office of the Accountant General to the Auditor General, widening the gap between the two submissions to more than four months. Nevertheless, the OAG was able to submit its report within five and seven months respectively from the moment it received the Financial Statements for the budget years 2005 and 2006.

Box 6.2 IMF Statements on Recent and On-going PFM Reforms

Considerable progress has been made in implementing public financial management reforms. After consultation with stakeholders, the government has altered its budget cycle to ensure parliamentary approval of the budget in advance of the fiscal year. This is expected to improve budget execution and the legislature's participation in the budgeting process. In addition, the government is expected to introduce a planning and budgeting act in 2010 in order to clearly define the budgeting process and key deliverables by the government as part of the budget (structural benchmark for end-June 2010).

The government is in the advanced stages of finalizing its implementation strategy for the establishment of a Treasury Single Account (TSA). A draft strategy was approved in early 2009 and various modalities of implementation have now been addressed. The implementation will commence with trial runs at the Ministry of Finance and National Planning, followed by a full pilot in early 2010, with other Ministries, Provinces, and Spending Agencies (MPSAs) being added to the pilot in due course. The full introduction of the Treasury Single Account (TSA) will be phased, commencing in 2010 when six MPSAs will adopt the TSA (structural benchmark for end-December 2010), and all MPSAs will be expected to use the TSA subsequently.

The implementation of the integrated financial management information system (IFMIS) will gather significant momentum in 2010, with the first full pilot commencing in January 2010. Comprising thirteen technology modules, the IFMIS project will create substantial efficiencies across government institutions, providing for greater financial information flows and improved accountability and control. The first pilot site will be the Ministry of Finance and National Planning, which will operate all thirteen modules starting in January 2010. Over the course of the year, additional MPSAs will be included, with a full rollout expected by end-2011. (IMF 2010e, 38)

Source: IMF (2010e).

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The overall positive assessment of GRZ's efforts to strengthen its PFM system is largely shared by the IMF. Box 6.2 gives the IMF's assessment (made in its latest Article IV consultations) of the most important recent and on-going PFM reforms.

The biggest impediment to efficient budget performance identified in the 2008 PEFA report was the constitutional provision that the budget had to be tabled 90 days after the beginning of the fiscal year. This provision resulted in appropriations being approved only in March or April of the fiscal year beginning in January, adversely affecting budget implementation performance (Bird, 2009, 21). This issue has recently been addressed with a constitutional amendment made in September 2009 requiring the National Assembly to pass the budget by the end of December (Box 6.1 in the previous section). The resulting new budget calendar has been applied for the first time for the formulation of the 2010 national budget.⁵⁶

⁵⁶ Note: this reform simultaneously addresses the issue of presidential warrants, which were necessary to authorize expenditure prior to parliamentary approval of the budget. The problem of substantial supplementary budgets altering the initially approved prioritization of the budget, however, is not resolved by this reform (Section 7.2).

Another important reform is the implementation of a single treasury account system: according to GRZ officials in the Accountant General's office, GRZ used to operate about 3000 government accounts, leading to severe cash management difficulties and unnecessarily high interest payments. At the time of writing, the number of government accounts had already been reduced to 1700, the ultimate objective being to establish a system with only four accounts for donor funds, salaries, recurrent and capital expenditure.⁵⁷

Probably the most important ongoing PFM reform is the roll-out of the Integrated Financial Management Information System (IFMIS) as a key component of the PEMFA programme. However, this reform has experienced serious delays for a number of reasons. Some of these delays are certainly rooted in GRZ's choice of a highly sophisticated system despite limited implementation capacities, in particular in line ministries. At the same time, ownership of the roll-out seems to be limited at the technical level and in sector ministries, and MoFNP's limited political clout with some of the sector ministries (Section 5.3.1) certainly does not help the swift implementation of the reform either.

All in all, Zambia's PFM system continues to exhibit significant weaknesses, even in those areas that are arguably of particular relevance to PRBS effectiveness and the minimization of fiduciary risks such as policy-based budgeting, budget variance and expenditure controls.

Further improvement is needed, in particular in external budget oversight. For instance, even though the effectiveness of the Auditor General's Office improved significantly, important challenges with regard to follow-up of audit findings remain: as cooperating partners emphasized in their 2009 statement on PAF performance (PRBS Group, 2009a), the follow-up actions by government to remedy audit findings has not always been satisfactory. In particular, the cooperating partners stated that 'GRZ's overall control systems are not robust enough, and imply that PFM systems need further strengthening.' They also found that the Anti-Corruption Commission was functioning well (PRBS Group, 2009b, 1).

The poor rating of budget transparency in Zambia in the 2010 Open Budget Index suggests another area still in need of reform: out of a possible 100, Zambia scores a dismal 36, meaning that minimal information was provided to the public in the budget documents in 2010 (IBP, 2010).⁵⁸

6.4.2 Attribution of PFM improvements to budget support inputs

Notwithstanding the remaining reform needs, the performance of Zambia's PFM system has thus improved in virtually all dimensions in recent years; and although some key PFM

⁵⁷ According to the same official, one challenge to moving forward with this reform is that only 33% of Zambians have access to banking services, making it complicated to pay salaries through a single government account.

⁵⁸ The Ministry of Education is the only ministry to publish actual disbursements (according to the same civil society representative, this happened only as a result of pressure from one cooperating partner, evidenced by the fact that no other ministry is doing it). The Road Development Agency has only recently followed suit.

reforms predate the provision of PRBS,⁵⁹ it can be argued that budget support has at least partially contributed to these improvements.

It seems that the general financial incentive of PRBS, in tandem with the policy dialogue on the underlying principles and the PAF indicators, were the main catalyst for PFM improvements, rather than the PEMFA framework's concomitant capacity building or PFM-specific conditionality attached to the PAF.⁶⁰ For instance, some of the most relevant recent reform steps can be at least partly attributed to the High Level Policy Dialogue initiated in the wake of the 2009 health scandal. In particular, many attribute the approval (by constitutional amendment) of the new budget calendar in September 2009 to the HLPD (see Section 6.3.2).⁶¹ Even though most interview partners agree that HLPD most likely merely accelerated this reform, for which there already seems to have been substantial government ownership (and which was planned to be undertaken as part of the wider constitutional review), this reform must be considered a significant step towards a more effective PFM system. The late approval of budget appropriations in March or April of the same year and the resulting compressed budget preparation process was identified as the single biggest impediment to efficient budget performance in the 2008 PEFA assessment (GRZ, 2008, viii).

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Another important development with regard to budget oversight that is directly attributable to sector budget support is the recent audit in the roads sector (see Chapter 7).

However, there is also evidence that important areas of PFM have tended to escape the cooperating partners' focus. In particular, it seems that the cooperating partners' bias towards the control of fiduciary risks of PRBS undermines the potential leverage PRBS might have on various key areas of PFM. For instance, a comprehensive evaluation of the PEMFA programme conducted in 2010 clearly indicated that weaknesses in the programme's design impacted negatively on ownership and thus on the overall effectiveness of the reform programme. Various interview partners on both sides of the aid relationship stated the view that the main reason for these design flaws were rooted in the fact that cooperating partners primarily conceived the PEMFA programme as a precondition for the provision of PRBS and were predominantly interested in the control of fiduciary risks, and less in

⁵⁹ The adoption of a Medium Term Expenditure Framework (MTEF) and the introduction of Activity Based Budgeting (ABB) with MPSA budgets broken down to the programme and activity levels were first considered in the late 1990s. ABB was piloted in 2000 and rolled out to all MPSAs by 2004, while the MTEF was formally introduced in 2004 (Bird, 2009, 10).

⁶⁰ This assessment was confirmed to the evaluation team by various GRZ officials as well as PRBS and non-PRBS cooperating partners. The general perception seems to be that cooperating partners' pronounced interest in PFM issues, in particular in budget transparency and credibility, execution, and reporting, and the inclusion of these topics in the PRBS policy dialogue, induced the government to improve performance in at least some of these areas. There is also some evidence that PRBS policy dialogue and PEMFA resources positively impacted on the effectiveness of TA not directly linked to PRBS (off-budget) to strengthen PFM capacities.

⁶¹ Other core PFM issues such as progress on the IFMIS implementation were addressed in the HLPD as well.

designing a comprehensive, sustainable and government-owned PFM capacity development programme (Section 5.3.3).

In a similar vein, there is little evidence that cooperating partners have particularly pushed for greater budget transparency and the participation of parliament and civil society in the budget process, where this does not directly benefit donors' fiduciary interests.⁶² A case in point is the lack of PRBS conditionality aimed at giving civil society more opportunities to scrutinize the government's in-year budget performance.

6.5 Conclusions

Despite repeated delays in the implementation of reforms and the continued need for further improvements, certain positive developments in recent years with regard to democratic governance, the quality of policy processes and the overall performance of the PFM system (or at least the prevention of further deterioration) can be attributed to budget support for Zambia. Other positive developments, in particular with regard to macroeconomic management, are predominantly the result of strong economic growth (following the resource boom) and debt relief, rather than budget support. Yet, while budget support cannot buy major reform, it can catalyze reform by creating the right incentives and opening up policy space. This is important, as even seemingly minor interventions can make a significant difference (Banerjee and Duflo, 2011, 253). | 117 |

⁶² As one civil society representative 'quite bluntly put it: 'The donors use the requirement to have civil society participation only when they need it, not otherwise.' With regard to strengthening the parliament's capacity to exercise its role in external budget oversight, it seems that the political sensitivity of this kind of capacity development means that donor assistance in this field does not always focus on the most relevant needs (prioritizing, for instance, infrastructure instead of dialogue and training).

7

Levels and composition of public spending

7.1 Introduction

This chapter analyses budget support's role in changing the level and composition of public spending. As such, this chapter is a transition from the 'first step' (the analysis of the political economy of budget support) to the second step (the assessment of the impact). The chapter focuses on one evaluation question:

- 3.4. To what extent did budget support contribute to the level and composition of public spending?

Section 7.2 first analyses all aspects of budget support's performance against fiscal targets and the contribution of budget support to levels of public spending. Section 7.3 describes changes in the composition of the budget and expenditure, and Section 7.4 evaluates the extent of the budget's poverty orientation. Section 7.5 is a summary.

The conclusion in this chapter is that the direct contribution of budget support to the total budget growth was relatively modest, but relatively important for the government's fiscal space. There is no evidence that the provision of budget support has negatively affected domestic revenue mobilization. Moreover, budget support facilitated increases in budget and expenditure for priority sectors such as education and health, and this helped to increase the budget's poverty orientation.⁶³

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7.2 Budget support's contribution to levels of public spending

Despite budget support becoming more important as a percentage of total aid to Zambia (Section 5.2.1), its share in total public spending is not very large. Calculations by Whitworth (2010) based on IMF data give an average share of 5.4% between 2005 and 2009, with the highest share being 6.5% in 2005 (Table 7.1).

However, because the data collected by the evaluation team suggest that the figures used in the table under-report budget support disbursements (Section 4.2), Table 7.2 conducts a similar analysis with data extracted from GRZ's financial reports and the data on budget support disbursements shown in Table 4.1, Section 4.2. These figures suggest a higher proportion of budget support funds in government expenditure. According to this data, total budget support disbursements averaged 6.2% of expenditure, reaching 9% in 2009. Budget support grants had an average share of 5.7%, reaching 7.9% in 2009; PRBS grants still only accounted for 7% in 2009, averaging 4.8% between 2003 and 2009.⁶⁴

⁶³ Chapter 8 gives a more detailed analysis of the role of budget support in resource allocation to the five case study sectors.

⁶⁴ An important part of the increase in 2009 is the result of exchange rate fluctuations. The exchange rate in 2009 was on average 30% higher than in 2008 (Table 7.2).

Levels and composition of public spending

Table 7.1 Share of budget support in revenue and expenditure 2002–2009 (ZMK billion), IMF data

	2002	2003	2004	2005	2006	2007	2008	2009
Total revenue	2,906	3,680	4,740	5,642	6,618	8,522	10,220	10,315
Budget support	324	229	258	543	423	582	642	879
Project	1,026	1,195	1,175	1,282	1,374	1,522	1,427	1,911
Total revenue and grants	4,256	5,104	6,173	7,467	8,415	10,626	12,289	13,105
Domestic expenditure	3,578	4,508	5,239	6,646	8,049	10,450	12,402	14,065
Donor-funded capital expenditure	1,508	1,828	1,681	1,702	1,002	760	695	983
Total expenditure	5,086	6,336	6,920	8,348	9,051	11,210	13,097	15,048
Domestic expenditure / total expenditure	70%	71%	76%	80%	89%	93%	95%	93%
Budget support / total expenditure	6.4%	3.6%	3.7%	6.5%	4.7%	5.2%	4.9%	5.8%
Project support / total expenditure	20.2%	18.9%	17.0%	15.4%	15.2%	13.6%	10.9%	12.7%

Source: Whitworth (2010); 2009 data provisional; authors' calculations.

Table 7.2 Share of budget support in revenue and expenditure, 2003–2009 (ZMK billion), MoFNP and cooperating partner data

	2003	2004	2005	2006	2007	2008	2009
PRBS grants	155	249	298	370	566	613	973
Total budget support grants	155	249	448	473	623	798	1,088
Total budget support	155	249	488	505	623	913	1,252
Other grants (grants less budget support)	-	1,616	1,780	567	1,305	1,290	-
Government expenditure	5,171	5,993	7,267	7,728	9,799	12,349	13,832
PRBS grants / expenditure	3.0%	4.2%	4.1%	4.8%	5.8%	5.0%	7.0%
Total budget support grants / expenditure	3.0%	4.2%	6.2%	6.1%	6.4%	6.5%	7.9%
PRBS loans and grants / expenditure	3.0%	4.2%	4.7%	5.2%	5.8%	5.9%	8.2%
Total budget support / expenditure	3.0%	4.2%	6.7%	6.5%	6.4%	7.4%	9.1%
Other grants/ expenditure	-	27.0%	24.5%	7.3%	13.3%	10.4%	-
Exchange rate ZMK/US\$ (WDI)	4.733	4.778	4.463	3.603	4.002	3.745	5.046

Source: MoFNP financial reports; own collection of budget support data; exchange rate: World Development Indicators; other grants are grants reported by MoFNP minus disbursed budget support grants; authors' calculations.

The share of all recorded grants in public expenditure fell from 31.12% in 2003 to 17.84% in 2008. Given this limited and diminishing role of external funding for Zambia's public expenditure, it is not clear what the appropriate benchmark should be to assess whether budget support has contributed to an adequate level and composition of public spending. One indication, however, is provided by the PRBS underlying principles, which require that GRZ demonstrates a commitment to fight poverty, 'including through a pattern of public expenditure consistent with poverty reduction priorities identified in the National Development Plan' (GRZ, 2005b). Section 7.2.1 therefore assesses whether budget support performance has been in line with fiscal targets spelled out in the Fifth National Development Plan (FNDP) and GRZ's Medium Term Expenditure Framework (MTEF).

7.2.1 Budget support's performance against fiscal targets

When the FNDP was formulated, the overall funding need for achieving its targets was estimated to amount to a total of ZMK 62,623 billion (US\$17.4 billion) for the period between 2006 and 2010 (GRZ, 2006, 354). The FNDP fiscal targets include projections of the expected inflow of external aid resources in the form of budget support and projects.⁶⁵

Table 7.3 compares FNDP (and MTEF) projections to actual outputs of budget and project support. As a share of GDP, general budget support was expected to average 1.8% (2.1% including budget support loans) for the period between 2006 and 2010 (1.6% for 2006–2009). FNDP projections were based on an assumed annual growth rate of 7% during the implementation period. The fact that actual growth rates in the first four years of the implementation period were considerably lower (2006: 6.2%, 2007: 6.3%, 2008: 5.7%, 2009: 6.3%)⁶⁶ implies that budget support as well total aid resources fell significantly short of levels deemed necessary to fund the FNDP.⁶⁷

Comparison with MTEF projections show that the rolling three-year planning process provides more realistic (and regularly updated) estimates of external support. The three-year rolling MTEF planning, which is to provide the link between the FNDP and annual budgets, projects much lower budget support receipts, at an average 1.28% of GDP over the period between 2007 and 2010 (adjusted upwards in the course of the rolling planning).⁶⁸

Hence, if measured against the government's medium-term financial plans, budget support in Zambia provides fairly reliable funding for the implementation of the FNDP. However,

⁶⁵ The FNDP identifies two scenarios to estimate the resource gap for meeting its objectives: a baseline extrapolating actual resource flows from 2005; and projections of revenue and expenditure outlining the financial requirements of the FNDP. One criticism of the FNDP is its lack of a detailed macro-fiscal framework, which made it difficult to assess how realistic the assumptions and spending proposals were *ex ante* (Bird, 2009, 9).

⁶⁶ Sources: Ministry of Finance and National Planning and IMF.

⁶⁷ In fact, budget support levels remained much closer to the level of the FNDP baseline scenario extrapolating current funding levels in 2005. The FNDP also includes projections for budget support loans at 0.3% of GDP for all years except 2006. Realization was 0.08% (2006), 0% (2007), 0.21% (2008) and 0.25% (2009).

⁶⁸ This implies that budget support provides a fairly predictable source of funding (and more predictable than project support) for GRZ's medium-term planning. See Section 5.2.2.

when measured against the estimated funding gap in the FNDP, the level of funding provided through budget support falls significantly short of what was deemed necessary to meet the ambitious poverty reduction and development goals formulated in this strategy.

		Table 7.3 Budget support targets and realization as % of GDP					Average 2006- 2009
		2006	2007	2008	2009	2010	
FNDP target	Budget support	0.80%	1.30%	2.00%	2.20%	2.50%	1.60%
	Project support	3.30%	3.30%	3.60%	3.90%	4.00%	3.50%
MTEF projection	Budget support	N/A	1.26%*	1.21%*	1.35%**	1.30%***	
					(1.25%)*	1.23%**	
	Project support	N/A	2.42%*	2.62%*	3.64%**	2.96%**	
Outturn	Budget support	0.94%	1.23%	1.11%	1.48%	N/A	1.21%
	Project support	3.50%	3.29%	2.59%	3.22%	N/A	3.07%

Sources: projections: GRZ (2006); actual projects and GDP: Whitworth (2010); GBS realization: same as Table 3.1;

*MTEF 2008–2010, ** MTEF 2009–2011, *** MTEF 2010–2012; project figures include SWAs; budget support targets are GBS grants only; authors' calculations.

7.2.2 Budget support's contribution to levels of public spending

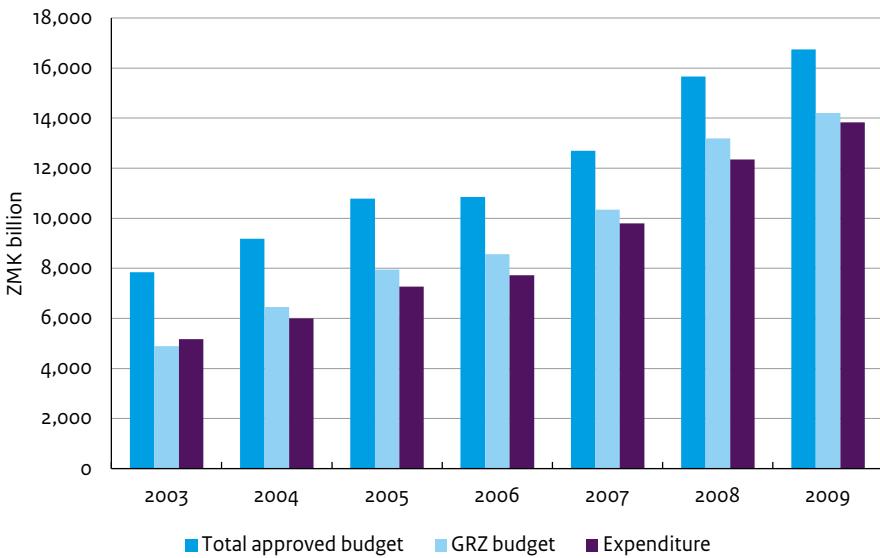
As indicated in Tables 7.1 and 7.2, the share of external support in public expenditure has been decreasing in recent years. This is not the result of diminishing amounts of aid but is a consequence of domestic budget allocations having grown substantially faster than external funding. As a consequence, the share of expenditure that is subject to MoNP's control and processes has increased too.

Figure 7.1 shows the development of total and domestic⁶⁹ budget allocations and expenditure since 2003. In nominal terms, total budget allocations increased by 113%, or an average annual increase of 13.73% between 2003 and 2009. This vast increase, however, needs to be weighed against an average annual inflation rate of about 15% over the same period.⁷⁰

⁶⁹ GRZ's domestic budget is the portion of the budget financed by domestic resources, including general budget support (grants and loans) and domestic financing.

⁷⁰ The large discrepancy between total budget and expenditure is explained by the fact that the government's financial reports do not mirror budget presentation. The former exclude expenditure financed by external funds, which are not channelled through the treasury account although these funds are included in the budget proposals (Yellow Book). The result is that an analysis of budget execution (both regular in-year reports and annual financial statements) shows relatively low levels of budget implementation (GRZ, 2008, 22).

Figure 7.1 Budgets and expenditure 2003–2009 (current prices)



Sources: All budget, releases and expenditure data from MoFNP; budget data include supplementary budgets; original total budget figures are from yellow books (except 2003); supplementary budget figures and expenditure from blue books; GRZ budget and releases from quarterly reports; 2003 original total budget from budget speech; 2003 expenditure from 2004–2006 MTEF; budget support for 2003–2004 and project support data from Whitworth (2010); budget support figures for 2005–2009 provided by cooperating partners, external support is superimposed onto MoFNP data for illustrative purpose, i.e. column heights give the total amounts of budgets, releases and expenditure as reported by MoFNP; constant 2008 prices; authors' calculations. Project and budget support figures are actuals for all four columns. Total budgets include off-budget donor-funded programmes included in yellow books, while the GRZ budget, releases and expenditure do not.

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Table 7.4 shows the relative developments in real terms of total approved budgets and domestic budgets (originally approved and including supplementary budgets)⁷¹ as well as GRZ releases and reported expenditure, taking 2003 as the base year.⁷² For the originally approved budgets, i.e. excluding supplementary budgets approved during the fiscal year, domestic allocations were 52% higher in 2009 than in 2003, compared to only a 4% increase in total budget allocations. Including supplementary budgets (and counting them fully in the GRZ budget), domestic allocations grew by 38% against a 1% growth for total budget allocations from 2003 to 2009. In constant 2008 prices, total budget allocations (including

⁷¹ Supplementary budgets are an important feature of the Zambian budget process as they provide additional allocations during the fiscal year that require only ex post parliamentary approval.

⁷² Releases only capture the domestically financed budget passing through the government consolidated account unlike foreign financed expenditures, which are generally disbursed directly to spending agencies. Reported expenditure is primarily domestic expenditure. Expenditure above GRZ releases is funded through balances brought forward from previous years, appropriation in aid or donor funding. Line ministries can only carry unspent funds for capital expenditure over to the next fiscal year.

supplementary budgets) thus remained remarkably constant (and evidently unrealistic) from 2003 to 2005 at about ZMK 15,300 billion. After a real decrease of more than 11% between 2005 and 2006, budget allocations grew constantly in real terms to ZMK 15,279 billion in 2009 (14,133 billion in 2008 prices). GRZ domestic budget (including supplementary allocations) has increased constantly since 2003, with the exception of 2006 when, in real terms, domestic allocations fell by 5%.⁷³

Table 7.4 Real increases in budgets, releases, and expenditures, 2003–2009, indice

	2003	2004	2005	2006	2007	2008	2009
Originally approved budgets							
Total budget	100	101	101	93	98	102	104
GRZ budget	100	119	126	126	138	145	152
Including supplementary estimates							
Total budget	100	98	99	88	92	102	101
GRZ budget	100	111	117	111	120	138	138
Releases	100	98	108	104	117	129	135
Expenditure	100	98	101	95	108	122	127
Shares (including supplementary budgets)							
GRZ budget /total budget	62%	70%	74%	79%	81%	84%	85%
Releases/expenditure	82%	83%	88%	90%	90%	87%	88%
Releases/GRZ budget	87%	77%	80%	81%	85%	82%	86%
Expenditure/GRZ budget	106%	93%	91%	90%	95%	94%	97%

Source: same data as used for Figure 7.2; authors' calculations.

As a result of the important increases in domestic budgets, the share of domestic allocations in total allocations (including supplementary budgets) grew from a mere 62% in 2003 to 85% in 2009. Releases as a share of the GRZ budget – following a drop from 87% in 2003 – increased again from 77% in 2004 to 86% in 2009. In-year releases as a share of reported expenditure

⁷³ The substantial drop in total and domestic allocations from 2005 to 2006 was partly due to the high inflation rate in 2005 of 18.3%: in current prices, total budget allocations still grew by 0.6%; the domestic budget in 2006 grew by 7.7%. In addition, in 2006 a much smaller supplementary budget of ZMK 655 billion (ZMK 810 billion or US\$216 million in 2008 prices) was approved as compared to ZMK 1000 billion (ZMK 1406 billion or US\$375 million) in 2005. Not accounting for this change in supplementary allocations, the originally approved GRZ budget was even 13.8% higher in 2006 than in 2005 in current prices. In real terms, however, this made for a marginal increase of 0.34% of domestic allocations prior to supplementary allocation. Total allocations excluding supplementary estimates nominally grew by 4.2%. Real expenditure also dropped by more than 6%, while it grew by 6% in nominal terms. However, the reduction was not only a consequence of inflation, but also of large nominal reductions in budgets for investments programmes and economic programmes. The budget for loans and investments decreased from ZMK 1.9 trillion in 2004 (US\$820 million in constant prices) to ZMK 1.1 trillion in 2005 (US\$420 million in constant prices). The main reasons were fewer contributions from the budget to (planned) investments in transport improvement, fiscal transparency, tourism and water, which demonstrated important under-spending in 2004 and 2005. The overall decrease on the expenditure side of the budget in this period coincided with a substantial drop in external borrowing as well (Section 6.4.3).

increased from 82% in 2003 to 90% in 2006 and 2007 and fell to 88% again in 2009, meaning that a somewhat larger share of actual expenditure is subject to MoFNP control and cash-flow management. With the exception of 2003 (106%), expenditure was between 90% and 95% of domestic allocations until 2008 and even increased to 97% in 2009.

A key question is, of course, to what extent these increases in domestic budgets and expenditure can be attributed to budget support. Table 7.5 gives a marginal analysis of the contribution of year-on-year budget support increases (GBS and SBS, grants and loans) to the annual increases of domestic budget allocations and expenditure.

As Table 7.5 shows, the marginal contribution of budget support to expenditure growth varied substantially over the period 2004–2009. While the additional inflow of budget support resources in 2005 and 2009 contributed to around a fifth of the year-on-year change in expenditure from 2004 to 2005 and from 2008 to 2009, for 2005–2006 and 2006–2007 the contribution was a mere 3.76% and 5.70%, respectively.

Table 7.5 Marginal budget support contribution to nominal budget growth

	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009
Nominal increase domestic budget (ZMK billion)	1,494	610	1,780	2,856	1,006
Nominal annual growth rate domestic budget	23.2%	7.7%	20.8%	27.6%	7.6%
Nominal increase expenditure (ZMK billion)	1,273	461	2,071	2,550	1,483
Nominal annual growth rate expenditure	21.3%	6.3%	26.8%	26.0%	12.0%
Year-on-year budget support increase (US\$ million)	57.20	30.91	15.49	88.06	4.42
as year on-year percentage change	109.8%	28.3%	11.1%	56.6%	1.8%
Year-on-year budget support increase (ZMK billion)	239	17	118	290	339
as year-on-year percentage change	95.9%	3.6%	23.4%	46.5%	37.2%
Contribution of budget support increase to nominal domestic budget increase (percentage points)	16.0% (3.70)	2.8% (0.22)	6.6% (1.38)	10.2% (2.80)	33.7% (2.57)
Contribution of budget support increase to nominal expenditure increase (percentage points)	18.8% (3.99)	3.8% (.24)	5.7% (1.53)	11.4% (2.96)	22.9% (2.75)

Sources: All budget, releases and expenditure data from MoFNP; budget data include supplementary budgets; original total budget figures are from yellow books (except 2003); supplementary budget figures and expenditure from blue books; GRZ budget and releases from quarterly reports; 2003 original total budget from budget speech; 2003 expenditure from 2004–2006 MTEF; budget support for 2003–2004 and project support data from Whitworth (2010); budget support figures for 2005–2009 provided by cooperating partners, external support is superimposed onto MoFNP data for illustrative purpose, i.e. column heights give the total amounts of budgets, releases and expenditure as reported by MoFNP; constant 2008 prices; authors' calculations. Project and budget support figures are actuals for all four columns. Total budgets include off-budget donor-funded programmes included in yellow books, while the GRZ budget, releases and expenditure do not.

Table 7.5 also shows quite clearly the impact of exchange rate fluctuations on the contribution of budget support to budget resources available to the government. While the year-on-year change in budget support provisions in 2005–2006 in US dollars translated into an increase of more than 28%, in current kwacha this represented an increase of only 3.6%. In 2008–2009, the US dollar increase in budget support was a mere 1.8%, whereas in local currency, GRZ had over 37% more budget support resources available in 2009 than in 2008.

In current prices, year-on-year budget support increases contributed an average of 12.5% to nominal expenditure growth. Annual budget support increases contributed a mere 12.8%, or 16.7 percentage points, to the total nominal expenditure growth of 131% between 2004 and 2009. Between 2006 and 2009, budget support still contributed 12%, or 10 percentage points, to a nominal expenditure growth of 79%.

In real terms, the contribution of budget support to budget and expenditure increases was slightly more important. Figure 7.2 shows the same data underlying Table 7.4 for total approved estimates, domestic allocations, MoFNP releases and reported expenditures. For illustrative purposes, (actual) budget and project support are superimposed onto the columns giving the amount of budgets, releases and expenditure.

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The figure shows that while the rise in budget support certainly facilitated the increase in the GRZ budgets and expenditure between 2006 and 2009 in real terms, this effect should not be overrated either. The contribution of general budget support increases to the total budget growth was relatively modest over this period. Of the real domestic budget increase between 2006 and 2009 of 24%, 21% (or 5 percentage points) may be explained by the increase in budget support. Of the 34% increase in real expenditure over the same period, 16.5%, or 5.6 percentage points can be explained by the increase in budget support resources.⁷⁴ The decrease of budget support resources in real terms from 2005 to 2006 by 8.7% meant that the nominal year-on-year increase of US\$31 million was not, however, enough to compensate for the drop in real expenditure in 2006.⁷⁵

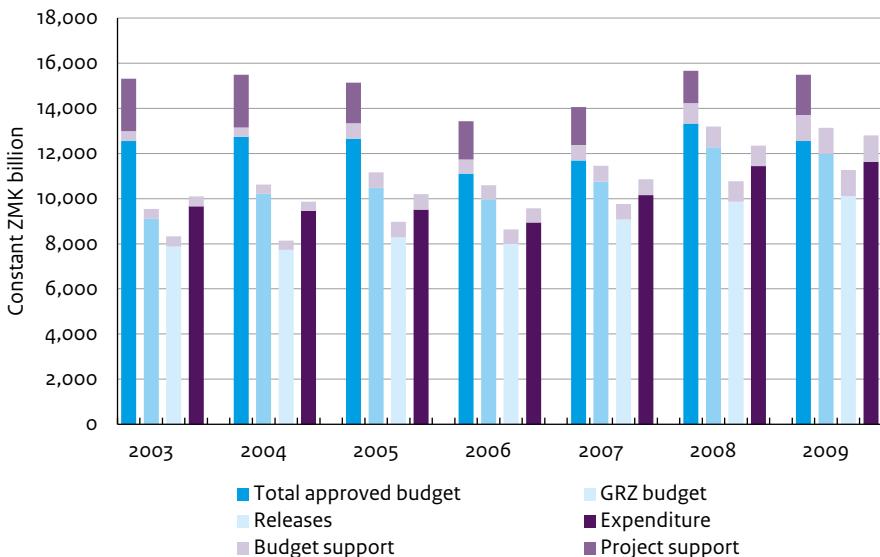
Nevertheless, despite the relatively small share of budget support in government expenditure and its poor performance against FNDP fiscal targets, there is evidence that the resources that were provided are decidedly more important to the government's fiscal space

⁷⁴ Figure 7.2 also suggests that estimates of budget allocations have become more realistic since 2006, in particular with regard to estimates of external funding. Despite the introduction of activity-based budgeting in 2000 and its complete rollout by 2004, it appears that until 2005 annual estimates were still mostly carried forward from previous years by way of incremental budgeting without any significant bearing on actual expenditure. However, predictability of 'on budget' (but off-treasury) project-based aid continues to be a major problem. According to one internal cooperating partner's document, in 2007 a mere 58% of planned (on budget) donor investment was actually disbursed.

⁷⁵ At the same time, as argued in Section 6.4, budget support did not crowd out domestic revenue but rather compensated partly for a drop in external borrowing.

than the relatively small budget share would suggest.⁷⁶ This is because domestic revenue barely covers – mostly statutory – recurrent expenditure.⁷⁷

Figure 7.2 Budgets, releases, and expenditure 2003-2009 (in constant ZMK billion)



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Sources: All budget, releases and expenditure data from MoFNP; budget data include supplementary budgets; original total budget figures are from yellow books (except 2003); supplementary budget figures and expenditure from blue books; GRZ budget and releases from quarterly reports; 2003 original total budget from budget speech; 2003 expenditure from 2004–2006 MTEF; budget support for 2003–2004 and project support data from Whitworth (2010); budget support figures for 2005–2009 provided by cooperating partners, external support is superimposed onto MoFNP data for illustrative purpose, i.e. column heights give the total amounts of budgets, releases and expenditure as reported by MoFNP; constant 2008 prices; authors' calculations. Project and budget support figures are actuals for all four columns. Total budgets include off-budget donor-funded programmes included in yellow books, while the GRZ budget, releases and expenditure do not.

Table 7.6 gives an estimate of non-discretionary and discretionary expenditure. Spending on wages and salaries, domestic and foreign interest, and arrears repayment amount to almost half of domestic revenue, and wages alone account for more than a third of total expenditure. Discretionary spending calculated in this way, however, does not necessarily reflect the actual fiscal space of GRZ. The combined personal emoluments and recurrent

⁷⁶ ‘Fiscal space’ can be defined in different ways. In this study, we use the term as defined by Heller (2005) ‘as the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position. Usually, the idea is that in creating fiscal space, additional resources can be made available for some form of meritorious government spending (or tax reduction)’ (Heller, 2005, 3).

⁷⁷ Estimates of the share of domestic expenditure that is reserved in this way vary, naturally, but estimates from cooperating partners and sources within MoFNP put the figure at no less than 80%.

departmental charges accounted for 58.1% of the budget in 2006. By 2008 this had risen to 70.9%, leaving little space for development expenditure (Ngoma and Sichinga, 2010, 11). These figures suggest that for discretionary spending, and in particular capital expenditure, the government still relies heavily (if not exclusively) on loans and grants. In fact, according to an analysis commissioned by the Civil Society for Poverty Reduction (CSPR), almost the entire capital budget is financed from external sources (Ngoma and Sichinga, 2010, 9).⁷⁸

Table 7.6 Discretionary and non-discretionary expenditure as share of total expenditure (percentages)

	2002	2003	2004	2005	2006	2007	2008	2009
Domestic interest	12.6	12.5	14.2	11.0	8.6	6.9	7.1	6.9
Foreign interest	5.9	5.1	2.9	2.0	0.8	0.5	0.6	0.4
Wages	36.4	38.3	38.4	36.9	35.2	33.8	36.0	37.5
Arrears repayment	4.1	1.2	1.6	3.8	3.1	3.1	4.8	2.0
Total non-discretionary	58.9	57.1	57.2	53.8	47.6	44.3	48.4	46.8
Discretionary balance	41.1	43.0	42.9	46.2	52.4	55.7	51.6	53.2

Source: Whithworth (2010).

7.2.3 Additionality: revenue side fungibility

A key concern regarding the effectiveness and efficiency of budget support has to do with the fungibility of the resources that were provided, and in particular with the resulting fiduciary risks (Box 2.1 in Chapter 2).

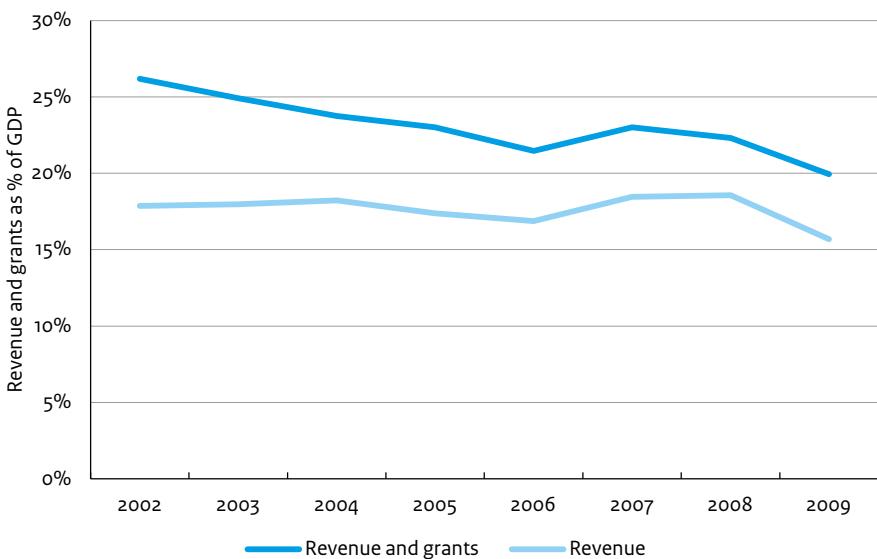
In view of the substantial increases in domestic revenue over the past decade, it seems safe to argue that budget support funding in Zambia is predominantly supplementary to domestic financing. In other words there is no evidence for the substantial crowding out of domestic resources in the sense that the provision of budget support would have led to reduced mobilization of domestic revenue. Zambia's revenue performance – at an average 18% of government revenue (excluding grants) as a percentage of GDP between 2004 and 2008 –was consistently above the average of 16.3% for the group of low-income countries in sub-Saharan Africa (IMF, 2010a, 75). This is against a continuous decline during the period 2000–2006, when the tax-to-GDP ratio declined from 19.2% to 17.0% (ILO, 2008, 134). In

⁷⁸ Although it is difficult to determine the exact extent of the government's actual fiscal space, this point was confirmed by various cooperating partners and GRZ interview partners, including some in the Budget Office. See also Section 7.3 on the sector allocation of discretionary budgetary resources. Irrespective of this, by far the largest share of total capital expenditure is still funded through off-budget aid (Table 7.1). Therefore, the contribution of budget support to total capital expenditure in Zambia is still much less important than that of project aid.

2008, revenue (excluding grants) had reached 18.6% of GDP, which is in line with the target set in the Fifth National Development Plan to reach a revenue-to-GDP ratio of more than 18% by 2010.⁷⁹

Figure 7.3 shows the development of revenue as a percentage of GDP (for a more detailed picture see Annex VI). Domestic revenue has been increasing in real terms since at least 2002. The main source of government revenue is from domestic taxes with the largest share contributed by PAYE (pay as you earn) income tax, followed by import VAT, customs and excise tax. Capital grants from cooperating partners come only in fourth place (Ngoma and Sichinga, 2010, 9).

Figure 7.3 *Development of revenue and grants as % of GDP*



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Source: Whitworth (2010).

According to data provided by cooperating partners (Whitworth, 2010), revenue grew in real terms by 23% between 2002 and 2008. This was the result of a domestic revenue growth of 50%, whereas budget support and project grants shrank by 35%. According to MoFNP data, tax revenue grew in real terms by 26% between 2004 and 2008 alone. Non-tax revenue grew by 254%, albeit from a very low base of a mere 1.4% of total revenue in 2004. Capital grants,

⁷⁹ According to provisional IMF data, the ratio dropped to 15.7% in 2009, which would be below the FNDP target and below the regional average for low-income countries of 16.3% in that year. However, the same caveats as mentioned above regarding 2009 revenue and expenditure data apply.

however, fell by 45%. According to an IMF analysis, the apparent revenue shortfall in 2009 was mainly the result of import-related indirect taxes (IMF, 2010d, 6).⁸⁰

According to MoFNP data, among domestic revenue sources, the strongest growth in absolute terms between 2004 and 2008 was registered in income tax, which grew by ZMK 909 billion (in constant 2008 prices), or 27%. The second-strongest growing source of inflows is domestic borrowing, which grew from zero in 2004 and 2005 to ZMK 823 billion in 2007 and ZMK 812 billion in 2008. Third come customs and excise revenue, which grew by ZMK 684 billion, or 40%.

In relative terms, the strongest growth came from mineral revenue, which grew from ZMK 7 billion (US\$ 1.5 million) in 2004 to ZMK 75 billion (US\$ 18.7 million) in 2007 and ZMK 364 billion (US\$ 97.2 million) in 2008. This observation is particularly relevant as the contribution of the economically important mining sector to the public budget continues to be a highly contested issue in Zambia (Dymond, 2007; Fraser and Lungu, 2007). Many actors, especially civil society and donors, argue that this contribution is too small and not in line with the sector's potential to contribute to the public budget (Lungu, 2009, 18). In fact, mining's contribution to government revenue is slight, in part because of favourable tax concessions granted at the time of privatization (IMF, 2010d, 12): copper exports accounted for roughly three quarters of export earnings in 2008 and 2009 (IMF, 2010d, 22). Yet, the entire sector's tax contribution to overall domestic revenue was a mere 3% in 2004, which has since increased steadily to 15% by 2008.⁸¹

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Nonetheless, as Figure 7.4 shows, tax revenue from the mining sector has increased substantially since 2000. The sector's main contribution is through PAYE income tax and company tax, which together accounted for two thirds of the revenue generated by the sector in 2008 and nearly 80% in 2009. Company tax was virtually zero until 2005, when it began to pick up, earning revenues of ZMK 464 billion in 2008 (2009: ZMK 401 billion).

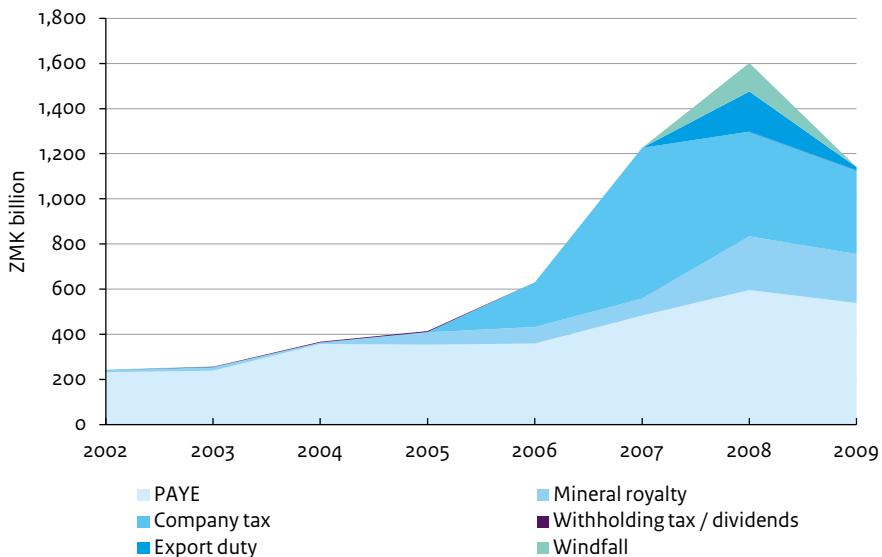
Mineral royalties, which during the 1990s were the main contributor to mining revenue, declined from ZMK 29 billion in 1995 (not shown) to merely ZMK 4 billion in 2000. Since 2004 (ZMK 4 billion), revenue from royalties increased significantly to ZMK 235 billion in 2009.⁸²

⁸⁰ This drop was mainly a consequence of the impact that the international financial and economic crisis had on Zambia's tax revenue. For example, copper prices fell by 60% between July 2008 and January 2009, but have since recovered. The nominal exchange rate depreciated by 42% between end-June 2008 and end-March 2009. It has since appreciated by 11% through June 1, 2010 (IMF 2010d, 4). However, the data presented for 2009 on the left-hand side in Figure 6.5 are only provisional and could not be verified on the basis of GRZ data. According to ZRA figures, the initial revenue target for 2009 was adjusted upwards from ZMK 9581 billion to 10191 billion, representing a further rise in domestic revenue of 5.5% against actual domestic revenue in 2008.

⁸¹ According to one estimate, were Zambia to apply an implicit tax rate to the mining sector in the way that Australia does, the total tax revenue from the extractive sector could have amounted to US\$2.5 billion between 2003 and 2008, or 37% of ODA (Stürmer, 2010, 9).

⁸² Zambia's copper export earnings climbed sharply in the fourth quarter of 2009. At the time of writing, this increase seemed not to have been accounted for in the data reported by the ZRA (<http://www.zra.org.zm>).

Figure 7.4 Mining sector tax revenues 2002–2009 (constant prices 2008)



Source: Zambia Revenue Authority

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In 2008, GRZ introduced a windfall tax on mining companies' profits that yielded ZMK 126 billion or 7.9% of sector revenue. However, only three out of eight mining companies actually paid windfall taxes (Ngoma and Sichinga, 2010, 6), and revenue fell significantly short of expectations.⁸³ Following complaints by mining companies and other actors, the parliament voted to abolish the windfall tax again in March 2009 in order to compensate for the impact of the international financial and economic crisis.

Domestic taxes are administered by the Zambia Revenue Authority (ZRA). According to ZRA, the main difficulty – apart from strong political resistance – with taxing profits in the mining sector more effectively in Zambia lies in the complex cost structure for mining operations in Zambia. Its extractive industry features some of the world's deepest mines as well as surface mining, leading to presumably very heterogeneous profit margins. In contrast, the ZRA's capacity to assess mining companies' claims about profits and losses is very limited.⁸⁴

Apart from taxing mining profits more heavily, the main challenge in mobilizing domestic revenue in Zambia (as in all African least developed countries) is to broaden the country's tax base. According to ZRA officials, only 500,000 tax payers currently pay income tax in the formal sector. In contrast, the number of people employed in the informal sector grew

⁸³ According to a ZRA official, projected revenue from the tax (which was applied in three thresholds with a respective rate of 2%, 50% and 75%) was US\$900 million against a realized US\$350 million.

⁸⁴ The ZRA is currently establishing a dedicated mining unit with the support of NORAD, the Norwegian Agency for Development Cooperation.

from a negligible level in 1994 to an estimated 3.5 million today. The capacity and responsiveness of the ZRA have not grown to the same extent in order to capture the informal sector as well.

A number of proposals have been put forward to improve the capture of the informal sector, such as a 3% presumptive tax charged on business income for small-scale businesses with an annual turnover threshold below ZMK 200 million and a presumptive tax on minibuses and taxis. However, it seems that the ZRA does not yet have sufficient capacities to effectively collect these types of taxes.

As a result, there certainly is scope to increase the tax-to-GDP ratio even further by broadening the tax base and by taxing the mining sector more heavily. However, the political will to do so has been limited (or reversed) in the recent past, and it is doubtful whether this willingness would change substantially in the absence of budget support, given the comfortable growth of domestic revenue and positive economic developments in recent years, not to mention that budget support is a relatively small share of total revenue.

This is why it is doubtful that efforts to shore up domestic taxes would increase substantially in Zambia in the absence of budget support. In fact, with non-traditional donors, in particular China,⁸⁵ playing an increasingly important role as a provider of external funding, GRZ could probably find sources of funding other than taxes relatively easily should PRBS donors decide to reduce or stop providing budget support.

It is important to note that – because the amount of budget support is significantly smaller than the amount of capital expenditure – revenue-side fungibility in Zambia is arguably not specific to any particular aid modality. Rather, the degree of fungibility could be expected to be substantially the same if the amounts of aid currently provided in the form of budget support were provided as project support instead.

7.3 Allocative efficiency: Budget and expenditure composition

This section focuses on the key question of whether the provided resources are allocated to priority sectors, and additionally to domestic resources, or whether they merely crowd out domestically funded allocations. The section starts with an analysis of overall budget and expenditure. The next chapter focuses on the five separate case study sectors. Chapter 9 links the (sector) expenditures to increases in the provision of services.

⁸⁵ For instance, in March 2010, Zambia was granted a US\$1 billion concessional loan from China for infrastructure and development projects. For a general discussion of Chinese lending to Zambia, see Dahle, Huse and Muyakwa (2008).

The analysis shows that at least with regard to the social sectors, budget allocations and expenditure in Zambia are roughly in line with strategic priorities as set out in the Fifth National Development Plan (FNDP) and can be considered fairly pro-poor. Budget support resources – while certainly not decisive for this allocation pattern – can be argued to have facilitated significant increases in social sector spending. There is evidence that budget support did not crowd out (but rather crowded in) domestic resources in these sectors, and that, by and large, budget support finances the right priorities in Zambia. A continuous concern is the persistently high wage bill, which poses a *potential* threat to the implementation and continuation of investment in poverty-reducing programmes. Partly, the wage bill reflects the recruitment of teachers and health workers (see Chapter 8). However, for a large part the higher wage bill is caused by salary increases. In basic education, for instance, the share of personal emoluments increased from 64% in 2005 to 81% in 2009. About 22% of the total growth between 2005 and 2009 can be explained by the recruitment of new teachers; the rest is the result of higher teacher salaries (De Kemp and Ndakala 2011, Chapter 3).

Total budget allocations have been continuously rising since 2006, and, more importantly, so has the domestic share in total expenditure. Growth of total and domestic allocations was mainly driven by increased allocations to economic affairs, education and health (Annex VII).⁸⁶ The most significant change between 2006 and 2008, however, was the substantial reduction in allocations to general public services, which fell by more than 12%.

Actual expenditure shares (Table 7.7) show a somewhat different pattern: economic affairs also accounted for the large share of total growth between 2006 and 2008,⁸⁷ accounting for more than 20% of the total increase. A second contributor was social protection, which accounted for almost another fifth of total expenditure growth, followed by health (14%) and education (13%).

Between 2005 and 2006, releases for general public services had fallen from ZMK 4693 billion to ZMK 2724 billion (in current prices), or almost 49% in real terms.⁸⁸ Between 2006 and 2008, however, expenditure for general public services actually increased again by 8.5%, contributing 12.4% to overall expenditure growth over the same period. The share of general public services in total expenditure thus remains relatively high at almost 38%.⁸⁹

⁸⁶ Excluding supplementary budgets.

⁸⁷ Unfortunately, the 2009 financial report was not available by functional classification at the time of writing.

⁸⁸ This reduction was largely an effect of the reduction of debt service payments (and other statutory expenditure). In 2006, debt cancellation resulted in a large reduction of the external debt stock (from ZMK 28,000 billion in 2005 to ZMK 3500 billion in 2006). This contributed to a decrease of the external debt service from ZMK 470 billion in 2005 to ZMK 227 billion in 2006. Part of the reduction, however, may also be due to refined reporting by functional classification.

⁸⁹ The main explanation for this is the payment of arrears, including salaries. A large part of these arrears are accounted for under the subheading 'Financial Management and Accounting'. In 2008, this subheading accounted for almost 8.5% of government expenditure. Almost 90% of these expenditures were for arrears, including salaries.

Supplementary budgets require *ex post* parliamentary approval and one could thus expect them to reflect actual government spending priorities even more clearly than regular budget estimates. Interestingly, supplementary budgets (which are only available by functional classification for 2007 and 2008) mainly provide additional estimates for general public services (51%) and (64%).

Table 7.7 Expenditure shares and changes; functional classification (percentages)

	share 2006	share 2007	share 2008	average share 2006– 2008	change 2006– 2008	Contribution to 2006–2008 total increase
General public services	42.4	35.5	35.6	37.8	8.5	12.4
Defence	8.9	9.1	8.0	8.7	16.6	5.1
Public order and safety	5.0	4.8	4.5	4.8	17.4	3.0
Economic affairs	13.0	14.5	14.6	14.0	45.8	20.4
Environmental protection	0.2	0.4	0.4	0.3	156.7	1.0
Housing and community amenities	1.3	5.2	3.0	3.2	204.3	8.8
Health	8.8	9.8	10.0	9.5	47.1	14.2
Recreation, culture, religion	0.4	0.8	0.9	0.7	175.7	2.5
Education	19.6	16.9	18.0	18.1	19.0	12.8
Social protection	0.6	3.0	4.9	2.9	933.7	19.8
Total	100.0	100.0	100.0	100.0	29.1	100.0

Source: MoFNP, authors' calculations.

The analysis of actual expenditure, however, indicates that the additional resources from supplementary budgets were not actually used for this category. Rather, they helped to fund expenditure above original domestic estimates in housing and community services (189% over-expenditure), health (81%) and defence (76%) in 2007, and economic affairs (35%), education (35%) and health (23%) in 2008.⁹⁰ This can be taken as an indication that social services rank relatively high on GRZ's spending agenda. This assessment is also supported by the fact that apart from the persistently large share of general public services in overall expenditure, at the aggregate level GRZ made fairly reasonable use of the growing resource envelope from a development and poverty reduction perspective. Of the real expenditure growth between 2006 and 2008 of 29.1%, the largest share was spent on economic affairs (20.4%), social protection (19.8%), health (14.2%) and education (12.8%). Only 5.1% of the additional resources were used for defence, and only 3% for public order and safety.

⁹⁰ Average variance between domestic budget and expenditure for all 10 functions was 11% in 2006, 17% in 2007 and 13% in 2008.

It is noteworthy that overall budget increases in the health and education sectors stem disproportionately from GRZ contributions. This is a strong indication that no crowding out of domestic resources by budget support is taking place in these sectors (Chapter 8). On the contrary, given the cooperating partners' strong focus on these sectors (also with regard to PRBS conditionality, Section 4.3.2.2) one can presume a certain degree of *crowding in* for health and education. The same is true for allocations to the Ministry of Local Government and Housing and the Ministry of Works and Supply, whose budgets cover the water and sanitation and roads sub-sectors. In the agriculture sector, GRZ contributions grew by 75% between 2005 and 2009, yet contributions from cooperating partners grew even more. Relatively large increases were budgeted for agriculture, education and health. For agriculture, the total growth surpasses the growth of the domestic budget.⁹¹

Whether the overall allocations are in line with the strategic priorities formulated in the FNDP is more difficult to assess. The FNDP fiscal projections do not follow a COFOG⁹² functional budget classification. This makes a direct comparison of annual budgets and expenditure with FNDP targets difficult. The FNDP does, however, identify areas for priority pro-poor spending, namely health, education, agriculture, HIV/Aids, rural infrastructure development, rural financing and small- and medium-scale employment promotion (GRZ, 2009, 40). For some of these priority sectors, the FNDP sets aggregate expenditure targets. Figure 7.5 shows FNDP targets and actual outturn for selected sectors (as a percentage share of total budget, domestic budget and domestic expenditure, respectively). The figure shows that at the aggregate sector level, expenditure during the 2006–2009 period was only partly in line with FNDP sector priorities and fiscal targets for the domestic budget.

It is noteworthy that the performance was best in the social sectors, health and education, where government controls the most important share of resources. In education, the average deviation of expenditure from the domestic fiscal target is 0.84 percentage points or an average 10.3% of the projected share in the domestic budget. For health, these figures were respectively 2.17 percentage points and 12.1%. In agriculture and roads, both of which are ostensibly more politicized and, at the same time, receive relatively more support in the form of projects, variance between projected domestic budget shares and expenditure is larger (21.9% and 39.2%) and has been increasing in recent years. In the water and sanitation sector, which is predominantly financed through donor projects, the government has little control over whether overall FNDP spending priorities are realized or not. With a projected share of GRZ spending of just 6.5% of the overall financing need of ZMK 1208 billion for the sector (GRZ, 2006, 357), the sector experienced an average deviation of more than 100%.⁹³

⁹¹ This analysis is based on the budget classification by headings and sub-headings as provided by the MoFNP. Due to space constraint, allocations by heading are not reported in detail here.

⁹² UN Classification of the Functions of Government.

⁹³ The projected average share of water and sanitation in the domestic budget between 2006 and 2010 is a mere 0.2%, against an average 8.02% of projected donor funding and an average 2.0% of projected total expenditure.

The FNDP does not provide more detailed guidance for determining more inter-sectoral and sectoral resource allocation priorities, which would allow for a more comprehensive ex post comparison of budget allocations to the original plan (Bird, 2009, 1). An analysis of the use of discretionary spending conducted for the FNDP mid-term review (GRZ, 2009), however, confirms the finding that a considerable share of available resources is indeed spent on priority sectors. Of the fiscal space in excess of statutory expenditure, arguably created – at least in part – by budget support, roughly half is spent on pro-poor priority spending sectors.

It is important to note that the increases in priority sector allocations (in particular health and education) cannot be explained by additional budget support resources alone. In fact, growth in allocations to these sectors from domestic resources has been higher than budget support increases (Chapter 8).

7.4 Poverty orientation of the budget

A key determinant of the effectiveness of budget support in reducing poverty is evidently the budget's poverty orientation, which in turn is closely related to the amount of fiscal space and the balance between recurrent and capital expenditure in the budget.

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Although there is no consensus as to what constitutes pro-poor expenditure – let alone a universal definition – it can be argued that, on balance, Zambia's budget has become more pro-poor in recent years as expenditure that can be related to pro-poor policies increased as a share of the total budget and as a share of gross domestic product (GDP). This was mostly the result of increases in expenditure on health and education, but also the result of more spending on agriculture, which rose from 2% in 2000 to 7.6% in 2007. At the level below aggregate sector allocations, the budget classification makes it possible to track allocations targeting poverty-related expenditure somewhat more specifically, because the activity-based annual budget (yellow book) explicitly identifies Poverty Reduction Programmes (PRPs) (Table 7.8).⁹⁴

Total allocations to PRPs between 2005 and 2009 averaged 46% of the total budget from all the sectors and provinces. In 2006, a total of ZMK 2,343.7 billion (or 43% of the budget) was released to programmes classified as PRPs. During 2007, a total of ZMK 5,645.7 billion (or 47% of the total budget) was allocated to poverty reduction programmes, while the 2008

⁹⁴ This classification has its difficulties, however. Until 2006, the classification included a PRP 1, PRP 2 and PRP 3 code, representing direct, indirect, and remote impacts on the poor. The PRP classification of a number of expenditure items has been criticized by civil society in the past (CSPR, 2005) and seems to have changed repeatedly. Traditionally, these expenditures included health, education and social services; since 2007, development programmes in the productive sectors, such as agriculture and infrastructure upgrading, have also been included. These changes in definition had an upward effect of about seven percentage points on poverty-reducing expenditure as a % of domestic revenue, and an effect of 1.2 percentage points on poverty-reducing expenditure as a percentage of GDP (De Kemp, Faust and Leiderer, 2010, 18).

PRP budget allocation was ZMK 6,488.8 billion, representing 47% of the total budget for the year. The bulk of PRP allocations were for capital programmes, in particular road and other infrastructure development (GRZ 2009, 42).⁹⁵

Table 7.8 Wages and poverty-reducing spending 2005–2009

	2005	2006	2007	2008	2009
as % of domestic revenue:					
Wages and salaries	44	43	42	44	51
Poverty-reducing expenditure	35	36	47	45	
PRP allocations to budget (%)	42	43	47	47	
as % of GDP:					
Wages and salaries	7.6	7.2	7.7	8.1	8.1
Poverty-reducing expenditure	6.1	6.0	8.3	8.3	
PRP allocations (%)		7.2	8.2	8.8	

Sources: EAZ (2009); GRZ (2009); IMF (2010e); Ngoma and Sichinga (2010).

The latter observation is related to the potential benefit that budget support has to enable recipient governments to more effectively balance recurrent and capital expenditure, as opposed to project aid, which usually focuses on (often off-budget) capital investment.⁹⁶ Table 7.8 compares the shares of recurrent and capital expenditure in overall expenditure. It is noteworthy that capital expenditures had already decreased significantly before the introduction of PRBS: from their peak of 11.9% of GDP in 2001, capital expenditure fell to 8.0% of GDP in 2006. However, the relative drop was even higher in 2007 when capital expenditure was around 4.3% of GDP (MoFNP, 2008).

The data in Table 7.9 show a slightly increasing share of personal emoluments and a substantial increase in other recurrent departmental expenditure. The share of capital expenditure in turn fell from a high of 20% in 2003 to a mere 9% in 2008. In principle, this would not need to be an altogether negative development, if recurrent expenditure was neglected in traditional project-based aid in favour of investment projects. Most observers and analysts in Zambia seem to agree, however, that this development poses a threat to the implementation and continuation of investments in poverty-reducing programmes (IMF, 2010e, 36) and already has contributed to a general deterioration in infrastructure (Ngoma and Sichinga, 2010, 25; IMF, 2010e, 36).

⁹⁵ According to information from cooperating partners, pro-poor programmes in the budget are not protected *de jure* against cuts; *de facto*, however, certain programmes are: when donor funding was withheld following the 2009 health sector scandal, health, education and roads infrastructure were protected from cuts, and money was taken from other heads to ensure funding for these sectors. In health, MoFNP released 25% over budget in order to protect basic health services.

⁹⁶ In contrast to many other sub-Saharan African countries, Zambia operates a unified budget planning system with current and capital spending within a common set of budget estimates. This reflects international good practice (Bird, 2009, 10) and should in principle enable GRZ to plan for an adequately balanced recurrent and capital expenditure.

Table 7.9 Expenditure by subhead (2002–2008; percentages)

	2002	2003	2004	2005	2006	2007	2008
Personal emoluments	34	31	33	34	33	36	36
Recurrent departmental charges	17	15	16	22	25	29	35
Grants and other payments	14	10	14	13	18	17	18
PRP (HIPC)	3	3					
Capital expenditure	19	20	12	11	14	10	9
Constitutional and statutory expenditure	13	21	25	20	10	8	2
Total	100	100	100	100	100	100	100

Source: MoFNP (*financial reports*); authors' calculations.

At the same time, the low proportion of capital expenditure is not due to actual allocations but in part to weak implementation capacity (ILO, 2008, 134), which up to 2009, was also adversely affected by the compressed budget cycle (Bird, 2009, 19).

At the aggregate level, the budget has become more pro-poor in recent years, despite implementation problems and a diminishing share of capital expenditure. According to a review of public expenditure reviews in Zambia, however, spending does not necessarily always reflect pro-poor priorities within sectors or sub-sectors. For instance, the review finds a bias in favour of urban and against rural areas in education. It must be acknowledged, however, that more recently the Ministry of Education has started an ambitious investment programme, with a lot of rehabilitation and construction of school facilities in rural areas. The agriculture budget is found to be dominated by input subsidies that reach only about 15% of farmers, who, moreover, represent the better-off in the sector (Chiwele, 2009). This issue is more closely studied in the various sector reports prepared as part of this evaluation.

7.5 Summary and conclusions

Between 2005 and 2009, budget support facilitated the increase in GRZ budgets and expenditure. The direct contribution of PRBS increases to the total budget growth was relatively modest: of the 34% increase in real expenditure between 2006 and 2009, 5.6 percentage points can be explained by the increase in budget support resources. Nevertheless, the resources that were provided are decidedly more important for the government's fiscal space because domestic revenue barely covers (mostly statutory) recurrent expenditure. For discretionary spending, and in particular capital expenditure, the government relied heavily (if not exclusively) on loans and grants.

For the social sectors, budget allocations and expenditure in Zambia were roughly in line with strategic priorities as set out in the Fifth National Development Plan. In these sectors, budget support did not crowd out (but rather crowd in) domestic resources.

There is also no evidence for any substantial crowding out of domestic resources in the sense that the provision of budget support would have led to a reduction in the mobilization of domestic revenue. Nonetheless, there is substantial scope to increase the tax-to-GDP ratio. The persistently high wage bill remains a concern. It may erode the share of capital expenditure in total spending and poses a potential threat to the implementation and continuation of investments in poverty-reducing programmes.

8

Budget support and sector cooperation

8.1 Introduction

Chapter 3 sketched the development of sector support in Zambia during the 1990s and, especially during the first years of this millennium. While several cooperating partners started to provide budget support from 2005 onwards, they continued to provide aid through other aid modalities such as projects, basket funding and sector budget support. Other cooperating partners provided aid solely through projects and/or basket funding. The result is a heterogeneous aid landscape with active cooperation across different sectors using different aid modalities.

For the Poverty Reduction Budget Support (PRBS) partners, general budget support created new instruments in the policy dialogue (Chapter 4), such as the Joint Steering Committee and the annual PRBS reviews. For sector cooperation, GRZ and the cooperation partners have set up comparable structures, such as the annual sector reviews and the sector advisory groups (SAGs). SAGs are the main consultative forum in the sector, and they play an advisory and monitoring role concerning the implementation of the programmes as defined in the Fifth National Development Plan (FNDP). There are 21 SAGs, chaired by the permanent secretaries of the leading ministries. They meet on a more or less regular basis with the government, and all the major stakeholders, including donors, civil society bodies and the private sector are invited to participate in the meetings. Developments in the sectors are also monitored yearly through the annual sector reviews and the annual PRBS reviews. Budget support therefore created a different level for the discussion of sector issues. It created a forum for PRBS donors to discuss specific sector challenges at a higher level. However, as result, the PRBS dialogue and Performance Assessment Framework (PAF) could also get overloaded with (relatively minor) sector issues (Chapter 5).

One of the central questions of this evaluation is how budget support impacted on service delivery. This chapter analyses how budget support contributed to increased funding in five case study sectors (health, education, agriculture, roads, and water and sanitation). An important question in this respect is whether increased domestic resources were actually supplementary and not just the result of moving resources from project aid and basket funding. In this respect, the chapter gives a more detailed answer on the impact budget support had on the level and kind of public spending in the five case study sectors. One may expect budget support to be especially effective in raising resources for priority sectors if there is also a strong presence of PRBS donors in these sectors and a well-developed sector cooperation.

The chapter analyses this hypothesis for five sectors: health (8.2), education (8.3), agriculture (8.4), roads (8.5), and water and sanitation (8.6). There are differences in size, the role of donors and aid modalities in these sectors. However, one of the conclusions in Section 8.7 is that the sectors are different in terms of ownership and the congruence of GRZ and PRBS donors' priorities and strategies. These differences have important consequences for the effectiveness of budget support (see Chapter 9).

8.2 Health

Chapter 3 already sketched the long history of sector cooperation in the health sector. As early as 1993, the Ministry of Health (MoH) and cooperating partners had developed a sector-wide approach (SWAp) for the sector, and following the *National Health Strategic Plan for 2001–2005*, development assistance became increasingly important. Funding by cooperating partners increased from 15% of the total health expenditure in 2001 to 47% in 2005. Conversely, the domestic contribution from the government fell from 41% in 2001 to 20% in 2005. Cooperating partners were ineffective in raising domestic resources. The increase in external aid was largely on account of significant flows of vertical funds, especially for malaria and HIV/Aids.⁹⁷ A World Bank report was highly critical of the widening gap between domestic and external funding. The report also concluded that the share of external resources for health was exceeding that of any country in the region (World Bank, 2009, 22).

However, from 2005, GRZs own resources increased, as is shown in Figure 8.1. An important impetus came from the FNDP and the 2006–2010 National Health Strategic Plan IV (NHSP), which was aligned to the FNDP. The NHSP strives to realize the country's strategic health priorities that are based on the Millennium Development Goals. They focus on the human resource crisis, improving the state of health delivery infrastructure, improving access to basic environmental health facilities and fostering multi-sectoral approaches in key areas such as nutrition, HIV/Aids and the control of epidemics (Saasa, 2010a, 9).

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The graph sketches the development of the GRZ budget and releases to the MoH, the contribution of sector support and the health SWAp basket to the MoH budget and the total external contribution to the health sector. Between 2005 and 2008, GRZ expenditure on health has increased by 64% (constant prices), with a further increase to 88% in 2010 (Annex VIII). The share of the Ministry of Health in the total budget increased from 9% in 2005 to 11.8% in 2009. Using a functional classification, the health share increased from 10.6% in 2005 to 11.9% in 2009.⁹⁸ This growth was mainly the result of a higher domestic budget.

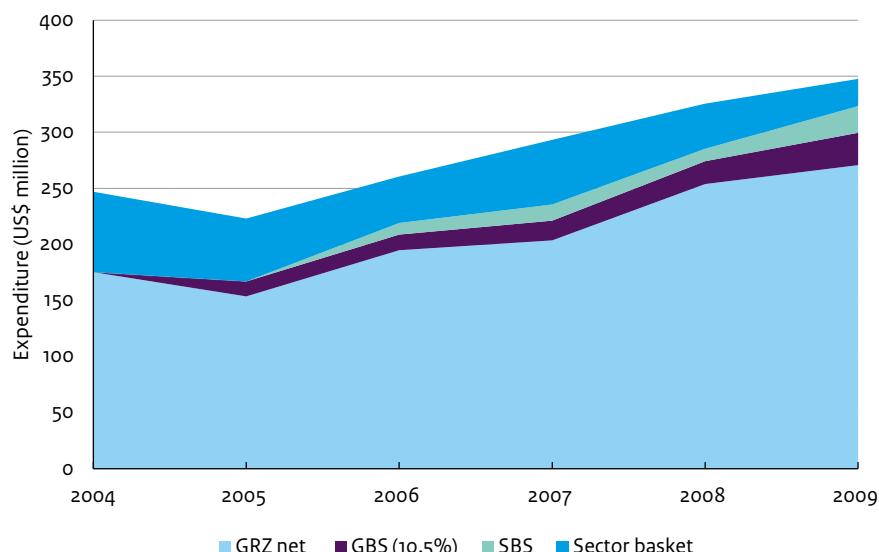
In spite of the long-established sector cooperation and prolonged efforts of the MoH and cooperating partners, the anticipated move towards sector budget support has not been very successful. Doubts about the quality of financial management in the sector and domestic visibility were important causes. So far, only the European Commission (EC) and the UK Department for International Development (DFID) have provided sector support. In 2006–2007, DFID had earmarked part of its funds for general budget support, but from 2008

⁹⁷ Budget and expenditure in the health sector are not very transparent as a result of changing presentations in the budget and financial reports and lack of detail. A large portion of donor support is off-budget and huge discrepancies exist between budget and expenditure in the financial reports, especially for the years 2005–2008, mainly as a result of differences in reporting, make it difficult to give an adequate overview of financial developments in the sector.

⁹⁸ The difference between MoH and total health expenditure is mainly explained by HIV/Aids expenditure and other health investments that are not included in the MoH budget.

on, this became more loosely defined. Only the EC has implemented a larger sector budget support programme. While DFID supported improved access through the abolition of fees, the EC focused on the retention of human resources in the sector (Chapter 9). The sector basket remained one of the main instruments in the sector, while much of the external support remained off-budget.

Figure 8.1 Expenditure on health 2004–2009 (constant 2008 prices; US\$ million)*



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* Project support not included.

Source: MoFNP and MoH; authors' calculations.

Figure 8.1 also shows the gradual reduction of sector support and basket funding. In 2010, cooperating partners did not disburse because of a continuing difference of opinion on how GRZ had tackled corruption in the health sector (Annex V). For the same reason, external commitments for 2010 were uncertain, and therefore the Ministry of Finance and National Planning (MoFNP) did not include them in the budget. This explains the huge reduction in the total budget for 2010 and the reduction of health's share in the total budget allocation from 11.9% in 2009 to 8.2% in 2010.⁹⁹ GRZ partly redressed the negative effects of the reduction in external funds by increasing domestic allocation to the health budget. The share in domestic resources increased from 6% in 2005 to 9% in 2009 and 10% in 2010. Nevertheless, in spite of the increase, the total budget allocation (with 11.9% for health in 2009) continues to fall short of the Abuja Commitment of 15%. In the draft of the Sixth National Development Plan, GRZ has announced it will increase resources for health to

⁹⁹ The MoH budget normally includes sector support, the SWAp basket and project support. Project support is not included in Tables 7.6 and 7.7.

11.5% in 2011 and 14.3% in 2015; domestic resources will grow from 16.95% of the total budget in 2011 to 17.8% of the total budget in 2015.

The growth of domestic resources for health is partly an effect of the shift to general budget support (as donors shifted from project aid and basket funding to budget support). It has also been suggested that the Joint Assistance Strategy for Zambia (JASZ) has led to the MoH losing close to US\$25 million per year (NHSP IV, MTR, 2008, 132). Available evidence does not support this thesis. The increases in the GRZ budget are much larger than the reduction as a result of the migration of cooperating partners to other sectors and general budget support (PRBS). The total direct contribution of (general and sector) budget support to the Ministry of Health budget was substantial (7% in 2008 and 14% in 2009), but the leverage was much larger.¹⁰⁰ Through general budget support, cooperating partners were able to discuss the need for increased spending at a higher level. The use of indicators from GRZ's own Fifth National Development Plan, the PAF, with four indicators for health and three for HIV/Aids, was instrumental in keeping GRZ accountable for progress in the health sector.

Budget support has also contributed to more transparency and better financial management in the sector. First of all, through the on-budget support, and secondly and more importantly, through the creation of a platform where cooperating partners could contribute to and legitimately insist in the improvement of finance management and accountability. Budget support also contributed to improved coordination and alignment, reducing the burden imposed by separate project management systems on the Ministry of Health. While the SWAp also strived to realize this objective, the dialogue mechanisms associated with this approach are process-intensive, which led to complaints by the Ministry of Health that the consultative systems have introduced functional stress on the sector staff. The number of committees and technical working groups and the frequency of their meetings are said to eat up MoH officials' time, at the expense of other tasks. The presence of donors in literally every committee is said to have brought about a sense of 'donor invasion' (Saasa, 2010a). There is a growing resentment that the presence of donors in otherwise routine government decision-making processes is threatening national ownership. On the other hand, the general perception of the MoH staff is that sector budget support and general budget support have eroded their ownership due to the shift away from the direct receipt of funds (as is the case under the MoH-controlled SWAp or basket funding) to the receipt of donor support through the MoFNP.

From the cooperating partners' perspective, sector budget support and general budget support are also not without challenges. Firstly, the difficulty of having money transferred from the MoFNP to the MoH has frustrated some of the cooperating partners. The biggest challenge of donor funding to the MoH was the fraud and corruption scandal that rocked the MoH in 2009 (Annex V). While it has been suggested that corruption is a consequence of budget support, it appears more likely that budget support has contributed to the revelation

¹⁰⁰ The sharp increase in 2009 is mainly an effect of the depreciation of the exchange rate of the Zambian kwacha in 2009.

of cases of fraud and the strengthening of government systems. By letting the recipient government use its own accounting, procurement and audit systems, cooperating partners in the health sector have gained the right to scrutinize and seek improvements to those systems. The Action Plan for Strengthening Accountability and Controls in the MoH, induced by cooperating partners, is an example. Moreover, recent corruption cases involving money from the Global Fund to Fight AIDS, Tuberculosis and Malaria, prove that corruption is not limited to budget support.

The corruption scandal and GRZ's lack of action had a negative impact on funding, which in turn had a negative impact on service delivery. A recent evaluation noted that 'the human cost of the disruption in basket funds was considerable ... there is no question that human lives were lost as a result of the suspension of aid' (OPM, 2010, 120). This statement clearly demonstrates the dilemma facing cooperating partners and the need for a 'plan B' when GRZ's commitment to the underlying principles is in doubt.

In spite of the increase in domestic resources, donor funding remains a significant part of the MoH budget, and therefore total health expenditure still depends to a large extent on sometimes volatile external support. The majority of funding remains off-budget (World Bank, 2009; Sundewall, 2009). Factors such as domestic visibility have caused cooperating partners to hesitate to move to sector budget support or general budget support. Because they have established parallel systems and processes, thereby bypassing country systems, there is a lack of coordination and no sign of decreasing transaction costs (Sundewall, 2009). As a result, health sector expenditure is fragmented, leading to duplication and lack of transparency (MoH, 2008, 133). Off-budget funds and changing presentations in the budget and financial reports and lack of detail also contribute to a lack of transparency regarding the health budget and expenditure. Moreover, donor priorities are not always in line with the FNDP. The prioritization of service delivery appears to be driven by resource availability considerations (MoH, 2008, 48). The large size of off-budget aid also makes it difficult to assess the health indicators as agreed on in the PAF.

8.3 Education

In the education sector, sector cooperation started in the second half of the 1990s with the basic education subsector. During the 1980s and 1990s, financing for education was meagre and failed to effectively respond to the rising demands for educational services caused by continued population growth. The introduction of the sector-wide approach (SWAp) created the financial preconditions for large investments in basic education and for the abolition of school fees in 2002. In 2003, the cooperation was extended to the whole education sector when cooperating partners supported the Ministry of Education Strategic Plan (MoESP) for 2003–2007. The sector pool became the main (external) funding modality. In 2008, the National Implementation Framework 2008–2010 (NIF) replaced the MoESP. This Framework functions as the main vehicle for the implementation of the objectives of the Fifth National Development Plan (FNDP) for the education sector. In the FNDP, the government had prioritized education as a key social sector by targeting a minimum allocation of 20.5% of

the total annual discretionary budget for the sector. Overall, harmonization and sector cooperation were quite successful and this functioned as a catalyst for further harmonization (IOB, 2008; OPM, 2010).

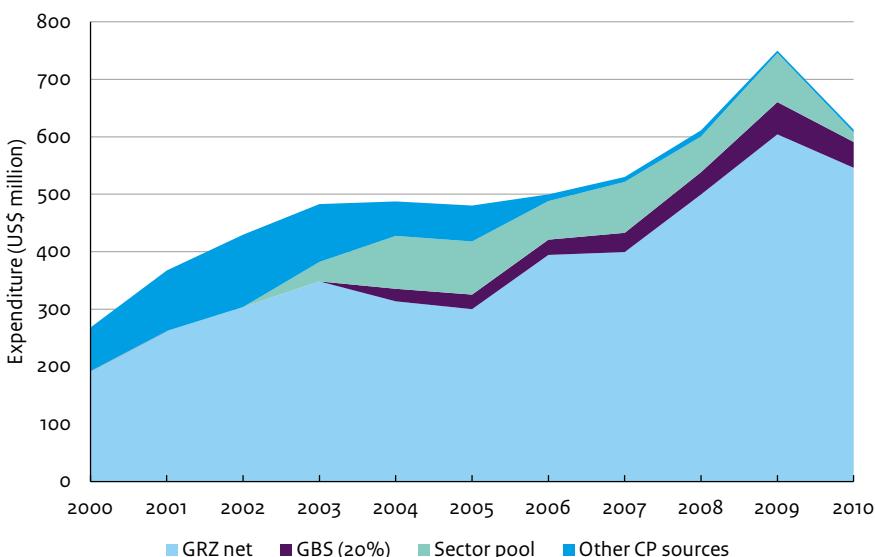
With the introduction of general budget support in 2005–2006 and the acceptance of the JASZ, cooperating partners tried to further harmonize and align their support. Four cooperating partners (Norway, DFID, the EC and Finland) have withdrawn from direct involvement in the education sector through the sector pool (or NIF funds). They remained involved in the sector and continued to contribute to the funding through general budget support. Two lead donors, the Netherlands and Ireland, would become the main discussion partners for the Ministry of Education, even though other partners remained active in the sector. Until recently, the Ministry has been supported by eleven external multilateral and bilateral funding agencies. The funding modalities include direct budget support, pool funding, project support and technical assistance. Ireland and the Netherlands have been designated as the lead donors, with the remaining donors designated as active. There are four ‘background’ donors present in the education sector. In addition, other international NGOs and local civil society organizations support the education sector through projects and technical assistance. In 2009, four bilateral cooperating partners (Ireland, the Netherlands, Denmark and Germany) provided support through the sector pool. For the 2010 budget, the number dwindled to three: the Netherlands, Ireland and Denmark (apart from a small contribution from USAID). In addition, the Ministry would receive US\$60 million from the Fast Track Initiative (FTI) Catalytic Fund (US\$30 million in 2009 and US\$30 million in 2010). In line with the conclusion of the FTI assessment, GRZ and cooperating partners have also been moving towards targeted budget support (sector budget support).

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The JASZ and the shift towards general budget support had a negative impact on the size of the sector pool, although the (financial) effect of the withdrawal of Norway, the United Kingdom, Finland and the EC was cushioned by increases from the Netherlands and Ireland and the contribution of Germany in 2009. The sector contribution of cooperating partners decreased from 38% in 2005 to 12% in 2008 (MoFNP, 2009c, 63). Nevertheless, there is no evidence that the move to budget support had a negative impact on the total education budget (see chapter 8). The increase in domestic expenditure was much higher than the reduction of sector pool disbursements. Total funding appears to be influenced by the insistence of PRBS partners on increasing domestic resources for education. Through the PRBS, cooperating partners were able to discuss the development of the education sector and the required budgets at a higher level. The Annual PRBS reviews put them in a better position to raise important issues such as the budget or the allocation of resources across the country. The (until recently) four PAF indicators were instrumental in this discussion, although they were not the best indicators to monitor progress in the education sector (Chapter 9). On the other hand, recent developments also show the downside of moving resources from the sector pool to general budget support. There has been a change of management within the Ministry of Education, and the new management appears less receptive when cooperating partners raise issues, such as the lack of progress on reform or fiduciary issues.

Figure 8.2 sketches the development of expenditure on education from 2000 to 2010. Initially, the growth of the sector budget was mainly externally funded. From 2004 onwards, the sector pool became the main financial instrument for sector cooperation. The growth of domestic resources was especially pronounced between 2005 and 2009 with an average growth of US\$45 million per year for the domestic resources (in constant prices, or more than 13% per year).

Figure 8.2 Education expenditure 2000–2010 (constant 2008 prices; million US\$)



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Source: MoFNP and MoE; authors' calculations.

While the growth of the domestic budget is impressive, recent developments suggest a break. Domestic releases were much lower than budgeted, mainly because of huge overspending (136%) by the Ministry of Agriculture and Cooperatives (MoFNP, 2011, 10-11). With the exception of 2009, the country spends less than 4% of its GDP on education against an average spending of 5.3% in comparative countries. In terms of per capita GDP, Zambia spends about 8.6% on basic education, while the average in least developed countries is about 12.4% (MoE, 2009a, 14). Comparative countries devote 25% of their domestic discretionary budgets to education, compared to Zambia's 20%. Moreover, the projections of the education sector's 2010–2012 MTEF indicated a reduced amount for education from 18.5% in 2009 to 15.8% by 2012. This has and will have important implications for the education sector, including basic education.

In 2010, releases from cooperating partners (sector pool, including the second FTI tranche) were also much lower than anticipated, because of a lack of progress on a number of issues and alleged irregularities in the sector. The cooperating partners have become more critical of the effectiveness of cooperation in the education sector. By the end of 2010, they showed

serious concerns over the lack of progress on the introduction of targeted budget support and the lack of follow-up on the fiduciary risk assessment and a number of other issues. The 2007 tracking survey also concluded that the accountability system is institutionally weak. Alleged irregularities, revealed by the Auditor General, confirm this conclusion. No doubt, the concerns are a reaction to irregularities in other sectors and the slow response by GRZ to these irregularities, as well as the lack of progress on a number of issues within the sector itself. It is during times of tension such as these that cooperating partners extensively use the PRBS mechanisms to discuss these sector issues at a higher level.

However, there is a strong sense that the current sector dialogue mechanisms are not working effectively because meetings are regularly delayed or cancelled and because there is inadequate representation at appropriate levels. According to the Ministry of Education, some government institutions did not have incentives to participate. According to the Ministry, cooperating partners were constantly revising their expectations towards government before funds could be released. However, even when the targets were met, funds were still not released and more targets would be drawn up, resulting in frustration and distrust from the government's side.¹⁰¹

In a number of countries, governments and the media have heightened their criticism of budget support and development cooperation in general. Governments feel that development cooperation funding is inevitably going to be cut as a result of the financial crisis. As a result, Denmark and the Netherlands have announced their intention to end bilateral support to Zambia. With the withdrawal of one of the lead donors and a second active donor, the technical assistance of the embassies will come to an end and the carrot of the NIF funds will lose its appeal. This will have a negative impact on the pace of much-needed sector reforms. These developments also show the downside of the division of labour as agreed in the JASZ: the withdrawal of one or two partners – mainly because of political developments in their home countries – may seriously impact on sector cooperation and the sector budget.

8.4 Agriculture

Unlike health and education, sector cooperation was less successful in agriculture for a long time. While there was no fundamental difference of opinion on the main priorities and strategies to improve developments in the education and health sectors, GRZ and cooperating partners disagreed on the best strategies to use in the agricultural sector. There the country has a long history of distortionary interventions through subsidies, rather than investments in, for instance, irrigation (OPM 2011). Nevertheless, the FNDP and the recognition by GRZ and cooperating partners that improvement of agriculture is key to the reduction in rural areas resulted in budget increases from 2005 onwards. Between 2005 and

¹⁰¹ GRZ's response to the draft report.

2010, expenditure has increased rapidly – by approximately 10% a year in real terms (for 2005–2009), with an extremely high increase in 2010.¹⁰²

Despite this growth, there was a mismatch between the MTEF and FNDP in the allocation of resources to the sector.¹⁰³ While the Ministry had used the FNDP for budget preparations and implementation programmes, the actual resources were too low and the mismatch between requirements and actual resources comprised programme implementation. Moreover, total resources fell short of the Comprehensive African Agricultural Development Programme (CAADP) target of 10% of total expenditure.

Two subsidy programmes were mainly responsible for the expenditure growth: the Fertilizer Support Programme (FSP), now transformed into the Farmer Input Support Programme (FISP), and the Food Reserve Agency (FRA). The FSP provided subsidized fertilizer and improved seeds to smallholder maize farmers. The FRA influences the price of maize through purchases (Chapter 9). The expenditures of these programmes increased much faster than did the funds allocated to the Ministry's core functions (40%, compared with only 25% for the latter). Between 2003 and 2009, an average of 66% of the Ministry of Agriculture and Co-operatives' (MACO) expenditure went to the FSP and FRA subsidy programmes. In most years, the volume of funds allocated to and spent by the FSP and the FRA programmes was significantly higher than the amounts originally budgeted for. In 2010, the budget was so drastically exceeded because the FRA needed financing to purchase a record maize surplus. FRA's operations resulted in its accumulation of massive maize stocks that could not be sold except at a major financial loss (Nkonde et al., 2011, v). The authors estimated that the 2010 operations have cost about ZMK 1.5 trillion.

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It has been suggested that the reallocation of funds was mainly political. The Zambian constitution allows the president to change the original budget allocation. A report by Moore and Stephens (2010) concluded that allocation across the government have been disrupted by political agendas for the 2011 elections (Moore and Stephens, 2010, 38).

The cooperating partners are important funders in this sector. Their funding occurs through project support and general budget support. Sector cooperation was renewed after the failure of the first Agricultural Sector Investment Programme (ASIP I) and its successor (Chapter 3). The 2004–2015 National Agricultural Policy, embedded in the FNDP, gave new impetus to the cooperation, and the sector received a significant level of external assistance. However, the move to general budget support did not reduce project support. Project assistance provided by cooperating partners has increased at an even faster rate than domestic resources.¹⁰⁴ Between 2000 and 2008, the average expenditure by cooperating partners on projects in the agricultural sector accounted for nearly one-third of MACO's total expenditure. The

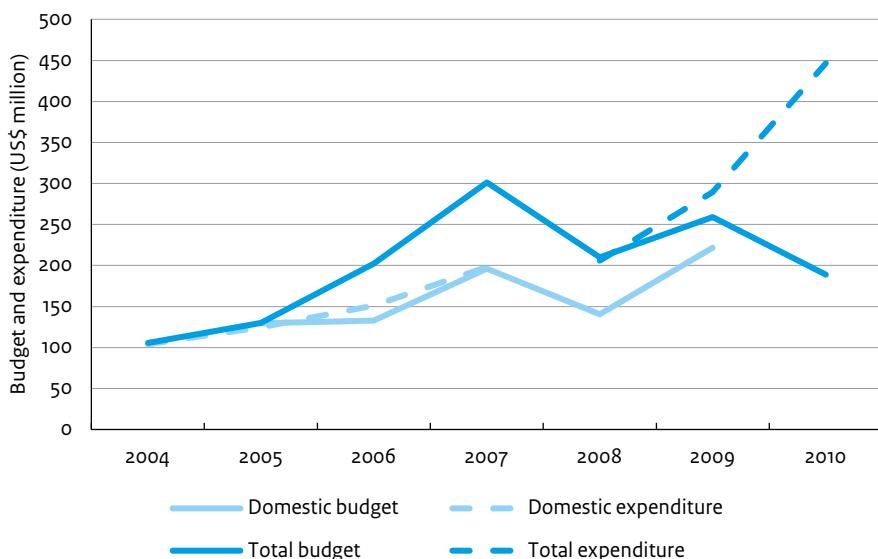
¹⁰² Changes in reporting by the MoFNP make it difficult to sketch the development of budget and expenditure.

¹⁰³ Communication from the Ministry of Agriculture and Cooperatives through the reaction of the MoFNP on the draft report.

¹⁰⁴ The (financially) most important cooperating partners in the sector are also PRBS partners.

proportion fluctuated significantly, between 17% and 41%, with no apparent long-term trend (Figure 8.4).¹⁰⁵ Taking into account expenditure on agriculture by other ministries and also project expenditure by cooperating partners, total spending amounted to between 7.4% and 13% of total government expenditure between 2000 and 2008.

Figure 8.3 *Budget and expenditure Ministry of Agriculture and Cooperatives (2004–2010; in 2008 constant prices; US\$ million)*



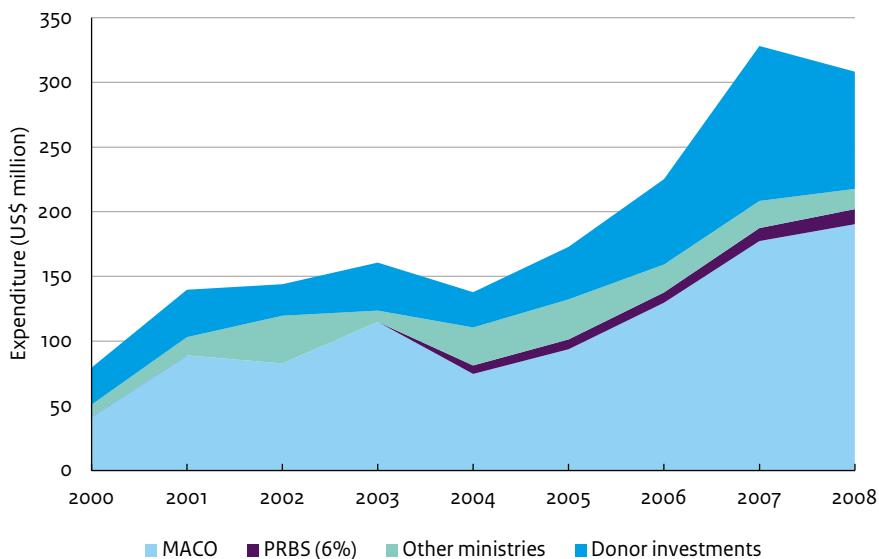
Source: MoFNP (financial reports and PRBS reviews), authors' calculations.

Although the move to general budget support has not reduced project support, it has contributed to further harmonization. The most important cooperating partners in the sector, financially speaking, are also PRBS partners. The SAG meetings and the regular meetings between cooperating partners have improved the dialogue with GRZ. However, long-standing controversial issues have exerted a negative impact on the dialogue. One of these issues is the expenditure on the two subsidy programmes mentioned above, the FSP and the purchase of maize through the FRA. Cooperating partners have criticized the scale of GRZ funding to these subsidy programmes at the cost of productivity-enhancing investments. The subsidies have been a topic of discussion at agricultural SAG meetings, at the cooperating partners' troika-MACO dialogue platforms and at the high-level dialogue meetings. However, cooperating partners were not effective in their dialogue with the government on the subsidies issue. In fact, it can be argued that the introduction of general budget support has enabled the government to raise spending on these two programmes. At the same time, it must be noted that the same impact might have been achieved in the

¹⁰⁵ It should be noted that reporting on project expenditures by cooperating partners has been poor.

absence of budget support if cooperating partners had provided more project aid to the sector or more project/sector support to other priority sectors, as GRZ could have reallocated resources accordingly. The fact that GRZ has allocated barely any funds for capital expenditure in the agricultural sector since 2002 is a case in point.

Figure 8.4 *Agriculture expenditure, 2000–2008 (constant 2008 prices; US\$ million)*



Source: Govereh, et al., (2009).

Other outstanding issues are MACO's financial and budget management and – a related issue – the misappropriation of funds, especially of the two subsidy programmes. Other evaluations have sketched weaknesses in budget management, in internal auditing and in asset management (Cardno Agrisystems Ltd, 2009). In addition, the Auditor General has reported a series of accounting irregularities involving significant sums of money (Office of the Auditor General, 2011, 215). There is little systematic follow-up of such audit findings and queries. This has been particularly true in the case of the FSP and FRA programmes.

At the same time, past evaluations of project interventions were not positive either, and they were especially negative in terms of the sustainability of the impacts. The evaluations pointed to an unsupportive policy environment, unpredictable local counterpart financing and weak capacity of local institutions, combined with the excessive reliance on stand-alone projects and external funding and personnel (Bonaglia 2008, 19).

8.5 Roads

Financially speaking, infrastructure is the second-largest (after education) of the FNDP priority sectors. Expenditure on infrastructure has been increasing rapidly, from 8% in 2006 to 13% in 2008. Between 2002 and 2003, the overall roads sector budget increased along similar lines. This is not only the result of receiving more funds from GRZ (coming partly from general budget support) and more revenues through the fuel levy and other road user charges. Cooperating partners also reoriented their financing towards infrastructure, recognizing the importance of roads, for example, for economic development. This section analyses the role of budget support in roads; the next section assesses its role in water and sanitation.

With the support of cooperating partners, GRZ started the Road Sector Investment Programme (ROADSIP, Chapter 3) in 1998. The second phase of the programme, ROADSIP II, was largely influenced by the 2002 PRSP and the FNDP. The FNDP recognized that excessive transport costs were an impediment to economic growth and that the transport sector therefore plays a key role in economic and social development. The original budget for ROADSIP II was US\$860 million, but the programme was extended and costs went up to US\$1.6 billion. GRZ aimed to finance 60% of the total costs of ROADSIP II through local funding. However, the local budget has increased marginally by 3% while the donor component has increased by 24% (Leiderer et al., 2010, 145).

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The bulk of road sector financing is channelled through the National Road Fund Agency (NRFA). This fund consists of a yearly grant from GRZ, the fuel levy and road user charges as well as World Bank and OPEC loans and funding from cooperating partners.¹⁰⁶ In 2009, the total budget for the roads sector was ZMK 1.36 trillion, which consisted of ZMK 715 billion from local resources and ZMK 641 billion from external sources. Cooperating partners were to provide 47%, 31% was to be financed by fuel levies and GRZ was to contribute 22%.

Sector budget support and general budget support have created two levels of dialogue with a level of exchange and influence for cooperating partners that would not have been possible through project aid only (KfW, 2010). Nevertheless, despite the move towards sector support, the range of aid modalities in the roads sector remains wide. The World Bank provides both concessional loans as well as project-based activities. Other cooperating partners, like Japan International Cooperation Agency (JICA), continue to engage in projects. While the Road Donor Forum aimed to harmonize activities, cooperating partners continued to pursue their own agendas and priorities, use their own procurement rules and bring in their own consultants without being fully aligned with the sector programme and

¹⁰⁶ The European Union was by far the largest donor in the roads sector. It released ZMK 221 billion as budget support in 2006 (including a tranche due in 2005) and ZMK 158 billion as sector budget support in 2008 (including a tranche due in 2007). In June 2008, the EC stopped their sector budget support because of the over-commitment of funds (Chapter 9). Other donors channelling their project funds through the NRFA are the World Bank, DANIDA (partly), the OPEC fund, and the Nordic Development Bank. German Development Cooperation through KfW, BADEA, and ADB has not materialized yet. German Development Cooperation will not channel their funds through the NRFA.

the sector agencies. The partners believed that using their own procurement rules would result in better road quality. The result is an unfinished harmonization agenda, leading to duplication and fragmentation. China has been invited to join as well, but has yet to attend a meeting (Leiderer et al., 2010, 140).

Table 8.1 Road finance and expenditure (ZMK billion; constant 2008 prices)				
Income by source	2006	2007	2008	2009
Road Fund	265	267	340	450
GRZ	89	150	150	291
EC (mainly SBS)	274	6	158	
Other cooperating partners	108	76	106	98
NRFA (interest and carry over)	9	7	180	111
Carry-over of external funds				122
Total income	743	505	934	1,072
Total expenditure	494	492	866	1,047
Surplus*	249	13	68	25
External (%)	51%	16%	28%	9%**

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Source: NRFA, 2007 and 2008 annual reports.

* Surplus is not automatically carried over to next year's roads sector budget

** Without carry-over of external funds

There have been obstacles on the road to further harmonization and alignment in the form of serious irregularities, evident in the over-commitment of funds and the Auditor General's report. However, it would be too simple to conclude that these irregularities are proof that budget support is ineffective. It has to be noted that the Auditor General's audit had a positive effect on general budget support. When donors shifted to budget support, they increased their influence on auditing practices in all sectors of GRZ. Their influence in pushing ahead further reforms in the sector – as a response to the findings of the Auditor General – cannot be taken for granted, however, as new donors (such as China) may weaken the influence of the rest of the donor community.

At the time of the evaluation, the dialogue on the sector level was not going smoothly. No steering committee meetings with the donors were held in 2009, and the dialogue was not actively promoted from the Zambian side. Cooperating partners considered the breakdown of the sector dialogue worrisome. A lack of reporting severely limited the ability of cooperating partners and GRZ to monitor the performance of the roads sector. Some of the discussion about the Zambian roads sector centre on the performance of the sector at the operational level. Two of the main topics were the contractors' high unit rates and an over-commitment of ZMK 1 trillion in 2008. The cooperating partners responded to this over-commitment by suspending disbursements and requested the Auditor General to conduct an audit that covered finance, technology and procurement. In his report, the Auditor General pointed to



Protected borehole in Lunkhwhakwa basic school, Chipata (Eastern Province).

severe deficits in the procurement process, linked to weak supervision by the Road Development Agency (RDA). The cooperating partners suspended disbursements of ongoing funding and negotiated a common Remedial Action Plan that focused on:

- the implementation of adequate corrective measures in order to address the audit findings;
- guarantees that the shortcomings, which led to mismanagement in the sector, would not be repeated;
- the development of a medium-term strategic sector framework; and
- a review of the institutional set-up of the roads sector.

Before the audit report was made available to the public, the permanent secretary of the Ministry of Works and Supply was dismissed and the boards of NRFA and RDA were dissolved (KfW, 2010).

8.6 Water and sanitation

The water and sanitation subsector is financed by GRZ contributions, user fees and project aid. Project aid is either provided through government channels (on-budget) or directly to the projects, for instance technical assistance and NGO support (off-budget). In contrast to the education and health sectors, for example,, GRZ only allocates a minor share of its national budget to the water sector. In 2009, it was just 1.4% (US\$56 million in constant

2008 prices). Moreover, only 25% of the allocated amount was actually disbursed (KfW, 2010). However, in 2010, GRZ's financial contributions improved significantly. That year, GRZ allocated ZMK 504 billion (3% of total budget) to the sector (in constant 2008 prices US\$107 million) while the release rate increased to 40%. In 2011, the positive trend continued with an allocation of ZMK 610 billion (3% of total budget), which represents an increase of 159% compared to 2009 in nominal terms. The Ministry of Local Government and Housing (MLGH) and the Ministry of Energy and Water Development (MEWD) attributed that increase to the PRBS process. Nevertheless, in addition to the funds generated by user fees (not included in Table 8.2), cooperating partners' project and programme support remains the prevailing mode of funding for the sector, and, accordingly, the prevailing mode of aid delivery to water and sanitation.¹⁰⁷

Table 8.2 Government and cooperating partners' funding contribution to the water sector (constant 2008 prices; US\$ million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total water sector	132	143	246	238	75	131			
GRZ water sector	47	114		69	23	41		56	107
CP water sector	85	30		167	52	90			
GRZ share in water sector (%)	36	79		29	31	32			
CP share in water sector (%)	65	21		71	69	69			
GRZ provision in water sector in overall budget (%)	1.2	2.6		1.7	0.6	1.1		1.4	3.0
CP provision in water sector in overall budget (%)	2.2	0.7		4.1	1.5	2.4			
% water share in overall budget	3.4	3.4	6.1	5.8	2.1	3.5			

(CP) *cooperating partners.*

Source: GTZ and World Bank (2009).

As a result of the JASZ, the coordination, harmonization and alignment of GRZ policies have made progress in recent years. Almost all multilateral and bilateral cooperating partners have been aligning their activities with national policies. However, despite increased coordination, harmonization and alignment, a variety of different modalities related to procurement, tendering and the role of consultants still exists. PRBS donors who are active in the sector are able to raise specific issues through the PRBS dialogue. Stakeholders value the role of PRBS partners for their contribution to the development of the sector, especially through the creation of institutions and the formulation of policies and sector frameworks (KfW, 2010). The PRBS dialogue is perceived as beneficial to sector development thanks to the fact that it provides a high-level discussion forum.

¹⁰⁷ Some pooled funding can be found in the form of the Devolution Trust Fund. In 2008, contributions to the fund amounted to about ZMK 20 billion (about US\$4 million), mainly from KfW.

However, given the relatively small domestic resources reserved for safe water and sanitation in rural areas, and the slow pace of improvements, GRZ commitment, despite the recent positive development, does not seem to be very high. The latest rural subsector data indicates that in 2008 just 0.6% of total public expenditures (including project and programme aid) was spent on rural water supplies, 0.015% of which can be attributed to domestic GRZ spending (2010 Public Expenditure Review – Rural Water Supply – Zambia, 15). Given the comparatively low government priority given to water and sanitation, shifting funds from project aid to general budget support is likely to decrease rather than increase the overall contribution to the (rural) water sector in Zambia.

8.7 Summary and conclusions

This chapter sketched the development of cooperation in five sectors and assessed the impact of budget support on sector budgets. There are large differences between the sectors in terms of size, the role of donors and aid modalities. The sectors also differ in resources, with high growth rates for health, education and agriculture. The examples of health and (until recently) education, in particular, clearly show that the move from basket funding and sector support to general budget support did not have a negative impact on total budget allocations. Obviously, there are different possible explanations: either cooperating partners' continued insistence on higher funding for these priority sectors persuaded GRZ to change allocative patterns; or political ownership of expenditure in these sectors was high (or it increased), independent of the cooperating partners' policy dialogue. A growing domestic resource envelope enabled GRZ to adjust allocations accordingly.

Cooperation in the *health sector* is characterized by the cooperating partners' active involvement in budgetary and off-budgetary matters. Between 1995 and 2005, a large increase in off-budget support coincided with a reduction in the GRZ budgets. This resulted in a highly fragmented sector, where ownership was relatively low and GRZ's commitment was not very high. The huge amount of off-budget funds may have helped to improve service delivery in the short term, but it may have undermined GRZ ownership.¹⁰⁸ PRBS partners (Sweden, the United Kingdom, the European Commission and the Netherlands) have sought to develop a harmonized and aligned approach through the SWAp, the sector basket (Sweden and the Netherlands), sector budget support (EC) and general budget support (United Kingdom). Budget support contributed to a more harmonized and coordinated approach, and strengthened ownership by making GRZ responsible for progress in the health sector. Moreover, general budget support created a new platform for dialogue to strengthen the government's increasing sensitivity to augmenting resources for health. Domestic resources allocated to the Ministry of Health increased from 48% in 2005 to more than 60% in 2008 (net of general budget support). General budget support and sector budget support put cooperating partners in a better position to insist on improving the financial systems in the sector and on strengthening the position of the Auditor

¹⁰⁸ See Chapter 2 for a definition of ownership.

General. Seen from this perspective, it seems more plausible that these changes helped to expose the fraud than that budget support contributed to it. At the same time, the fraud scandal has had a negative impact on the sector dialogue and thereby impaired the effectiveness of sector cooperation and, consequently, of budget support.

There is a feeling among ministry staff that there has been a ‘donor invasion’ into the sector in recent years, with cooperating partners present in virtually every committee where daily decisions are taken. It is beyond doubt that this resentment is also a reaction to the invasion of auditors that rushed into the ministry after it was revealed that there was corruption there. As a result, relations have become tense. The ministry’s inability to meet the targets for the Performance Assessment Framework in 2009 (see next chapter) contributed to this as well. There is a feeling among officials that the ministry is being judged on results, even though it is not able to exert much influence on these indicators. To summarize, sector cooperation is not well harmonized or aligned, and GRZ ownership is not particularly strong.

Until recently, sector cooperation in the education sector transpired more smoothly. First of all, there is strong government ownership, which has recognized the political importance of improving service delivery in the sector. Education, and basic education in particular, is politically important, and the government’s coordinating role – which consisted of free primary education (see next chapters) and increases in the (domestic) budget – is proof of its commitment. More recently, cooperating partners have started to question the Ministry’s commitment to reforms, and relations have become more strained. Nevertheless, sector cooperation is more advanced in education than in health, where the large off-budget funds complicate coordination and may undermine government ownership. Ownership and on-budget funds have mutually reinforced each other. GRZ’s own resources, including budget support and the sector pool, account for a much larger part of the total sector expenditure than they do in the health sector. The different assessments of sector cooperation by officials from the Ministry of Health and the Ministry of Education are a case in point. To summarize, sector cooperation was harmonized and aligned with strong GRZ ownership. These factors create a climate where cooperating partners are able to influence government policies (with more focus on rural areas), without eroding ownership. Cases of corruption in the health, agriculture and roads sectors have made cooperating partners more sensitive to irregularities in other sectors, including education. A lack of progress on a number of issues, such as the lack of follow-up on the Fiduciary Risk Assessment, has also contributed to a more critical stance.

Strong ownership is also a characteristic of the agricultural sector. However, here a tension exists between ownership and the influence of cooperating partners. Both the government and cooperating partners agree that improving the agricultural sector is a condition *sine qua non* for reducing poverty in rural areas, but they disagree about the instruments that should be used (Chapter 9). While cooperating partners prefer investment as a way of enhancing productivity – through farming techniques and capital investment, such as irrigation, for example – the government has raised expenditure for the subsidies provided by FSP and FRA. The policies of cooperating partners are not aligned with government policies. Strong government ownership and a strong political motive to continue the two main subsidy

programmes have made the sector dialogue ineffective. The fact that MACO showed little interest in following up on the Auditor General's findings has further damaged the effectiveness of the budget support policy dialogue.

The roads subsector is also large, comparable in terms of funds with health and agriculture. However, unlike health and agriculture, a large section of the resources for roads comes from levies and not from direct contributions from the government budget. The roads sector is more centralized than the water and sanitation sector, and sector cooperation is more harmonized, but not to the same extent as education or health. Ownership is also stronger than in the water sector. However, like the water sector, the effectiveness of the sector is impaired by institutional weaknesses. Quality issues are persistent, while – as in the water sector – ownership for rural areas seems less manifest. Serious irregularities had a negative impact on the sector dialogue, but at the same time the follow-up showed its effectiveness. General budget support made it easier for cooperating partners to demand an audit by the Auditor General.

Project support is the dominant aid modality in the water and sanitation sector. While the ministries in question (including regulatory authorities and their support by cooperating partners) appear to focus more on urban water (and less on sanitation), cooperating partners, and especially NGOs, focus more on rural areas. Cooperating partners' coordination, harmonization and alignment with GRZ policies and the FNDP seem to have made huge progress in recent years. Despite this progress, however, a variety of modalities related to procurement, tendering and the role of consultants still exists, which implies that cooperating partner support is still heterogeneous and far from harmonized. Evidence suggests that the simple replacement of project funds by general budget support would have a negative impact on the total flow of funds available for the sector, especially for rural areas.

9

Induced outputs, outcome and impact

9.1 Introduction

The preceding chapters analysed how budget support influenced the development of the government budget and expenditure. A central question now is whether the increased resources helped to improve service delivery. This is in line with the following evaluation questions:

- 4.2 How did the overall quality of life (impact), including citizens' security and access to services (outcome), of the target groups change over time?
- 5.2 To what extent can changes in overall quality of life, including citizens' security and access to and use of services, be related to changes in government policies or policy processes, and/or to other external or internal factors?¹⁰⁹

In order to answer these questions, this chapter analyses how these resources were used in the five case study sectors to improve service delivery, the direct impact of improved service delivery and the long-term impact.¹¹⁰ Additionally, this chapter seeks to analyse the link with budget support. The next chapter concentrates on the impact on the poorest groups as well as on economic development.

Section 9.2 analyses developments and the impact of budget support in the health sector. Section 9.3 continues with education and Section 9.4 focuses on agriculture. The next sections examine developments and analyse the impact on the roads sector (9.5) and water and sanitation (9.6).

The conclusion in this chapter (Section 9.7) is that two conditions are important for the effectiveness of budget support in a given sector. The first condition is strong government ownership. The example of water and sanitation shows a lack of ownership for the rural sector, and many projects are implemented by mostly foreign NGOs and other donors. The second condition is aligning cooperating partners' objectives with the government's goals and policies. The government enjoyed ownership in the agricultural sector, but the objectives of cooperating partners' policies were not aligned with the government's policies. Here, budget support made it possible to pursue policies that cooperating partners considered ineffective. Cooperation appears to be more effective in the education and health sectors. For roads, the impact of budget support was modest because a large part of the works (maintenance) is funded by levies.

9.2 Health

Health is one of the critical sectors in the fight against poverty. It is generally acknowledged that good health results in higher productivity and therefore leads to higher economic

¹⁰⁹ These two questions are being treated as one in order to avoid repetition.

¹¹⁰ It is not always possible to analyse the long-term impacts. For instance, it takes much more time to analyse the long-term impacts of investments in the education sector. Induced outputs (i.e. service delivery), outcome and impact are closely linked, and therefore this chapter integrates them, rather than dealing with them separately.

growth. Moreover, the poorest households in society belong to the most vulnerable groups with the highest disease burden.

Chapter 8 showed that the government's expenditure on health decreased between 2000 and 2005. This decrease was partly compensated by increases in donor funds. This situation reversed in 2006. From 2006 onwards, domestic government budgets had increased more than external resources. External contributions to the Ministry of Health's budget decreased from 54% in 2005 to 37% in 2009 (Annex VIII).

A specific characteristic of the health sector is the large size of its off-budget funds (Chapter 8). Moreover, several providers offer health services in Zambia. They include government institutions, the Churches Health Association of Zambia, mining companies, parastatal organizations, private clinics and traditional healers (Annex IX). This complicates a proper assessment of the health indicators as agreed under the Performance Assessment Framework (PAF). The National Health Accounts give detailed information about health expenditure, which helps make health expenditure more transparent, though these accounts do not contain recent financial information.¹¹¹

9.2.1 Output and outcome in health

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Investments in this sector are based on strategic plans such as the National Health Strategic Plan for 2001–2005 and the National Health Strategic Plan IV for the years 2006–2010. These plans also sought to coordinate the cooperating partners' contributions (Chapter 3). An important element of the plans is the development and implementation of the Basic Health Care Package to improve the health of Zambians, especially those living in remote and poor areas. One health post should ideally cater for 500 households in rural areas and 1000 households in the urban areas, or it should be established within a five-kilometre radius in sparsely populated areas (Saasa, 2010a, 10). The Fifth National Development Plan's (FNDP) target over the 2006–2010 period was to build 3000 health posts. Up to now, this core element of Zambia's National Health Strategic Plan for 2006–2010 has not been fully implemented yet at all levels of service delivery in the country. During the FNDP period, the sector began constructing a total of 27 hospitals, eight of which were completed by the end of 2010 (SNDP). In addition, the construction of 231 health posts had commenced and a number of health centres were rehabilitated and expanded. The number of staff in the posts increased from 24,400 in 2008, to 27,520 in December 2009.

As a result of investment in the sector, the coverage of basic services such as immunization, antenatal care and supervised deliveries has slightly improved. The abolition of user fees in rural (in 2006) and peri-urban areas (in 2007) contributed to higher utilization rates of Primary Health Care (PHC) facilities.¹¹² The data also show that more and more women give birth in health facilities, although the reduction in births at home appears to be (relatively) higher in urban areas than in rural areas (see Chapter 10 as well). Information about the educational

¹¹¹ The accounts for 2003–2006 were published in 2009.

¹¹² For 2009, the data suggest a decrease. According to the PRBS review for 2009, this is the result of the prolonged strike in 2009, which discouraged clients from attending these facilities (p. 16).

background of mothers suggests that the percentage of children in the poorest groups being born in a health facility is increasing: in 2001 and 2002, 82% of mothers who had not received an education gave birth at home; in 2007 this percentage had decreased to 74%.

Despite improvements in service delivery, the sector faces huge challenges. Staffing levels have remained inadequate, especially in rural areas. The number of frontline health workers (doctors, certified medical professionals, clinical officers, nurses and midwives) increased from 12,000 in 2005 to 17,000 in 2010, but the total number was still far below the required number of 39,000. Furthermore, the number of public sector frontline health workers was far below the World Health Organization's (WHO) targets (0.93 per 1000 with a target of 2.5 per 1000) (SNDP). More than half of the frontline positions are still unfilled (MoFNP, 2008). In order to meet the basic WHO recommendations on staff–population ratios (1:5000 for doctors and 1:700 for nurses), Zambia would require an additional 1500 doctors and 10,000 nurses. As a result of existing shortages, positions in facilities as well as in the District Health Management Teams (DHMTs) were in many cases filled by staff who did not have the necessary skills for the position and the tasks that had to be carried out (Leiderer et al., 2010, 84 and 91). One of the causes of the understaffing is the poor capacity to produce skilled professionals. In 2007, Zambia had only one medical school, three nursing schools and three technical colleges producing doctors, nurses, laboratory technicians and pharmacists respectively. The training output of 1720 health workers per year over the FNDP period could not meet the required demand (SNDP). Several authors also pointed to the brain drain as one of the main causes of staff shortages in Zambian health facilities (Lusale, 2007; Schatz, 2008).

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Medical staff had to work with an acute lack of drugs and medical supplies. The drug delivery system was neither effective nor efficient, and the distribution was not in accordance with needs (Leiderer et al., 2010, 83). Districts have received drugs either in the form of pre-packaged health centre kits or bulk supplies of essential drugs. Districts often received large quantities of drugs that were not needed, while at the same time they lacked other essential drugs. Moreover, the health facilities and DHMT staff lacked adequate facilities. There has been a lack of coordination at all levels, vertical in terms of the relationship between the DHMTs and the ministry, and horizontal at the ministry and district levels (Leiderer et al., 2010, 84).

The Zambian government has taken several measures to counter the human resources crisis. One of them is to exempt the health sector from the public sector employment freeze. Also, the Ministry of Health allocated ZMK 32 billion in addition to the normal personal emolument budget for recruitment and retention of staff under the Zambia Health Worker Retention Scheme. This scheme was introduced in 2003 primarily to address the shortage of health workers in rural areas and scaled up in 2009. However, a recent study concluded that up to 2007 the scheme had not succeeded in increasing staff levels in rural areas (GHIN, 2010, 3). This finding is consistent with assessments of the effectiveness of comparable incentives in the education sector.

Table 9.1 Development of key health indicators 2000–2010

	2000	2005	2006	2007	2008	2009	2010
Inputs:*							
GRZ expenditure		167	209	221	274	307	314
SBS + sector basket		56	46	61	51	49	0
Donor projects		125	127	54	92	85	
MoH releases to districts (%)			8	14	14	11	16
Outputs:							
Doctors			570	720	800		
Clinical officers			1,210	1,210	1,160		
Midwives			2,240	2,260	2,400		
Nurses			6,500	6,530	6,700		
Health workers	12,200						17,200
Total staff in post					24,400	27,520	
Frontline workers per 1000 persons						0.93	
Availability of essential drugs		71%					82%
Outcomes:							
Health centre utilization	0.4	0.8	0.9	1.2	1.1		
PHC utilization			1.2	1.3	1.6	1.0	
Supervised deliveries (%)	39	62	61	62	60		
Institutional deliveries (%)		43	43	45	45	46	45
Fully immunized children (%)	76	82	87	85	90		
idem in the 20 worst-performing districts (%)		63	67	62	68	68	69
Bed nets (x 1 million)	0.3	1.3	2.4	3.3	5.7	5.6	

* In constant 2008 prices; US\$ million; on budget.

Source: World Bank (2009); MoH (Annual Health Statistical Bulletin, various years); MoFNP, PRBS progress reports (various years); SNDP (draft).

9.2.2 Health impact

Over the past years, diseases like tuberculosis have been tackled effectively, and the incidence of malaria has decreased as well. Zambia also experienced a significant reduction in infant mortality, child mortality and maternal mortality. However, despite the progress, these three mortality indicators are not on track to reach the Millennium Development Goals (World Bank, 2009, 16). Progress reports mention the difficulty of reducing the maternal mortality rate because of a shortage of midwives and a poorly working referral system caused by poor communications facilities and inadequate transport. Moreover, the disease burden has increased, mainly as result of the high prevalence of HIV/Aids. It must be noted at the same time that the antiretroviral treatment of Aids has reduced mortality and morbidity, thus contributing to a higher disease burden. Nevertheless, several authors conclude that in spite of the (relatively) high total health expenditure per capita, health indicators in Zambia are

not better than in some neighbouring countries, such as Malawi, Mozambique and Tanzania, who spend less on health (World Bank, 2009; ODI/Mokoro, 2009).

Table 9.2 Development of key indicators health 2000–2009

	2000	2005	2006	2007	2008	2009
Tuberculosis (notifications)	52,600	53,300	51,200	50,400	47,300	
Tuberculosis (incidence)	602	588	547	506	468	433
Malaria*	316	373	412	359	252	203
Malaria (deaths)	9,400	7,700	6,500	6,200	3,800	3,900
Respiratory infection:*						
- non pneumonia	119	161	192	219	198	
- pneumonia	35	42	39	35	31	
Diarrhoea (non-bloody)*	65	75	81	76	69	
Under-weight under-fives (%)	29			15		
Under-five mortality*	168			119		
Infant mortality (MoH data)*	95			70		
Infant mortality (WHO data)*	99					86
Under-five mortality (WHO)	166	155				141
Maternal mortality**	729			591	449	

* per 1000; ** per 100,000.

Source: World Bank (2009); MoH (Annual Health Statistical Bulletin, various years); MoFNP, PRBS progress reports (various years).

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Researchers from the Amsterdam Institute for International Development analysed the impact of improvements in service delivery on child mortality and maternal perinatal mortality. The authors used the availability of DPT vaccines (against diphtheria, whooping cough and tetanus), deliveries supervised by trained Traditional Birth Assistants, as indicators of the district health centres' general quality of service delivery, and they discovered a significant impact: one standard deviation more of DPT stocks per capita is associated with a 17% drop in child mortality (per patient). The impact of supervised deliveries is even higher, with a fall of 25%. The significant coefficients for the number of patients per capita shows that the outreach of health centres matters: the more the health centres are used, measured in terms of the number of patients per capita, the greater the drop in child mortality per treated patient. This impact suggests that the facilities have become more accessible. The authors found a similar pattern in maternal deaths. Stocks of antibiotics have a strongly negative impact on maternal deaths: one standard deviation more of stocks per capita reduces mortality by 50%.

The authors also found evidence of progress in the use of health facilities for the treatment of diarrhoea among children. Between 2006 and 2008, the prevalence of diarrhoea fell substantially. Part of this improvement can be explained by better access to health facilities (because there were more facilities). The abolition of fees in 2006 also resulted in this huge

increase in the use of these facilities. In 2001, only 29% of mothers took their children for treatment to the health facility, but in 2007 this had risen to 53%. Diarrhoea is slightly more common among poorer households, although the differences are small and decreasing. The prevention and treatment of malaria is an example of the impact of the concerted efforts of the government and cooperating partners. Malaria is one of the main causes of death in Zambia. In 1997, the Zambian government had set up a National Malaria Control Centre to coordinate the efforts of cooperating partners to control the disease (Chizema-Kawesha et al., 2010, 480). The government's 2006–2010 National Malaria Strategic Plan, a renewed version of the one covering the period 2000–2005, aimed to cut malaria incidence by 75% and significantly reduce malaria-related mortality by 2010 through a national scale-up of malaria interventions, including insecticide-treated mosquito nets, indoor residual spraying and prompt, effective antimalarial treatment, especially to vulnerable groups of the population, such as children and pregnant women. The Ministry of Health was also the main funder of malaria control programmes.

Bed nets were an important part of the National Malaria Control Plan and the Ministry's National Malaria Strategic Plan. While these bed nets were funded by the Global Fund and the World Bank (and several other smaller donors), the distribution was handled by the Ministry of Health and the National Malaria Control Centre. Between 2003 and 2008, the government and its partners distributed some 5.9 million bed nets, especially in rural and previously poorly served areas (Chizema-Kawesha et al., 2010, 481). The campaign had a significant impact. In 2001, only 28% of the households reported having at least one bed net. By 2007, this percentage had improved to 71%. The concerted effort has led to a reduced number of cases of malaria and improved the survival rates of those infected. Progress has also been made towards achieving a more equitable availability and use of malaria interventions (see next chapter). The large scale-up in disease control efforts has contributed significantly to overall improved child survival. Elbers et al. (2011) concluded that the increased use of bed nets saved the lives of about 18,000 children.

9.2.3 Role of budget support in health

To summarize the results, the budget increases between 2005 and 2009 suggest that cooperating partners were able to effectively contribute to better service delivery in the health sector. The combined role of PRBS partners at the sector and national levels meant they were able to help generate improvements in the sector, including better service delivery, especially in urban and rural health facilities, among medical staff and regarding drug supplies. This resulted in the improved use of health centres and primary health facilities, institutional deliveries and improved immunization. Nevertheless, many challenges remain. The number of medical staff were slow to grow, partly because there was a lack of schooling facilities. According to the World Bank, the inability of the basket funds and vertical financing to formally finance staff wages caused the paradoxical situation of a human resources shortage in a sector flooded with donor funds (Picazo and Zhao, 2009, 63). In this respect, the shift towards general budget support created more flexibility and could contribute to an improved resource allocation.

The development of health indicators, as included in the PRBS Performance Assessment Framework, was not satisfactory. For the health sector, the PAF included four indicators:

- percentage of MoH releases to district level;
- the utilization rate of primary health-care facilities;
- the percentage of institutional deliveries; and
- the percentage of fully immunized children under one year of age in the 20 worst-performing districts.

The 2010 Review concluded that ‘performance in 2009 has been below target and out of line with performance in other years’ (MoFNP, 2010a, 15). The total score was 12.5 (out of 100). With four indicators, this means that no target was completely met and only one target partly met. According to the Ministry, there are two factors that explain this underperformance. First, a prolonged strike had a negative influence on the utilization rate of primary health centres (PHC).¹¹³ Second, the performance in 2009 of the sector was significantly influenced by the suspension of cooperating partners’ support to the expanded health sector basket (MoH, 2010). This conclusion, which was echoed in the PRBS progress report, ignores the cause of the suspension, i.e. the fraud in the sector, and it also ignores the fact that the Ministry of Health and the Ministry of Finance and National Planning did not respond adequately to the cooperating partners’ demands. Moreover, one can even question the extent of GRZ’s direct contribution to the realization of targets such as immunization. For instance, in 2009 UNICEF was able to carry out immunizations thanks to contributions from USAID (OPM 2010, 120). This raises the question what – or rather whose – actions the indicator assesses.

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The 2010 results, presented at the annual review in 2011, were far better. Two targets were met, the percentage of fully immunized children under one year of age in the 20 worst-performing districts and the percentage of MoH releases to district level. One target, the percentage of institutional deliveries, was not met. In the report, the Ministry of Finance and National Planning warned that two of the three indicators were beyond the direct control of the MoH, and that these indicators could not be expected to change significantly on a year-to-year basis. This observation is correct. The sector results, as measured by the PAF, are hardly an indicator of sector performance. Realizing the targets has more to do with the targets’ level of ambition, accidental circumstances and the accuracy of measurement than with government intervention.

Several authors have questioned the Ministry of Health’s commitment to the promise to provide all citizens with basic health care. The cooperating partners responded by strengthening their presence in day-to-day issues, especially financial issues. This response could have been counterproductive as well, potentially damaging GRZ responsibility and ownership. The large amount of off-budget funds has contributed to this as well. The number of partners providing aid through parallel structures at the district level has increased, and as a result aid in the health sector is still fragmented (Sundewall, et al., 2009).

¹¹³ Number of first attendances and admissions at PHC facilities divided by the total population.

9.3 Education

Chapter 3 showed how economic problems led to budget cuts in the social sectors in the 1980s and 1990s. This had a huge impact on the education sector in the 1990s, especially on basic education, as there was little donor support. Enrolment figures remained stable throughout the decade (1.6 million pupils at the middle basic education level), in spite of the population growth. Low enrolment figures and low educational quality necessitated substantial investment in the schooling and training of teachers, infrastructure and the provision of instructional materials.

At the end of the 1990s, the government, in collaboration with cooperating partners, started to revitalize the basic education subsector. First, they developed the Basic Education Sub-Sector Investment Programme (BESSIP) for 1998–2003. In 2003, BESSIP was followed by the Ministry of Education Strategic Plan (MoESP, later called NIF) for 2003–2007, covering the whole education sector. Whereas BESSIP had emphasized enrolment in Grades 1–7, the MoESP stressed the need to also increase enrolment in Grades 8 and 9 (the higher basic education level). In 2008, the National Implementation Framework 2008–2010 (NIF II) replaced the MoESP. Since then the Ministry of Education has developed a second National Implementation Framework (NIF III) for the years 2011–2015, to spearhead the implementation of the Sixth National Development Plan.

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9.3.1 Output and outcome in education

The investment programmes and plans formed the basis for increased education expenditure, in the first years mainly by cooperating partners, but later on especially by the government. The investments had an important effect on service delivery in the sector. In 2000, there were approximately 5300 schools for basic education in Zambia; in 2005 this number had increased to 7400, and in 2010 it increased to 8400 (the main growth coming from community schools). Over the same period, the total number of classrooms increased from 25,000 in 2000 to 33,000 in 2005 and 44,000 in 2010. The government trained and recruited large numbers of new teachers. Their number increased by 70%, from 37,000 in 2000 and 50,000 in 2005 to 63,000 in 2010.

In 2002, the government abolished school fees for Grades 1–7 in order to improve enrolment and retention, especially of vulnerable children. Moreover, school uniforms were no longer compulsory.¹¹⁴ Free basic education was implemented immediately. The abolition of school fees also necessitated the creation of a school grant allocation scheme. Initially, these grants favoured smaller (rural) schools as every school received the same amount. The scheme has changed since 2004, taking into account the number of pupils. In real terms, the total amount decreased every year between 2005 and 2010. In 2010, the total amount was about 40% of the total sum in 2005 (in constant prices), notwithstanding the huge enrolment growth.

¹¹⁴ In 2001, the MoE had already abolished examination fees for the Primary School Leaving Certificate Examination.

Table 9.3 Development of key indicators basic education 2000–2010

	2000	2005	2006	2007	2008	2009	2010
Inputs:*							
GRZ expenditure	192	326	421	432	538	624	590
Sector pool	0	92	67	89	62	111	17
Donor projects	76	62	12	9	11	10	
School grants		13	10	4	8	5	5
Basic schools (x 1000)	5.3	7.6	7.6	8.0	8.2	8.1	8.4
Classrooms (x 1000)	25	33	33	35	38	41	44
Teachers	37	50	53	57	62	61	63
Pupil teacher ratio (Grades 1-9)	49	55	53	51	50	51	51
Enrolment primary education (Grades 1-7, million)	1.6	2.6	2.7	2.8	2.9	2.9	3.0
Enrolment basic education (Grades 1-9, million)	1.8	2.9	3.0	3.2	3.3	3.4	3.4
Enrolment basic education (GRZ and grant-aided schools)	1.7	2.4	2.4	2.6	2.6	2.7	2.8
% GRZ and grant-aided	92%	85%	81%	81%	79%	81%	81%
Gender parity Grades 1-7	0.93	0.96	0.97	0.96	0.97	0.98	0.98
Gender parity Grades 8-9	0.77	0.86	0.86	0.90	0.88	0.88	0.88
Pass rate Grade 7	50%	50%	53%	60%	65%	71%	84%
Completion rates Grades 1-9	34%	43%	43%	47%	51%	53%	52%

* In constant prices 2008; US\$ million.

Source: IOB (2008) and MoE (Statistical Bulletins).

Between 2000 and 2010, enrolment in primary education (Grades 1-7) increased by more than 80% (from 1.6 million in 2000 to 3 million in 2010).¹¹⁵ And enrolment in basic education (Grades 1-9) increased from 1.8 million to 3.4 million. Investments in teachers and teacher training, in schools and classrooms, and in school facilities and books reduced dropout and repetition, and improved progression and completion rates (IOB, 2008). Pass rates in Grade 7 improved from 50% in 2000 to 84% in 2010. Grade 9 completion rates improved from 34% in 2000 to 52% in 2010. The gender gap has decreased and parity has almost been achieved at the (middle) basic level.

¹¹⁵ It is normal to use net enrolment rates as an indicator for access to primary education. However, in many African countries the official data are not reliable, because population data are normally underestimated. As a result, estimates of net enrolment rates are too high. Official estimates for basic education in Zambia by the MoE cite a level of 95% to even more than 100%, which is impossible. Household surveys give more reliable estimates. The ZDHS cites a net attendance rate of 80%.

The construction of new schools and new classrooms and the recruitment of new teachers could not keep pace with the demand for basic education. The rapid increase in enrolment, especially between 2000 and 2005, created shortages at all levels: teachers, classrooms and books. Pupil–teacher, pupil–classroom and pupil–book ratios fell. The recruitment of new teachers slightly improved pupil–teacher ratios from 2006 onwards. The increase in pupil–teacher ratios in 2009 is the result of higher enrolment in secondary schools, and the accompanying recruitment of teachers in these schools. However, teacher–pupil ratios are much lower in secondary schools.

9.3.2 Education impact

The increase in the number of schools and classrooms and higher enrolment figures was not only the result of government policies, but was also aided by private schools, NGOs, churches and communities. Between 2000 and 2006, many communities established their own schools, showing that the demand for basic education was higher than government supply. Nevertheless, these community schools are relatively small and therefore enrolment growth was mainly in GRZ and grant-aided schools.

Table 9.4 GRZ contribution to basic education 2005–2009

	2005	2009	Total increase	Increase GRZ/GA
Basic schools	7,640	8,110	470	275
Classrooms (x 1000)	33	42	9	5
Teachers (x 1000)	50	61	11	9
Female teachers (x 1000)	24	31	7	6
Enrolment (1-7), (x 1000)	2,567	2,944	377	198
Enrolment (8-9)	285	408	123	115
Girls enrolled (1-7)	1,259	1,455	196	110
Girls enrolled (8-9)	133	192	59	55

Source: MoE; authors' calculations.

Table 9.5 gives an estimate of the different factors that have contributed to higher enrolment figures.¹¹⁶ Population growth is one of the most important factors. The growth in the number of 7–15 year-olds accounts for almost 40% of total enrolment growth. It must be stressed, however, that population growth alone cannot account for this enrolment growth. Between 1990 and 2000, enrolment remained relatively stable in spite of population growth. Also, after the introduction of free basic education, many school applicants were turned away because there were not enough school places (Mwansa et al., 2004). The conclusion is that the investments in education made a significant contribution to this growth. The unexplained growth of 32,000 pupils (6%) may be the result of other policy measures, the influence of NGOs and changes in parental behaviour.

¹¹⁶ The estimation method and results are explained in the education report, written for this evaluation.

Table 9.5 Estimates of factors that have contributed to enrolment growth (2005-2009)

	Number of pupils	Percentage
Total number of pupils in 2005	2,850,000	
Total number of pupils in 2009	3,350,000	
Total growth	500,000	
Population growth	200,000	40%
Community schools	80,000	16%
New schools (300)	31,000	6%
New classrooms (3,000)	45,000	9%
More teachers (9,300)	112,000	22%
Other influences	32,000	6%
Total	500,000	100%

Source: MoE and EMIS; authors' calculations.

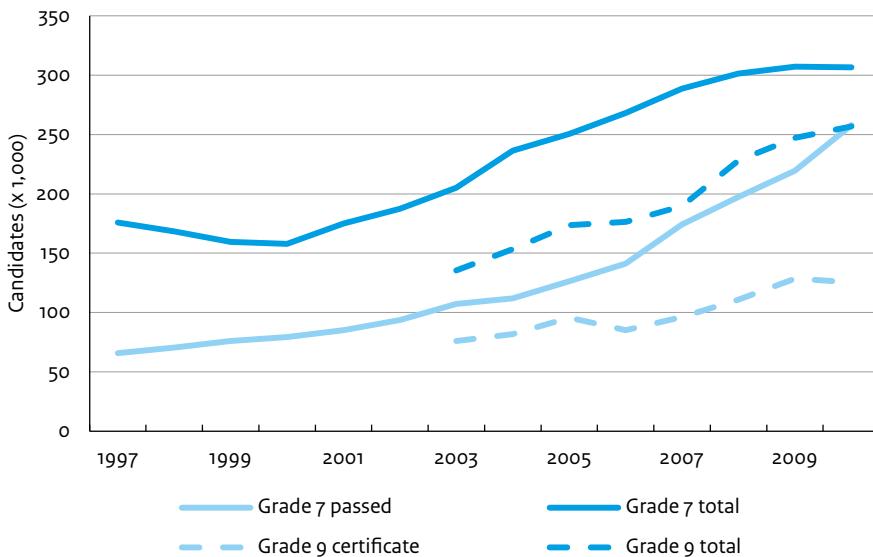
The investments also contributed to a large increase in the number of examination candidates in Grades 7 and 9.¹¹⁷ Between 1997 and 2000, the total number of pupils taking the Grade 7 examination had decreased by 7%, reflecting the impact of budget cuts in the education sector. After 2000, higher enrolment also resulted in more pupils taking the Grade 7 exam. Between 2000 and 2010, this number increased by 94%, a growth rate of 7% per year. However, a lack of capacity at the upper basic level forced Zambia to restrict the number of pupils admitted to Grade 8, and therefore the pass rate remained low (around 50%). Pass rates increased to 84% in 2009 as a result of the expansion of school infrastructure. Average examination results remained more or less stable over the years, although there are large differences between provinces.

The number of candidates for grade 9 examinations followed the same growth pattern. The total number of candidates increased from 175,000 in 2006 to 257,000 in 2010 (not including absentees).¹¹⁸ Between 2005 and 2010, the growth in the number of candidates was higher for girls (51%) than for boys (46%), resulting in an improvement in the female–male ratio (from 0.86 to 0.89).

Investment also helped to prevent learning achievements from deteriorating, which is evident in the results of the grade 7 and grade 9 examinations. The econometric analyses for this evaluation show that teacher–pupil ratios have a significant impact on learning.

¹¹⁷ There are nine years of basic education in Zambia. These nine years are subdivided into four years of lower basic, three years of middle basic and two years of upper basic education. Primary education includes the first seven years of lower and middle basic education. The objective of the government is that every child completes a full nine-year course of basic education.

¹¹⁸ Initially, absentee rates increased from 10% in 2006 to 13% in 2007, but now they seem stable around 9%.

Figure 9.1 Development of examinations Grade 7 (1997–2010) and Grade 9 (2003–2010)

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Source: MoE and ECZ.

Urban rural differences and socio-economic conditions are important as well. Pupils in urban areas perform better than children in rural areas, and richer regions perform better than poorer regions (Annex X). Likewise, private schools achieve better results than public, grant-aided or community schools. An important explanation for regional differences is the familiarity with English in a given region. The examinations are in English, but there are large regional differences in the use of English. If the results in English in a region improve, this has an impact on other subjects as well (with the exception of local languages). The findings also reveal differences in the impact that improved pupil–teacher ratios have on learning: changes in pupil–teacher ratios in regions that have huge problems with English are not very effective without accompanying measures. The effects on examination results for other variables, such as improved pupil–book ratios or pupil–desk ratios, are also negligible.

Using teachers ineffectively also contributes to the low impact that a reduced pupil–teacher ratio has. In Zambia, teaching hours are relatively short, especially at the lower and middle basic level. Official weekly teaching hours range from 17.5 hours for the lower basic level to 27.5 hours at the middle basic level and 16.5 hours at the upper basic level (Mulkeen, 2010, 59). Research findings on the impact of the double-shift system are mixed (IOB, 2008; Mulkeen, 2010). Moreover, double-shift teaching often results in an unofficial reduction of the time allocated to each shift (Mulkeen, 2010, 60). An analysis of the inefficiencies in basic education shows that 40% of the differences in the number of pupils (as outputs) is explained by inefficiencies in the allocation of teachers and classrooms (see IOB and MoE, 2011). The results also reveal the negative impact of teacher attrition: schools with a high teacher attrition have – all other things being equal –



Chilenga Basic School, Chadiza, Eastern Province.

worse results. Several other variables also suggest that rapid changes, such as a large increase in enrolment, have a negative impact on learning achievements.

Increasing the number of teachers with a diploma has a significant, but relatively slight, impact. This suggests the effectiveness of teaching is below par, and therefore the teacher training as well. Many schools have teachers who do not achieve the desired results, even though they officially have the required qualifications. One explanation for this is shorter teacher training courses. The demand for more teachers also created a demand for shorter courses and easier entry requirements (Mulkeen et al., 2010, 80). This created a need for additional in-service training, but this additional training has had a negative impact on teacher attendance, as most training takes place during school hours.¹¹⁹

There is not much information about the impact of school management. However, other evaluations did find that it had a significant impact (IOB, 2008). Field visits showed that management problems have existed in rural settings in particular. Head teachers should play an important role in managing, supervising and mentoring teachers, but in practice they devote much of their time to administrative authorities outside the school (Mulkeen et al., 2010). The analyses showed that private schools performed better than public schools,

¹¹⁹ Mulkeen, 2010 (pp. 87–88) reported an annual output of 4300 newly trained primary teachers in Zambia. But at the same time, 1100 teacher years were lost by upgrading the in-service course.

grant-aided schools and community schools. Privately funded schools outperformed other schools by more than 20%. Grant-aided schools perform slightly better than government schools, an effect that is probably the result of aid from NGOs or other organizations.

9.3.3 The role of budget support in education

With the introduction of general budget support in 2005 and 2006, and the acceptance of the Joint Assistance Strategy for Zambia (JASZ) in 2007, several cooperating partners withdrew from the education sector. This did not have a negative impact on the sector's budget. GRZ continued to allocate more money to the sector, and basic education profited proportionally. Between 2005 and 2009, real domestic expenditure on education grew by more than 50%. The increase was much higher than the reduction of disbursements from the sector pool, thereby stressing the importance of the education sector in the total budget, which did grow. These extra resources were used to recruit more teachers, build more schools, construct more classrooms and increase the number of books available in primary schools. For a large part, these investments were necessary to accommodate the fact that more children had enrolled. However, they also provoked new enrolments, thereby reducing the effect on pupil-teacher ratios and pupil-classroom ratios.

Budget support's contribution was important for the sector. Budget support and the sector pool accounted for about 12% of the Ministry of Education's total resources and about 30% of the discretionary budget. The cooperating partners' financial resources created the preconditions for the implementation of policies aimed at realizing the Millennium Development Goals for education and the introduction of free basic education. Moreover, cooperating partners, through the sector dialogue and through the PRBS meetings, insisted on spending more on education, the recruitment of more teachers and the construction of more classrooms. They focused on urban-rural disparities and the necessity to invest more in rural areas. In a number of cases, this support was further bolstered by incidental project support aimed at solving specific sector challenges. For instance, in 2005 a gift from the Netherlands enabled the removal of retired teachers from the payroll, which opened the way for the recruitment of new teachers. Another example was the purchase of urgently needed desks.

MoE officials and cooperating partners also feel that the JASZ and the move towards PRBS have reduced transaction costs and have enhanced harmonization and coordination in the sector (OPM, 2010). In the past, many cooperating partners had different financial reporting requirements. There are other tangible positive results. Cooperating partners have also contributed to capacity building within the Ministry. For instance, USAID and the Netherlands provided external technical assistance to the Ministry's Directorate of Planning and Information. They have helped to strengthen sector planning and budgeting, to improve transparency, accountability, and monitoring and evaluation, and they contributed to decentralization in the sector. USAID provided extensive support for the development of a reliable Education Management Information System (EMIS), based on the yearly school census.

The cooperating partners' priorities were reflected in the Performance Assessment Framework (PAF). In 2009 (for the 2010 Annual Review), four PAF indicators were identified for the education sector:

- the number of district education profiles developed and presented to the District Development Coordinating Committee;
- the number of districts falling below the threshold of 80% net enrolment for Grades 1–7;
- the number of girls receiving bursaries in Grades 8–9; and
- the number of districts with a pupil–teacher ratio of over 100:1 in the lower basic grades (Grades 1–4).

In 2010, the education sector scored relatively well on these indicators with a ‘score’ of 87.5 (out of 100). However, it is very difficult to compare these results with other sectors such as health and agriculture. It appears that for other sectors, targets were more difficult to meet.

In 2011, the education sector had a score of 100% on three indicators:

- the number of districts whose net enrolment rate where difference by gender is more than 5%, with a maximum of 17 districts (realization: 16 districts);
- the number of districts whose transition for girls from Grade 7 to Grade 8 falls below the threshold of 50%, with a maximum of 23 districts (realization: 16 districts); and
- the number of districts with a pupil–teacher ratio of over 80:1 in lower basic grades (Grades 1–4) with a maximum of 15 districts (realization 14 districts).

It has been suggested that the move to sector and general budget support has weakened the focus on poverty and had a negative impact on the sector’s efficiency. Available evidence does not substantiate this argument. First, these suggestions tend to ignore that while projects may focus on poorer groups, they do not focus on all poor groups. An analysis of disparities over time show that they have diminished, although only to a certain degree. Second, in general, projects are capable of achieving better results because a) they are an addition to government investments, and b) they are able to concentrate scarce resources on a small number of schools, while the government has an obligation to serve all non-private schools. Finally, experience shows that many projects are not sustainable. The Western Province Education Programme (WEPEP), funded by the Netherlands between 1998 and 2002, is an example. Initially, the results in WEPEP schools were better than results in other, control schools, but this difference had disappeared by 2009. This was not because the performance of control schools had improved, but rather because the results of the WEPEP schools had deteriorated.

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9.4 Agriculture

9.4.1 Introduction

Agriculture is a key economic sector, providing employment to three-quarters of the workforce, and contributing more than 22% of GDP and some 10% of export earnings. The sector provides between one-quarter and one-half of the total value of non-traditional exports, with refined sugar and tobacco being the principal agricultural exports. However, total non-traditional exports comprise less than one-quarter of the value of all visible exports, and their relative importance has declined since 2000.

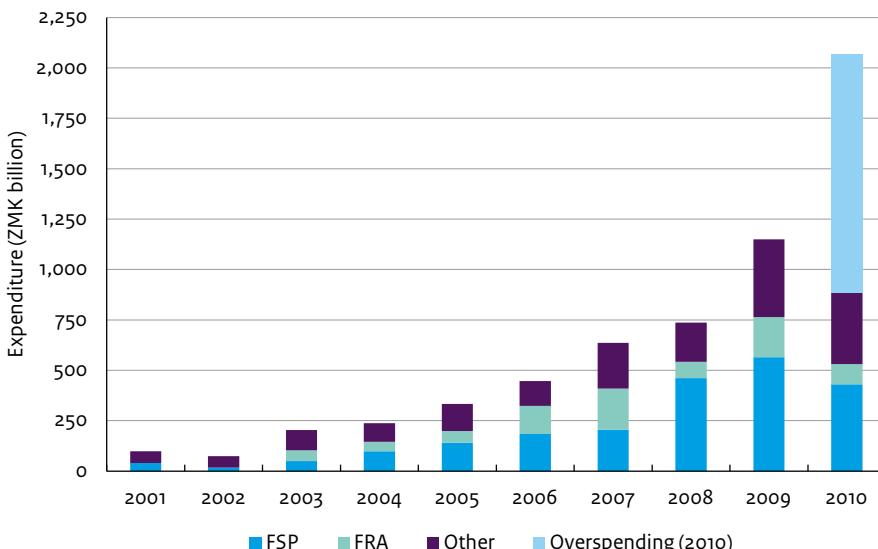
A principal constraint of the sector is low productivity. In the 1990s, the rural institutions that supported farmers with input supply, marketing services and credit collapsed. Limited knowledge and low on-farm investment contributed to low agricultural output. Low prices for agricultural produce in remote areas as a result of high transaction costs resulting from poor roads and inadequate on-farm storage, is another key constraint farmers face. Other constraints faced by the sector include the high rates of post-harvest losses and smallholder farmers' limited access to savings and credit facilities.

9.4.2 Agriculture output

The two main programmes of the Ministry of Agriculture and Co-operatives (MACO) are the Fertilizer Support Programme (FSP, now called the Farmer Input Support Programme, FISP) and the Food Reserve Agency (FRA) (Figure 9.2). The FSP provides subsidized fertilizer and improved seeds to smallholder maize farmers. It was established during the 2002–2003 agricultural season and has subsequently become a major component of MACO's budget. The subsidies are meant to support poor farmers in remote areas, where private suppliers are reluctant to operate. By providing subsidized fertilizer, combined with an extensive arrangement to support distribution across Zambia, the FSP was intended to increase the use of fertilizer and consequently maize yields and production. Originally, the subsidy level was set at 50%. This figure was increased to 60% for the 2006–2007 season and again to 75% for the 2008–2009 season.

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Figure 9.2 Proportion of MACO expenditure accounted for by the FSP and FRA programmes, 2000–2010 (in current ZMK billion)*



*2010 data are budget figures.

Source: Orlowski et al., (2010) and OPM calculations; MoFNP (2011).

The second of the GRZ's large subsidy programmes in the sector is the FRA, which accounted for one-fifth of MACO's budget over the past nine years. The FRA was legally established in 1995 to administer a national strategic food reserve and to operate a market information system for both food crops and agricultural inputs, for the benefit of both producers and consumers. The FRA influences both the consumer and producer prices of maize. In managing the country's national strategic reserve, when commercial food stocks are low and prices are high, the FRA releases some of its stock onto the market (maize millers) and causes a reduction in the consumer price.¹²⁰ The FRA has suffered managerial, administrative and operational weaknesses, with a significant proportion of the funds received from GRZ being unaccounted for. An audit of its operations over the five marketing seasons up to 2007–2008 revealed that not one annual audited financial statement had been produced by the FRA, while a total of almost ZMK 14 billion was not properly accounted for. More than three-quarters of this total had been stolen or damaged by pests.

In 2010, the Ministry spent far more than what was earmarked in the initial budget as a result of the government's decision to purchase the FRA's record maize surplus, in response to the bumper harvest. This decision had important consequences for the PAF score in the area of PFM and had a huge impact on other budgets. At the annual review, cooperating partners criticized these huge purchases because they would create a fiscal shock that would crowd out other priority expenditures.

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9.4.3 Outcome and impact in agriculture

The econometric analysis of the agricultural sector focused on the Fertilizer Support Programme. There are several reasons for this choice. First of all, until recently, it was financially the Ministry of Agriculture and Cooperatives' most important programme. Second, there has been a lot of discussion between the Ministry and cooperating partners about the programme's effectiveness.

A recent World Bank tracking survey (2009) was highly critical of the programme. The report concluded that service delivery by the FSP was poor. The packages were frequently delivered late and farmers were not sure whether they would receive the FSP support, greatly inhibiting their ability to plan ahead. Furthermore, the Public Expenditure Tracking Survey (PETS) analysis and recent audit reports suggest that the system suffered from significant leakages (on average 20%) at the district level, with some cooperatives reporting receiving less than 50% of the amount that the district reported to have distributed. Another concern was the programme's poor targeting. A significant proportion of the FSP was provided in areas with an adequate private sector fertilizer supply. Nor did it take into account regional differences in climate and soil or market access. While the FSP has improved access to fertilizer in some areas, it has also crowded out commercial fertilizer in other areas (World Bank, 2009; Xu et al., 2009b; and Burke et al., 2010). This would mean that the programme simply represented an inefficient form of wealth redistribution, in the form of an in-kind

¹²⁰ To the extent that maize is bought at sub-economical prices, this intervention is effectively a price subsidy for consumers.

transfer (i.e. fertilizer), to relatively better-off farmers with no associated gains in aggregate agricultural productivity (see Chapter 10 as well). Additionally, recent audits identified serious weaknesses in the technical and financial management of the programme, as well as potential irregularities (amounting to a total of 13% of the programme's budget). Bonaglia (2008) concluded that while there might be political-economic reasons for these subsidies, they were not the most cost-effective way to support the poorest households. The author identified three disadvantages of the maize subsidies:

- they kept farmers in maize production, irrespective of their comparative advantage, and this has a negative impact on the objective of agricultural diversification;
- they distorted the market for fertilizers, in conflict with the goal of promoting the development of private suppliers; and
- they reduced the resources available to MACO to make investments that would enhance productivity.

Other studies did find more positive effects. An FSRP working paper (Burke et al., 2010) found that yield increases were the key contributing factor behind maize production growth between 2009 and 2010, accounting for 59% of the difference from 2009 to 2010 at the national level. Increased fertilizer use explained almost one-third of this growth (with the weather as main contributor, at more than 60%).

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Xu et al. (2009a) identified a positive effect of fertilizer use on farmer profitability. The econometric analyses by Oxford Policy Management (2011) did find a modest impact. The evaluation concluded that poor targeting has impaired the effectiveness of the programme.¹²¹

9.4.4 Role of budget support

The results do not point to an effective contribution of budget support to an improvement of the agricultural sector. General budget support has helped to improve sector coordination, although the project approach still dominates. The SAG meetings and the regular meetings between cooperating partners have improved the dialogue with GRZ. However, longstanding controversial issues, such as the scale of GRZ funding to the subsidy programmes or irregularities in the sector, have exerted a negative impact on the dialogue. Cooperating partners have unwillingly contributed to the Ministry of Agriculture and Cooperatives' two main programmes through general budget support. These programmes were poorly targeted and have kept farmers in maize production. Cooperating partners have criticized the two subsidy programmes, which were a common topic of discussion at agricultural SAG meetings, at the cooperating partners' troika–MACO dialogue platforms and at the high-level dialogue meetings. However, they were not effective in their dialogue with the government on the subsidies issue.

¹²¹ The authors applied three different estimation methods based on a combined Propensity Score Matching difference-in-difference technique. Two methods that may overstate the effects found a positive impact of the FSP on maize productivity, total crop income and net income of fertilizer costs. A third approach, which is likely to underestimate the FSP impact, found no impact on maize productivity, total crop income or net income of fertilizer costs.

An assessment of the PRBS PAF indicators, almost by definition central indicators for the PRBS partners, does not paint a positive picture either. The PAF for 2009 included three indicators for the agricultural sector:

- consistency of budget releases within the Ministry regarding the Medium Term Expenditure Framework (MTEF);
- larger areas of land created by new and rehabilitated irrigation schemes; and
- enactment of agricultural marketing and credit legislation.

Each of these indicators was based on the priorities and targets of the Fifth National Development Plan (FNDP), and none of these targets was met.

The two subsidy programmes received a far higher proportion of the Ministry's budget during the FNDP period than projected, resulting in enormous budget over-runs. Overall, the funds released to the sector in 2009 were 11% higher than anticipated in the 2009–2011 MTEF.

The targets for the second indicator were unrealistically high, making it a completely meaningless indicator. Performance has been consistently below target. The aim between 2007 and 2009 was to irrigate some 33,000 ha between 2007 and 2009, but only an estimated 6600 ha (20%) was actually irrigated. The lack of progress on the third indicator was due to the long consultation process and other internal bureaucratic factors. The Agricultural Credit Bill was submitted to the Cabinet in 2010.

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In 2010, the number of indicators was reduced to two. The first one dealt with the adoption of the Agricultural Marketing and Credit Legislation. A bill was being prepared, but had not yet been presented to the National Assembly, and therefore the target was not fully met. The other indicator was the piloting of an Input Voucher Programme for the fertilizer input delivery system in 12 districts. This target was not met. The PAF Review Report concluded that the target was too ambitious.

Several factors help to explain these poor results. First of all, the subsidy programmes were politically important as agricultural subsidies are considered a powerful instrument for increasing rural incomes. This made a government policy change unlikely. A lack of alignment between cooperating partners and government strategies made their interventions ineffective. The carrot of budget support and the arguments in the dialogue had no impact because there was much more at stake for the government. Moreover, the lack of harmonization (Chapter 8) meant that cooperating partners could not send an unequivocal message to the government, which in the end meant that the government could ignore the signals.

MACO's malfunctioning also helps to explain the poor results. MACO has exhibited a number of weaknesses in budget management, in internal auditing and in asset management, while its financial reporting to the treasury has tended to be both irregular and late. In addition, most of the financial statements have been incomplete, lacking information on expenditure in the sector both in the provinces and by cooperating partners. Moreover, due to poor sector data, MACO has been unable to formulate accurate plans and policy documents which could clarify the objectives and outcomes of its planned

spending programme aimed at promoting the expansion of the sector. This has also hampered the Ministry in its attempts to strengthen its negotiating position during the budget process.

Nevertheless, while PRBS did not effectively help to improve the agricultural sector, this does not mean that a project approach would have yielded better results. In the past, many of the interventions supported by cooperating partners were pursued in isolation from one another and from the Ministry, thereby undermining MACO's capacity to adequately deliver on its core functions (Cardno Agrisystems Ltd, 2009). Cooperating partners have tried to improve coordination, but reliance on foreign NGOs and expatriate technical assistance staff for project management and implementation is still widespread. While short-term objectives may have been achieved, this has not always contributed to building institutional capacity.

9.5 Roads

Despite large investments in recent years, the transport sector in Zambia is still impeding stronger growth rates and higher investment (Terberger et al., 2010, 21). An important cause is the deterioration of the railways, provoked by inefficiency, low productivity and lack of maintenance. In 1975, the volume of freight traffic transported by Zambia Railways was six million tons; by 1998, the volume was reduced to 1.4 million ton (Meeuws, 2004, 31). As a result, the roads sector became more important. Now, 80% of the exports are transported on the road, the remainder on railways, and only a tiny fraction by air transport (Terberger et al., 2010, 23).

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Chapter 3 described the development of cooperation in the roads sector and subsectors, resulting in the Road Sector Investment Programme (ROADSIP). Chapter 7 devoted attention to the funds earmarked for that sector. The original estimated budget for ROADSIP II was US\$860 million, but due to the large network, the programme was extended to 10 years and costs went up to US\$1.6 billion. GRZ aimed to finance 60% of the total costs of ROADSIP II through local funding.

9.5.1 Output in roads

Between 2006 and 2009, GRZ achieved the ROADSIP objectives for paved roads (Table 9.6). During these years, an average length of 250 km of paved roads was rehabilitated per year. The maintenance goal of, on average, 7180 km per year has been slightly exceeded (108%), thus achieving the maintenance of the whole paved core network. During the same period, an average length of 2088 km of unpaved roads was rehabilitated per year, thereby exceeding the targets by 40%. However, targets for the maintenance of unpaved roads (on average about 18,500 km per year) have not been met. It has been one of GRZ's priorities to improve and maintain the paved trunk and main roads network first before the district and primary feeder roads are taken care of (KfW, 2010).

Although the high volatility of the data from one year to the next raises some doubts about the consistency of the measurement, it appears that the paved network has continued to be in reasonably good condition, whereas the unpaved network is not. An explanation for this is

that only a small part of the total budget is allocated to the routine maintenance of the whole road network as compared with periodic maintenance and rehabilitation and upgrading.

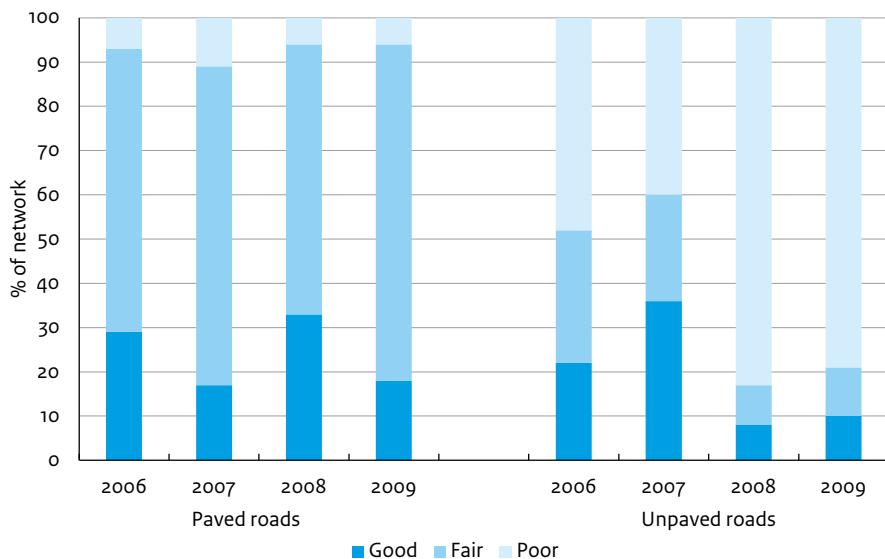
Table 9.6 ROADSIP II performance indicators 2006–2009 (km)

	2006	2007	2008	2009
Inputs:				
Domestic resources	97	113	179	261
External resources	102	22	70	26
Expenditure	132	131	231	280
Outputs:				
Paved roads				
Rehabilitation	316	248	243	194
Maintenance	8,238	5,845	6,428	10,605
Unpaved roads				
Rehabilitation	2,693	2,940	1,005	1,716
Maintenance	8,239	10,934	12,436	10,465

Source: RDA, annual Reports.

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Figure 9.3 Paved and unpaved road network condition (2006–2009)



Source: KfW.

Some of the discussions about the Zambian road sector centre on the performance of the sector at the operational level. Two of the main topics were the high unit rates of contractors and the over-commitment of ZMK 1 trillion in 2008. In reaction to this over-commitment, cooperating partners requested the Auditor General to conduct an audit that covered finance, technology and procurement. In his report, the Auditor General pointed to severe deficits in the procurement process, linked to weak supervision by the Road Development Agency (RDA). The Auditor General also concluded that there were considerable delays in decision making and that contract clauses were not always respected. Only a few projects were completed on time. In most cases the contract had to be extended and in some cases more than once. In some cases, payments were made for work not done. The Audit Report examined the physical condition of 18 randomly selected road projects. None of these projects met the agreed quality. The Auditor General also mentioned the high unit rates in the road sector in Zambia in comparison with neighbouring countries. Some of the causes included:

- a lack of competitors;
- collusion between main contractors;
- the long wait for payment of disbursement requests; and
- remote work locations.

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The perceived risk of doing business in Zambia is very high, and therefore contractors charged a risk premium. Contractors succeeded in winning tenders even though they charged high risk premiums.

9.5.2 Roads impact

There is a strong case in favour of improving Zambian roads. A large body of evidence shows that a good transport infrastructure is crucial for poverty reduction and economic development (for an overview for Africa see Foster and Briceño-Garmendia, 2010). Roads provide individuals with better access to economic and social facilities. Better access can mean less travel time, or having basic year-round access. The access to economic and social services and institutions – health centres, schools, administration and markets – is crucial for improving living conditions in rural areas. In many rural regions in the world, including Zambia, people living in the countryside have very limited access to services, and during the rainy season they may even have no access at all.

On a macro level, improvements in the roads system may stimulate a country's economic development. Many economic sectors depend on good transport links (e.g. agricultural goods need to be transported to markets and customers). In a landlocked country like Zambia, trade largely depends on road transport for the export and import of goods. Better roads in Zambia – including better transnational corridors – contribute to trade, and thereby also to economic growth in the country. The Zambian government has invested a large share of the roads sector funds in the main trunk roads, which serve as transnational corridors. The main roads connect the economically most important regions in the country. In these areas, the poverty incidence is lowest.

The impact assessment for this evaluation analysed the impact of roads on traffic development, agriculture, mining and tourism. On the macro level, improved roads have made a positive contribution to Zambia's development. Indications of the importance of the roads sector are, for instance, the large share of export and import goods transported on the roads, as well as a major increase in trade volume. Traffic figures for the national corridors were on the rise in recent years. The increase in trade coincided with the period in which the road sector received more funding. Better roads have probably contributed to this development as most of the traded goods are transported by road: 80% of the exports are transported by road, the remainder by rail, with only a tiny fraction going by air transport. Likewise, ROADSIP II investments have contributed to mining and export activities. One constraint for more efficient international road transport in Zambia has been extensive border controls.

Improving roads is also important for agriculture. A large majority of the people (70%) depend on agriculture for their livelihood, but in 2006 only 17% of these lived within two kilometres of an all-season road. Most of the high-value land (70%-80%) is situated in remote areas. This shows the importance of investing more in roads in rural areas to create access to local markets and connections to the trunk roads. Produce from tobacco production in the greater Chipata area, for example, used to be exported to Malawi for further processing. After road connections were improved, further processing of the tobacco harvest took place in Zambia, thereby creating more added value and contributing to Zambia's economic growth.

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Nevertheless, despite these recent investment studies such as the Africa Infrastructure Country Diagnostics (AICD) Country Report on Zambia suggest that the road infrastructure is still impeding growth and higher investment in the larger Zambian economy. AICD found that the contribution of infrastructure to Zambia's strong economic growth in recent years has been relatively modest. The contribution made by the road sector to growth has been more significant in other countries in the region. Raising Zambia's infrastructure to the level of Mauritius could add 2.2 points to its per capita growth rate. A 2006 study by the Ministry of Tourism, Environment and Natural Resources found that the poor condition of the roads network was still a main constraint for the further development of tourism. A study by Mattoo and Payton (2007) concluded that tourist flows would be 51% higher if the road infrastructure and the cost of doing business matched South Africa's levels.

At the micro-level, econometric analyses showed that in cases where a road project took place in rural areas, statistically significant effects can be demonstrated on reducing the share of households living in extreme poverty, and on increasing the secondary school attendance rates as well as the consultations of modern health facilities. Where a road project was realized, the share of extremely poor households decreased by 4-12 percentage points. As the impact analyses concentrated on the rural areas where an over-proportional part of the Zambian poor are living, these results are of special importance for improving the livelihoods of the poor. However, no significant distributional effects of road projects were demonstrated.

9.5.3 The role of budget support in roads

The funding contribution through general budget and sector budget support to ROADSIP played a part in achieving the results in the road sector and thereby also to the improved road network. The positive results were limited to the paved trunk and main roads' network.

Cooperating Partners did not manage to give a higher priority to the (unpaved) roads in rural areas, although it cannot be ruled out that attention to rural roads would have been even less if cooperating partners had not tried to focus on the rural areas. Moreover, PAF targets were only partly met in 2009. Just as in the health sector, the cooperating partners' decision to suspend support had a direct impact on results in this sector.

A serious problem is the quality of the construction works, the procurement and supervision activities by the RDA, and supervision by the Ministry. Both cooperating partners and the Zambian authorities mention a continuous lack of capacity as a crucial factor impeding the better planning, implementation and supervision of works, in spite of the technical assistance to the road agencies. Yet, cooperating partners also criticized the fact that the technical assistance provided to the road sector was not up to date considering the kind of support that is needed when aid is provided in the form of sector budget support. Consultants involved in projects funded by project aid seemed to focus on the rapid implementation of 'their' projects.

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9.6 Water and sanitation

Reforms in the water sector go back to the 1990s. These reforms aimed to decentralize and commercialize the sector, resulting in a supportive environment for sector development, especially in urban areas. The 1994 National Water Policy contains a number of principles, including the devolution of authority to local authorities and private enterprises, and the achievement of full cost recovery for the water supply and sanitation services through user charges in the long run. Key elements in the reforms were the establishment of commercial utilities in urban areas and the creation of the National Water Supply and Sanitation Council (NWASCO 2000) as an independent regulator. In 2003, the Devolution Trust Fund (DTF) was created to promote peri-urban water and sanitation. The geographical and socio-economic setting of the rural water and sanitation sector made the implementation of a commercialized approach for providing water and sanitation services unrealistic, at least in the short term. The 2007 National Rural Water Supply and Sanitation Programme therefore formulated a 'self-help bottom-up' approach for rural areas. Operational responsibilities for providing water and sanitation services in rural areas were delegated to district and village water, sanitation, hygiene and education committees. The FNDP envisaged 75% safe water supply coverage and adequate sanitation facilities for 60% of the Zambian population by 2015. The Sixth National Development Plan (SNDP, 2011–2015), which replaced the FNDP, specifies the sector goals for rural and urban areas. The SNDP anticipates access rates in rural areas to reach 75% for safe water and 60% for proper sanitation, respectively, by 2015. In urban areas, 80% should have access to safe water and 60% to sanitation.

The two most involved ministries are the Ministry of Energy and Water Development (MEWD) and the Ministry of Local Government and Housing (MLGH). The MEWD has overall responsibility for the water sector and the corresponding policy formulation. The MLGH is responsible for delivering water supply and sanitation services. An exception to this rule is water and sanitation access in peri-urban areas via DTF. DTF is administered by NWASCO, and NWASCO is under the supervision of MEWD, which the MLGH believes is not adequately performing its tasks in terms of the agreed division of labour.

9.6.1 Output and outcome of water and sanitation

Estimates of access rates to safe water in Zambia vary between 57% and 60%, and the access rates to sanitation vary between 64% and 87%.¹²² The Living Conditions Monitoring Surveys (LCMS) show that access rates to sanitation facilities increased slightly from 81% to 87% between 1998 and 2006 for all of Zambia. The data indicate that nearly all households in urban areas and also a relatively high percentage of rural households (81%) have access to at least some sort of toilet facility which, however, is not necessarily safe. The estimates do not differentiate between acceptable and unacceptable pit latrines.

While access to safe water slightly improved in rural areas from 37% (1998) to 41% (2006), the safe water supply coverage in urban areas apparently declined from 91% to 87%.¹²³ High urban population growth and migration to cities made it difficult for urban commercial utilities to keep up with expanding demand in peri-urban and urban areas. According to the LCMS, the urban population grew from 6.3 million to 7.6 million between 1998 and 2006. Even though access rates decreased, an additional one million people gained access to safe water sources in urban areas during that time.

Access rates to some sort of sanitation facility in rural areas¹²⁴ improved from 66% in 1998 to 77% in 2006; access to adequate sanitation facilities in rural areas is significantly lower, 33% according to SNDP 2009 baseline data. These data also suggest that access to adequate sanitation facilities in urban areas is only slightly better at 37%; the 1998 and 2006 LCMSs report a fall in access to flush toilets from 45% to 39%.

Table 9.7 Access to safe water and sanitation (in 1998 and 2006; wet season)

	safe water in %		flush toilet in %		pit latrine in %	
	1998	2006	1998	2006	1998	2006
Rural	37	41	1.9	2.2	66	77
Urban	91	87	45	39	53	60

Source: LCMS 1998 and 2006.

¹²² Due to unreliable data sources, no conclusive assessment of current coverage rates could be made. The main sources reported deviating coverage rates.

¹²³ The Sixth National Development Plan (SNDP) baseline data confirm these findings. The data put access to safe water in rural areas at 53% and in urban areas at 75%.

¹²⁴ The estimates do not differentiate between acceptable and unacceptable pit latrines.

Access to safe water is still unacceptably low, particularly in rural areas, although coverage rates have slightly improved in recent years. The responsibility for the delivery of water and sanitation services as well as the necessary funding has been delegated to the local authorities, who suffer severely from insufficient resources. The main way of improving the water supply in rural areas is to drill new boreholes, which is financed and implemented by cooperating partners through MLGH and local authorities, and this may even be unaligned with GRZ plans. It is estimated that about 3900 new boreholes have been constructed this way during the last three years. The quality of borehole construction and their unit costs vary significantly, even when comparable materials are used.

9.6.2 Impact of water and sanitation

Having access to an improved water supply and sanitation is presumed to have a variety of positive effects on household welfare. The typical impact channels of water supply and sanitation are health benefits and time saved fetching water (first-round effects). The latter is particularly important in rural areas. Women are likely to benefit most from time saving, since in Zambia too the burden of fetching water falls disproportionately on them. A study by the GTZ (2008) for Zambia reported improvements especially for girls in peri-urban areas as a result of improved water access.¹²⁵

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Access to safe drinking water and adequate sanitation is closely linked to the health situation in households in developing economies. The empirical evidence shows that piped water infrastructure reduces child mortality, mainly by reducing diarrhoea. For the rural and peri-urban poor, however, safe drinking water is usually provided through community-level infrastructure, which seems to be less effective in reducing diarrhoea. The reason for this finding is that the water is often not safely transported or stored, so that initially clean water becomes contaminated again. Point-of-use water treatment is therefore necessary sometimes, and it is an effective way of improving the quality of household drinking water. These contamination problems have led to several studies being conducted, which indicate that improved hygiene through adequate sanitation or hand-washing might have an even more significant positive impact on child health than the effects of safe water alone.

Evidence collected during the field missions points to the positive impact of safe water supplies in rural areas. In remote rural areas, the estimated time saved because of improved water sources seems to be significantly higher than in peri-urban areas, and some evidence hints at health improvements as well. The positive impact of pit latrines may be endangered by nitrite and nitrate (yellow water) aquifer (groundwater) infiltration in the long term.

The econometric analyses, based on Zambian data, show that safe water (including water treatment) and adequate sanitation have positive second-round effects on education and are also correlated with poverty reduction in rural Zambia. It cannot be ruled out, however, that reverse causality plays a role, at least regarding the effects of water and sanitation on

¹²⁵ GTZ merged with two other German TA-implementing agencies (InWent and DED) to form GIZ on 1 January 2011.

poverty reduction. Furthermore, some effects on poverty might be identified that are actually attributable to people's remoteness from water sources since access to roads was not introduced as a control variable.

The analyses based on the LCMSs found a strong link between the presence of boreholes – the cleanest source of water in rural areas – and the primary school attendance rates for boys, the share of households living in extreme poverty and household expenditure.¹²⁶ More specifically, if the share of households that have access to boreholes increases by one percentage point, the attendance rate of boys at school increases by 0.23 percentage points, according to the estimation results, while the share of households living in extreme poverty is reduced by 0.23 percentage points. When analysing the impact of all water sources, including contamination-prone 'protected wells', the observed impact diminishes. This supports the initial assumption that having access to water from boreholes is considerably better than water from protected wells, since most of the impact is cancelled out when using the aggregate category 'safe water'.

Table 9.8 Impact of improved water and sanitation facilities

	Treated group	Control group	Average treatment effect	t statistic	
Safe water and sanitation:					
Diarrhoea with blood <=60 months	0.4	3.4	-3.0	-2.82	***
Primary school attendance rate	89.8	80.5	9.3	2.21	***
Secondary school attendance rate	56.0	43.2	12.8	1.84	*
Extremely poor	6.6	28.5	-21.9	-5.7	***
Moderately poor	23.5	21.1	2.4	0.52	
Non-poor	69.9	50.4	19.5	4.42	***
Safe water:					
Primary school attendance rate	80.2	76.6	3.6	1.84	*
Secondary school attendance rate	31.6	23.7	7.9	2.68	***
Safe sanitation:					
Primary school attendance rate	84.3	81.5	2.8	1.12	
Secondary school attendance rate	39.2	29.2	10.0	2.22	**

* significant at 10% level; ** significant at 5% level; *** significant at 1% level.

Source: KfW (ZDHS 2007).

The impact of sanitation is significant as well. Having access to safe toilets has a positive effect on primary and secondary school attendance. The results indicate that if the proportion of households that have access to safe sanitation increases by one percentage

¹²⁶ Even though the LCMSes are outdated, their data sets provide, besides ZDHS data, the only adequate information basis to calculate impacts of infrastructure measures in the water sector.

point, the attendance rate of boys at primary school increases by 0.20 percentage points, while the attendance rate of girls increases by 0.28 percentage points. So the improvement of sanitation had a greater effect on girls than on boys.¹²⁷

The econometric analyses based on the 2007 Demographic and Health Survey also indicate that access to safe water and adequate sanitation has a significant effect on health, particularly when it comes to reducing diarrhoea with the presence of blood in children below the age of 60 months. Furthermore, the analyses in the survey are in line with the LCMS analyses.

In addition to the impact caused by improved water supplies and sanitation infrastructure, water treatment also had a great impact on the quality of life of households. In 2006, only slightly more than 20% of households that did not have access to safe water supplies in rural areas treated their water, compared to 56% in urban areas. The share of households that had access to safe water, but treated their water nevertheless (rural: 25%; urban: 58%), is even higher than the share of those who did not have access to safe water. While the difference between rural and urban areas can be explained by differences in income and hygiene awareness, the latter indicates that even households that have access to better sources of water still find it necessary to treat their water, as water may get contaminated between the source and the point of use.

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9.6.3 Role of budget support

The GRZ budget for water and sanitation was relatively small, and therefore the impact of general budget support could only be expected to be modest. Nevertheless, cooperating partners insisted in the PRBS policy dialogue on paying more attention to rural areas, including the provision of safe water and sanitation. The PAF included a performance indicator on water supply coverage in rural areas. However, probably due to a lack of reliable data, the 2010 goals for water supply coverage were not particularly ambitious. At least some of the available data suggests that the goals were well passed before that date. As a result, the water coverage target in the PAF was replaced in 2009 by an indicator to train people in data collection at the district level. Thanks to better monitoring systems and the 2009 baseline data for the SNDP, the quality of the PAF targets for the water sector has improved significantly (e.g. increasing rural water supply from 53% in 2009 to 57% in 2010).

Despite these positive influences, coordination and alignment in the water and sanitation sector was poor. Cooperating partners aimed to contribute to the government's development agenda by means of general budget support. At the same time, they provided direct support at the community level, partially via NGO support. This double effort, even though it tackled deficiencies from two directions, posed huge challenges when the government reported its successes and challenges in service provision, because there is no clear distinction between interventions made by NGOs and cooperating partners in these areas.

¹²⁷ While the LCMS is a household survey, this finding is based on sanitation facilities at school and at home. These facilities are more important for girls, and the absence of adequate facilities at school increases the probability of school absence.

9.7 Summary and conclusions

9.7.1 Summary

This chapter analysed the impact of budget support on five sectors: education, health, agriculture, roads, and water and sanitation. The chapter focused on developments between 2005 and 2010.

For the *health* sector, budget increases between 2005 and 2010 showed that budget support contributed to improved service delivery and to improved urban and rural health facilities, medical staff and drug supplies. These supplies were also used more efficiently, as evidenced by the improved use of health centres and primary health facilities, institutional deliveries and improved immunization. The efforts of GRZ and cooperating partners produced positive results, which reduced the number of tuberculosis patients and, more recently, those with malaria and underweight children. There was also significant improvement in indicators such as infant mortality, child mortality and maternal mortality, although results in these indicators are still off track. The impact analysis did identify a positive effect on child mortality, maternal death, malaria and diarrhoea. Nevertheless, serious challenges still remain. Due to the brain drain of medical personnel and a lack of schooling facilities made it difficult to increase the number of medical staff. The development of health indicators, as included in the PRBS PAF, has not always been satisfactory. While the Ministry enjoyed good results in 2008 and 2010, they were poor in 2009. The Ministry explained these results as being linked to a prolonged strike and the suspension of support to the health sector basket. Actually, the changes in the health scores reveal several deficiencies in the PAF: the health scores were subject to accidental circumstances, and the Ministry was not always able to influence the results within the one-year timespan (in reality actually less than one year). Therefore, the indicators do not paint a reliable picture of progress in the sector.

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Table 9.9 PAF indicators for selected sectors (2007–2009)

	2007	2008	2009	2010
Number of targets:				
Health	4	4	4	3
Education	4	4	4	3
Agriculture	3	3	2	2
Roads	2	2	2	1
Water and Sanitation	1	1	1	1
Average score:				
Health	0.75	0.88	0.13	0.67
Education	0.88	0.63	0.88	1.00
Agriculture	0.33	0.00	0.00	0.25
Roads	0.25	0.50	0.25	1.00
Water and Sanitation	1.00	0.50	1.00	1.00

Source: MoFNP, Annual Progress reports.

Budget support has also been important for the *education* sector. Budget support and the sector pool have accounted for about 12% of the Ministry of Education's total resources and about 30% of the discretionary budget. The budget increases have enabled the Ministry to invest more in teachers, classrooms and books. Even more than in the health sector, general budget support has enhanced allocative efficiency. In general, project and basket funds do not allow more service workers, such as doctors, nurses and teachers, to be recruited. In this respect, budget support is a more flexible instrument, although uncertainties about future disbursements may reduce this flexibility. Nevertheless, budget support coincided with a high budget growth in the education sector and with a large growth of personnel emoluments (see Chapter 8). In spite of the high enrolment growth, pupil–teacher ratios, pupil–classrooms ratios and pupil–book ratios improved slightly. The education sector scored relatively well on the PAF indicators compared to the health sector. However, this was because the targets were easy to achieve. Notwithstanding this conclusion, the sector showed some remarkable progress. The enrolment of girls improved and gender parity was almost achieved at the lower and middle basic levels. At the upper basic level, girls continued to drop out of the school system in significantly greater numbers than boys. Partly as a result of a lack of resources, the quality of education remained low. The number of pupils completing primary education and upper basic education has increased enormously, but average results do not improve. However, it must be noted that the enormous enrolment growth has changed the characteristics of pupils enormously. In 2010, many children in poor, remote rural areas, whose parents never enjoyed an education, went to school. This had an enormous impact on the average education results. Nevertheless, more teachers will not solve the problem if teachers only teach for three hours a day. The impact analysis found that many pupils did not master English and therefore were not able to take the examinations, since the questions are in English.

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In *agriculture*, cooperating partners indirectly contributed to the Ministry of Agriculture and Cooperatives' two main programmes, in spite of their doubts about these programmes. Clearly, the sector dialogue and budget support funds have not been effective in achieving the cooperating partners' objectives in the agricultural sector. This is also reflected by the fact that the PAF targets have not been met. The two programmes used the majority of resources from the Ministry, thereby preventing other investments to modernize the sector from taking place. The evaluation analysed one of these programmes, the Fertilizer Support Programme, in more detail. The cooperating partners have questioned its effectiveness, even though a comparable programme in Malawi appeared to be successful. Past evaluations and econometric analyses suggest that the programme's effectiveness has been moderate in Zambia, where its potential was undermined by poor targeting and implementation. Moreover, the programme created the wrong incentives. For example, while the government promoted the diversification of agriculture, the FSP kept farmers in maize production. While the fertilizer subsidies contributed in 2010 to the bumper harvest, the purchase of the surplus through the FRA was extremely expensive.

In the *road* sector, general and sector budget support helped improve the roads network, especially the paved trunk and main roads' network. Cooperating partners have not managed to prioritize the unpaved roads in rural areas. The contribution of budget support was modest,

however, as a substantial part of the works was funded by levies. Moreover, the quality of the works and the supervision by the RDA has remained a problem. Capacity problems played a crucial role. Improved roads contributed positively to the development of Zambia. Indications for the importance of the road sector are, for instance, the large share of export and import goods transported on the roads, along with the major increase in trade volume. Nevertheless, the evaluation concluded that the road sector had not fully exploited its potential to help spur economic growth. At the micro level, econometric analyses showed that road projects in rural areas resulted in statistically significant effects on reducing the share of households living in extreme poverty, on increasing the secondary school attendance rates, and on visits of health facilities. Again, these are potential effects that have not yet reached maturity because the sector has not invested more in rural areas.

The GRZ budget for *water and sanitation* is relatively small and therefore the impact of general budget support can only be modest. Moreover, project support is the dominant aid modality, especially in rural areas. Results in the rural water supply and rural sanitation show modest improvements in access to safe drinking water and sanitation facilities. In general, while access to safe water is at an acceptable level in urban areas, access to adequate sanitation is considerably lower. The econometric analyses of the LCMS and ZDHS data indicated that access to safe water and adequate sanitation had significant effects on health, particularly by reducing diarrhoea with the presence of blood in children below the age of 60 months, by increasing the school attendance rates of girls and boys, and by reducing the share of households living in extreme poverty. The effects were greatest in households that had access to both safe water and adequate sanitation, while the effects of safe water in rural areas could only be identified for boreholes, implying that boreholes (besides piped water, which is hardly available) are the only really safe source of drinking water in such areas. In addition to the impact caused by improved water supplies and sanitation infrastructure, water treatment also had a great impact on the quality of life of rural households as well.

The chapter also showed that the PAF indicators were not the best instruments for monitoring progress in the analysed sectors. The targets for education were not very ambitious while the targets for agriculture were completely unrealistic. Moreover, in the short run, the government may not be able to influence many of these variables. Timing is a factor as well. Results on PAF indicators are discussed in the summer, which does not give the government much time to take corrective measures. By that time, half of the year for the next Review has gone by already. The health indicators also showed how incidents could have an impact on the realization of targets.

It is also interesting to note that while most bilateral donors support the use of targets based on outcome indicators in the PAF, discussions focus on the concrete actions (or the lack of action) of sector ministries.

9.7.2 A political economy perspective

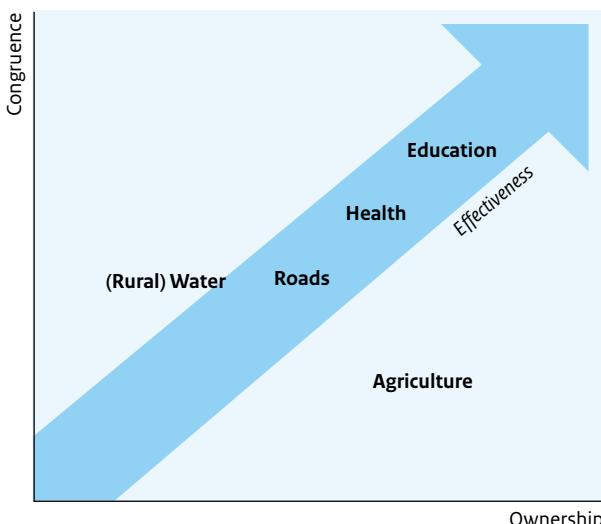
To summarize, notwithstanding the remaining challenges, budget support contributed effectively to positive developments in the education sector and, to a lesser extent, the

health sector. For health it is more difficult to attribute positive results to budget support than for education, because of the significant role of off-budget funds. Nevertheless, in the health sector, budget support helped to reduce fragmentation, and therefore inefficiencies too, while it also enhanced GRZ ownership. The contribution to infrastructure (roads, water and sanitation) was modest, because of the importance of levies for roads and projects in water and sanitation. In agriculture, budget support was ineffective in achieving the cooperating partners' objectives.

The first and most important lesson from the Zambian experience is that the congruence of fundamental sector interests and strategies between cooperating partners and GRZ is a condition for effective budget support. This is revealed by a comparison between the two major social sectors and the other analysed sectors (agriculture, roads, water and sanitation). Despite all the problems, the two major social sectors have enjoyed the most elaborate links between sector policies and the budget support process. Not only have cooperating partners promoted harmonization most vigorously in these the two sectors, but the latter are also relatively important to GRZ, and ownership of policy improvements has been relatively strong.

In 2003, Tito Cordella and Giovanni Dell' Ariccia concluded that budget support is more effective than project aid, provided that donors and recipients' preferences are aligned, and assistance is small relative to the recipients' resources. The findings of this evaluation confirm this conclusion, especially regarding the alignment of preferences, but they add another important condition: country ownership. One of the conclusions of this evaluation is that budget support works best if there is a) strong ownership and b) a congruence of priorities (or preferences) and strategies.

Figure 9.4 Ownership, congruence and effectiveness of budget support



Sector cooperation in the education sector worked better than in the other sectors. Cooperating partners' activities have been relatively well harmonized and aligned with strong ownership, owing to the political importance of achieving policy results in the sector. Cooperating partners have been able to influence policies (with a stronger focus on rural areas), while at the same time prevent the relatively high level of government ownership from eroding. In the health sector, budget support contributed to a more harmonized and coordinated approach, and strengthened ownership by making GRZ responsible for progress in the health sector. The congruence between cooperating partners and GRZ in these two sectors meant there was a relatively high potential for budget support to effectively channel more financial resources to the sectors and to promote policy improvements through a harmonized and aligned dialogue. However, recent developments point to diminishing effectiveness. There are signals of decreasing ownership, such as the slow pace of sector reforms, the lack of response to irregularities and the reduced budget allocation. As these are key issues for cooperating partners, this development is also having a negative impact on the congruence of preferences.

When objectives diverge or when opinions about the best strategy for achieving these objectives are sharply divided – as is the case in the Zambian agricultural sector – then there is an inherent contradiction between ownership and donor influence. While GRZ also has strong ownership in the agricultural sector, there has been no substantial congruence between cooperating partners and GRZ with regard to the principle policy directions in the sector. Cooperating partners have insisted on increasing investments in the sector. GRZ has not made investments in that sector for several years, yet they are necessary for enhancing productivity. By contrast, GRZ has spent more on two subsidy programmes, partly because they are seen as politically important instruments for sustaining electoral support. As a consequence of these different views, cooperating partners have not been aligned with the government's policies. Cooperating partners considered the government's policies to be ineffective because attempts to raise the resources for these policies through general budget support failed.

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Similarly, in the roads sector there is GRZ ownership, which is not the same as congruence between GRZ and cooperating partners on reforms. Because Zambia is a landlocked country, there is a 'natural' tendency to focus on the main channel of transport – trunk roads – which is even more pronounced because these roads are extremely important to the economic elite. While cooperating partners agreed that it is necessary to invest in these roads, they also insisted on devoting more attention to the smaller roads needed to improve rural development. Moreover, the sector has been institutionally weak and fragmented, which has become apparent in the recent irregularities brought to light by the Auditor General.

Finally, rural water and sanitation appears to be the subsector that has the lowest GRZ ownership, which is also reflected by the relatively modest budget flows. Project support is the dominant aid modality in rural areas. While the ministries in question (including regulatory authorities and the support they receive from cooperating partners) appear to focus more on urban water (and less on sanitation), cooperating partners, and NGOs, which

are partly sub-contracted, focus more on rural areas. Moreover, severe institutional shortcomings have had a negative impact on the sector's ability to function efficiently. There is a lack of coordination between the responsible ministries, and the result is inefficiency and an occasional overlapping of responsibilities, as well as a lack of capacity at the local level. The way that the water and sanitation sector is set up is fragmented, even in comparison to the road sector, and this has had a negative impact on GRZ's ability to organize a coherent sector dialogue. Simply replacing project funds with general budget support entails the risk of reducing the total flow of funds available to the sector. Here, strong ownership is a condition for enhancing the effectiveness of budget support.

10

Economic growth and poverty impact

10.1 Introduction

The provision of budget support is closely linked to the goal of reducing poverty. The memorandum of understanding (MoU) for the provision of budget support mentions as one of the underlying principles GRZ's commitment to fight poverty. Poverty reduction is also at the centre of the Fifth National Development Plan (FNDP). The FNDP mentions a number of instruments, including spending in the social sector (particularly on education and health), developing the agricultural sector, providing infrastructure, targeting primarily rural areas, tackling diseases such as malaria and tuberculosis, and bridging the gender gap.

This chapter analyses which groups benefited from poverty-related investments, with a focus on the poorest groups. The chapter looks at income levels, gender, urban–rural differences and regional differences. At the same time, it analyses how economic developments impacted on the poorest groups.

The chapter focuses on the following evaluation questions:

- 4.1 How did the economy perform and interact with the economic and institutional environment?
- 4.3 To what extent have there been changes in citizens' income and income distribution with a special focus on the poorest segment of the population?
- 5.1 To what extent can changes in the performance of the economy be related to changes in macroeconomic and fiscal management, changes in other government policies or policy processes, and to other external or internal factors?
- 5.3 To what extent can changes in citizens' income and income distribution be related to changes in government policies or policy processes, and to other external or internal factors?

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The next section (10.2) sketches the development of economic growth and the role of budget support. Section 10.3 proceeds with the development of poverty in Zambia and evaluates the impact of government policies and economic growth on poverty reduction.¹²⁸ Section 10.4 analyses which groups benefited from improved service delivery and, in particular, examines whether the poorest groups have benefited. Section 10.5 is a summary.

The chapter concludes that while there are improvements in several areas, in general policies were not highly focused on Zambia's most vulnerable and deprived groups. GRZ and cooperating partners set high expectations, but were not able to meet them. Moreover, while the economy developed favourably, this did not have a significant effect on reducing poverty in Zambia. Rural poverty, in particular, remained high.

¹²⁸ Unfortunately, recent poverty data from the 2010 LCMS were not available in time for the evaluation.

10.2 Economic growth

10.2.1 Introduction

Section 3.2 already sketched the economic development in Zambia. The section described the favourable macroeconomic trend since 2000. From 2000 onwards, GDP growth rates were higher than 3.5% (with the exception of 2002), and from 2003 on they were higher than 5%. Economic liberalization, privatization and macroeconomic policies contributed to these growth rates (see Section 6.2). Monetary policy kept inflation below the two-digit level, and prudent fiscal management, aided by debt cancellation, resulted in sustainable public debt. The rate of inflation dropped from 30% in 2000 to the single-digit inflation percentage of 7.9% by December 2010. Substantial investments have been recorded in some of the major sectors, particularly in mining, construction, manufacturing and tourism. On the other hand, the road infrastructure impeded stronger growth rates and higher investment (Section 9.5.2).

Privatization of the copper mines removed the heavy burden of losses from this sector on the government budget, and from 2004 on copper output has increased steadily. The higher copper export volume, higher copper prices on the world market (with a five-fold increase between 2002 and 2006) and foreign investment in the mining sector contributed to an increased significance of the mining sector in exports and economic growth (Meller and Simpasa, 2011). Copper and copper-related products accounted for almost 80% of exports. In total, foreign direct investment grew from US\$70 million in 2001 to US\$820 million in 2007 (with the main growth between 2005 and 2007) (Mwanawina, 2008, 6). Through linkage effects, the mining sector heavily influences outcomes in other sectors (Carmody, 2009, 1198). However, this dependence on copper makes the country vulnerable to depressed commodity prices.

Investments in the mining sector do not trickle down to the poor rural areas, where people depend on agriculture. About 70% of the labour force works in agriculture. Agricultural growth remained weak, however (Saasa, 2010b; Chiwele et al., 2011), although in 2010 the bumper maize crop (from 1.9 million tonnes in 2009 to 2.8 million tonnes in 2010) helped Zambia rebound from the world economic slowdown (together with the high copper prices and exports).

10.2.2 Budget support and economic growth

A much debated topic is whether and how budget support contributes to economic growth and poverty reduction. The intervention logic sketches several mechanisms. First of all, budget support has a financing function, enabling governments to implement specific economic and social policies. Second, budget support aims to contribute to policy and institutional changes that help to realize the objectives of economic growth and poverty reduction in the longer run. These functions of budget support are also included in the underlying principles: the commitment to fight poverty, to pursue sound macro-economic policies, to establish good governance and fight corruption, and the commitment to public financial management reforms. Budget support also helped to keep alive the macroeconomic policies during the financial crisis (Chapter 6).



Focus group meeting in Sinazongwe, Southern Province.

Cross-country comparisons that analyze whether budget support works better than other types of aid tell conflicting stories. Some studies suggest that project aid has a more significant impact on economic growth than general budget support (Dalgaard and Hansen, 2010). Ouattara and Strobl (2008) even identified a negative impact of programme aid on economic growth. Others, however, found the opposite was true, provided that donors and recipients shared the same preferences on budget allocations, and the support was relatively small in relation to the country's total budget (Cordella and Giovanni Dell'Ariccia, 2003).

Potentially, budget support could also have effects that partially obscure some of the anticipated impact on economic growth. First, there is budget support's supposedly negative effect on tax revenue. In Zambia, tax revenue developed in line with economic growth, although preliminary data for 2009 pointed to a decrease (Chapter 7). Zambia's revenue performance (about 18% of GDP) was also consistently two percentage points above the average in low-income countries in sub-Saharan Africa. Nevertheless, Chapter 7 also concluded that there was more leeway to increase the tax-to-GDP ratio by broadening the tax base and by taxing the mining sector more heavily. This would have made it easier to pursue pro-poor policies.

A second, related, argument is the existence of 'Dutch Disease' effects, leading to a reduction of exports. If budget support has a large share in the government budget, and the government uses these resources for the purchase of non-tradables, this may lead to an appreciation of the exchange rate. Appreciation pressure will erode profitability and reduce

investment, and may also lower the incomes of the rural poor engaged in the export sector (Atingi-Ego, 2006). However, Hussain et al. (2009) conclude that in general increased aid flows have not led to an appreciation of the exchange rate (see also Devarajan et al., 2008).

10.2.3 Aid and Dutch Disease effects

10.2.3.1 Introduction

As a contribution to this evaluation, AIID (2010) produced a simulation of the macroeconomic effects of aid inflows in Zambia.¹²⁹ This section reproduces parts of this study, including the main findings. While the analysis focuses on total aid flows and does not distinguish between aid modalities, the results nonetheless give an indication of the potential magnitude of the effects of Dutch Disease. That some of the budget support inflows are ‘lost’ to the effects of Dutch Disease is to be expected, but this loss will most likely be considerably less than suggested in previous studies.

The basic idea of the effects of Dutch Disease is an exogenous change which enables the country to import more. The change could be the discovery of a natural resource which can be exported (as when a large natural gas deposit was discovered in the Netherlands, the case from which Dutch Disease derived its name). A second possibility is that the country experiences an improvement in terms of trade (higher relative export prices or lower import prices) so that it can finance a larger volume of imports with the same export volume. A third possibility is an increase in aid.

In the three examples, the change is obviously beneficial to the country as a whole: private agents or the government can spend more than would otherwise be the case. Some of that extra spending will be on ‘tradables’, goods or services the prices of which are determined on world markets and which are therefore unaffected by extra spending in a small open economy. However, some of the spending may be on non-tradables (this includes most services). The relative price of non-tradables will rise to generate the extra supply needed to meet the increase in demand. This ‘spending effect’ will lead to changes in the structure of production. In particular, the production of non-tradables will increase and the production of tradables will fall.

The upshot is that exports will fall (if there is a price hike for these goods, exports will rise in the booming sector and fall in sectors where world prices have remained unchanged). Production in export sectors becomes uncompetitive since goods can yield a higher return by producing non-tradables. This does not mean that the country does not benefit (as the misleading term Dutch Disease suggests). It does, but less than one would think if the changes in relative prices are not taken into account.

¹²⁹ This section relies heavily on and extensively quotes from the assessment of the macroeconomic impact of aid in Zambia AIID (see Chris Elbers and Jan Willem Gunning, 2010). Tables with simulation results are included in Annex VIII.

10.2.3.2 Aid and Dutch Disease in Zambia

The Amsterdam Institute for International Development (AIID) analysed the potential effects of Dutch Disease in Zambia using a general equilibrium model developed by Clausen and Schürenberg (2009).¹³⁰ The baseline scenario, in line with Clausen and Schürenberg's model (2009) assumes that there are four fully mobile production factors: land, unskilled labour, skilled labour and capital. This implies that factor prices are equalized across sectors. For example, any incipient differential in unskilled wages would immediately induce a flow of labour from low wage to high wage sectors, and this would eliminate the differential. In this baseline scenario, the increase in aid has no effect on GDP. Welfare rises only marginally, by 0.4%. Exports decline substantially, and as a result the increase in imports is far less than the increase in aid: 75% of the aid is offset by the induced fall in exports. Since exports are dominated by copper, the decline in exports is accompanied by a sharp contraction in the copper sector: added value in the mining sector falls by 4.2%. The results of changes in factor prices show that aid leads to substantial changes in income distribution: both unskilled and skilled labour experience gains, at the expense of land (Annex XI).

There is some reason to suspect that the specifications of the model exaggerate the real effects. In the Zambian case, the extent to which exports may decline depends crucially on the mobility of the factors used in the mining sectors, namely capital and the two types of labour. This assumption of complete mobility is not realistic. It may be assumed that both skilled and unskilled labour can move between mining and the rest of the economy, but that capital in the mining sector is sector-specific and not (completely) mobile, since the capital stock used in copper mining is highly specialized (with the exception of vehicles). In a second specification, AIID assumes that capital is mobile but that the two types of labour are sector-specific and immobile. Expected exports and GDP in the mining sector decrease less under this assumption, but the difference is very small. The Dutch Disease measure remains quite high: 72%. In this case, mining output is hardly affected, exports do not fall as steeply, the welfare effect of aid more than doubles and the effects of the Dutch Disease fall to 31%. Wages rise, profits fall in the mining sector and rise elsewhere, and land rental rates drop dramatically. This suggests that the distributional effects of aid favour urban over rural groups and, to a limited extent, labour over capital.¹³¹

The effect of aid also critically depends on how the government spends it. At one extreme, government spending changes in proportion: 58% of the aid is used to increase public consumption, 24% is used for public investment and the rest is used for transfers (2006 values). Alternatively, one can assume that the additional aid is entirely used to increase public investment (this implies that a much larger share of the additional spending is on tradables). In the baseline scenario (with labour and capital fully mobile), this reduces the effects of Dutch Disease to 53%. In the more realistic case (where capital in the copper sector is immobile), this falls to about 20% (compared to about 30% in the original scenario).

¹³⁰ The analyses simulate the effects of a 20% increase in aid. This amounts to an increase of about 1.3% of GDP.

¹³¹ A fourth simulation in which capital and labour in the mining sector is immobile (enclave economy) shows approximately the same results.

However, the analyses in Chapter 7 showed that the government, supported by cooperating partners, has invested heavily in the social sectors, and this increases, rather than decreases, the effects of Dutch Disease.

There are other, even more important factors that may have generated Dutch Disease effects. First of all, the large investments in construction, meant a shift from tradables to non-tradables (Carmody, 2009; Mwanawina, 2008). Others have stressed the negative effects of the Copper boom (Cali and Te Velde, 2007; Carmody, 2009). In 2005, when Zambia attained the HIPC completion point, the debt cancellation and the copper boom had an impact on the exchange rate. That year the Zambian kwacha appreciated by 35% against the US dollar. This eroded Zambia's international competitiveness by 48% and made exporting more difficult (MoFNP, 2006). The effects of Dutch Disease generated by the copper boom on horticulture, for example, were estimated to have lost 2000 people their jobs (Carmody, 2009, 1202). Nevertheless, other studies conclude that the copper boom did not lead to Dutch Disease effects in Zambia. In the last few years both mining exports and manufacturing exports have risen significantly, which contradicts the Dutch Disease hypothesis (Meller and Simpasa, 2011).

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10.3 Poverty in Zambia

10.3.1 Development 1996–2009

Despite the favourable economic development, poverty levels did not decrease significantly. In 2009, the Mid-Term Review of the FNDP concluded that during the review period, overall poverty levels in the country were marginally reduced (from 73% in 1998 to 68% in 2004 and to 64% in 2006).¹³² The improved poverty figures were mainly the result of reduced poverty in urban areas. Rural poverty levels remained more or less stable (between 77% and 80%). Nevertheless, even in urban areas, one in three or four households could be regarded as poor (depending on the definition). On a more positive note, extreme poverty and the poverty gap have decreased in urban and in rural areas.¹³³ While poverty levels have not gone down, extreme poverty has.

The Central Statistical Office report also identified a strong correlation between education and poverty. Poverty is most widespread in households whose head never went to school. Kabaso et al. (2010) concluded that poverty is not gender-related: the poverty risk between male and female households is equal (after monitoring other poverty-related variables).

Unfortunately, more recent data were not available at the time of the evaluation. Preliminary data of the 2010 Living Conditions and Monitoring Survey (LCMS) suggest that

¹³² In 2010, the Central Statistical Office (CSO) also experimented with an alternative method for calculating poverty levels (Table 10.1). This method leads to slightly lower estimates, especially in urban areas.

¹³³ A household is classified as extremely poor if total consumption per adult is below the food poverty line. The poverty gap is an indicator of the depth of poverty. It measures the distance between the average income and the poverty line.

poverty levels did not decrease very much between 2006 and 2010. However, the calculation of income levels is rather complicated and depends on the basket of goods and services, and the valuation of goods and services in kind.

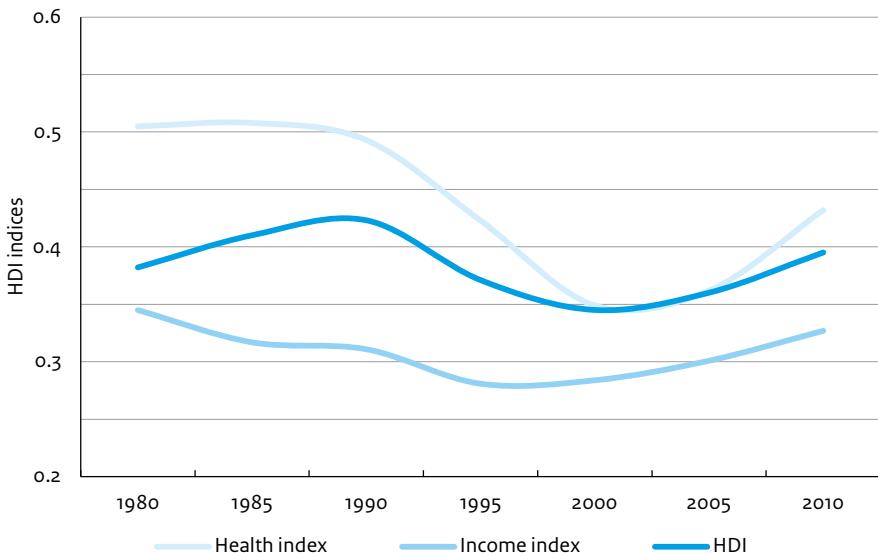
Table 10.1 Development of poverty in Zambia (1996–2006; percentage poor)

	1996	1998	2004	2006
Official definition:				
Urban	46	56	53	34
Rural	82	83	78	80
Total	69	73	68	64
Alternative definition:				
Urban	40	40	29	27
Rural	84	83	77	77
Total	68	67	58	59
Extreme poverty:				
Urban	16	17	11	10
Rural	61	59	52	51
Total	45	43	36	37
Poverty gap:				
Urban	14	15	10	9
Rural	45	45	40	39
Total	34	33	28	29
Gini index (%)	47	49	53	53

Source: MoFNP; CSO.

The Human Development Index (HDI) suggests that some modest improvements took place between 2006 and 2010. Zambia's index score improved from 0.35 in 2000 to 0.36 in 2005 and 0.40 in 2010. Zambia currently ranks 150 out of 169 countries on the 2010 HDI list. Between 2004 and 2008, Lusaka, Luapula and Copperbelt rose the highest on the HDI list. With the exception of Luapula, the smallest improvements in HDI were experienced in the poorest and most rural provinces: North-Western Province, Northern Province and Eastern Province (EAZ, 2010).

Figure 10.1 *Development of the Human Development Index in Zambia (1970-2010)*



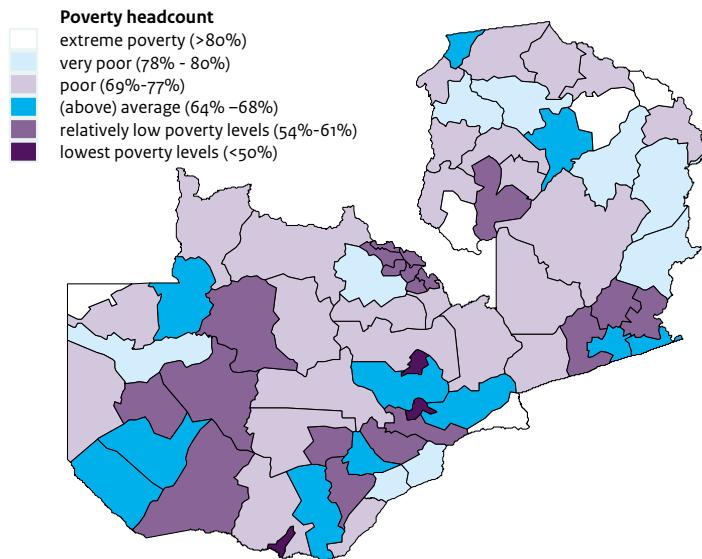
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Source: UNDP (2011).

With the exception of Copperbelt and Lusaka, poverty rates are high in all provinces. Copperbelt and Luapula had the highest reduction in poverty rates. In Copperbelt Province, total poverty headcount decreased from 56% in 1998 to 34% in 2006. The reduction of poverty in Copperbelt and Luapula can be explained by the mining activities in these provinces. In Luapula, the mining for manganese created new job opportunities, either directly through large-scale mining operators, through individual small-scale mining or indirectly through service employment in shops, guesthouses and so on (*Zambian Economist*, May 27, 2010).

Figure 10.2 shows the district poverty levels (headcount) for the 2002–2003 survey. By the time of the evaluation, these were the most recently published results for districts (and even wards).

Figure 10.2 District poverty levels (2002–2003)



Source: CSO (2007).

10.3.2 Income poverty and deprivation

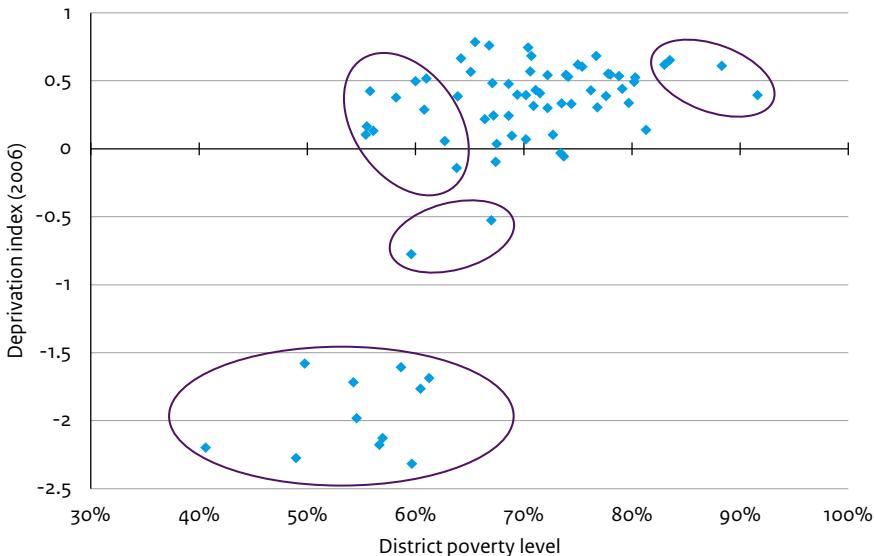
Poverty has many dimensions such as material deprivation, human deprivation, vulnerability, destitution and social stigmatization (World Bank, Africa Region, 2007). Seshamani, Kabaso and Munkoni (2010) developed a relative deprivation index for Zambia. This index, measured at district level, includes the following indicators:

- incidence of poverty: proportion of the population in the district living below the poverty line;
- ownership of selected assets: assets, a lack of which is disadvantageous to a household;
- household amenities such as clean water, electricity, building materials for housing, etc.;
- access to selected amenities such as primary school, health centre, food market;
- demographic attributes: proportion of households headed by females, proportion of the population (excluding minors) who never attended school; and
- economic activity: proportion of the labour force that has not worked in the last 12 months.

Most of these variables are highly correlated: income poverty coincides with low education levels, socioeconomic position and lack of the most elementary facilities. Moreover, the district analysis also reveals large regional differences.

Figure 10.3 sketches the relation between the poverty headcount and the relative deprivation index for 2006. While the correlation between the two poverty measures is not perfect, the relation is clear. There is a small group of relatively wealthy districts with a negative deprivation index and a large group of poor, deprived districts.

Figure 10.3 Relation between poverty and relative deprivation (district level)



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Source: Seshamani, Kabaso and Munkoni (2010) and CSO (2007).

The graph shows five groups of districts: first of all a group of districts in the lower left corner with relatively low poverty levels and a relatively low deprivation index. With two exceptions (Livingstone in Southern Province and Kabwe in Central Province), these are districts in Copperbelt Province or Lusaka Province. Two districts in the middle of the graph (Chongwe in Lusaka Province and Mazabuka in Southern Province) appear to have a distinct position, with moderate poverty and deprivation levels. Third, there is a smaller group of districts with relatively moderate poverty levels, but high deprivation levels. To this group belong several districts in Southern Province and Western Province such as Choma, Mongu and Sesheke, but also Samfya in Luapula and Chipata in Eastern Province. The fourth group in the upper right corner includes the poorest and most deprived districts: Chavuma and Mungwi in Northern Province, Milenge in Luapula and Luangwa in Lusaka Province. Finally, most districts fall into the large group of poor and deprived districts.

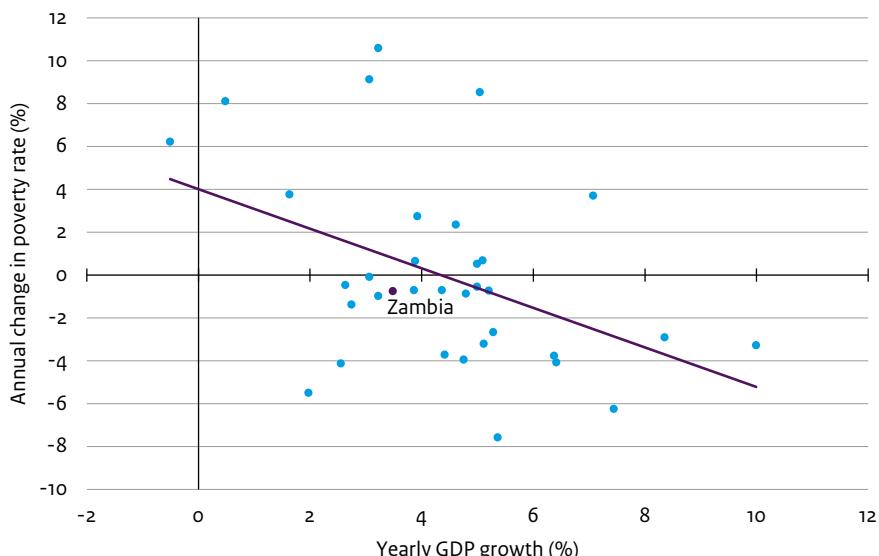
10.3.3 Economic growth and poverty reduction

It is generally acknowledged that economic growth is an important condition for poverty reduction. At the same time, there is broad consensus in international academic literature that economic growth does not necessarily solve income disparity. In fact, the opposite is true: highly unequal income distribution hinders sustainable economic growth (Bourguignon, 2004; Ravallion, 2004; Birdsall, 2007).

Figure 10.4 shows the relation between economic growth and poverty reduction. The figure includes developing countries with data ranging from 1990 to 2007.

Although the methodology may be questioned – because there are different ways of defining poverty, and some may question the years that are being analysed and the consistency of the underlying data – the figure unmistakably highlights the positive correlation between economic growth and poverty reduction: countries with higher growth rates also experience greater poverty reduction rates.

Figure 10.4 Economic growth and poverty reduction (international comparison)



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Source: Mkenda, Luvanda and Ruhinduka (2010).

The figure includes several outliers. In three countries, favourable economic development coincided with a high increase in poverty – in the 1990s!¹³⁴ These three countries were Thailand, Kenya and Ecuador.¹³⁴ At the other extreme are countries such as Chile and Vietnam, where high growth rates did coincide with a high reduction of poverty. Data for Zambia are for 1998–2006.

The majority of people and especially the rural poor have hardly reaped the benefits of buoyant economic growth. Economic growth did not coincide with a significant reduction in poverty; rather, it coincided with higher income disparities, as the increase of the Gini index shows (Table 10.1).¹³⁵ This index is high in comparison with other countries in sub-Saharan Africa. In 2006, the bottom 50% of the Zambian population received a meagre 15% of the country's total income, while the top 10% got 48% of it. The gap between urban and rural areas has widened. A large part of the 5%–6% growth in GDP was also 'consumed'

¹³⁴ These countries were not included when the trend was determined.

¹³⁵ The values used in the Gini index start at 0 (completely equal) and end at 100 (maximum inequality).

by a population growth of 2.8% a year. Moreover, many households had an income far below the poverty line.¹³⁶ Therefore, the increase in income was not high enough to break through the poverty line (see Table 10.1).

Although labour force participation increased from 71% in 1986 to 80% in 2008 (and from 79% to 88% in rural areas) and unemployment rates fell from 50% in 2000 to 15% in 2008 (CSO, 2010b), hidden unemployment is high. Informal employment amounts to 90% of total employment and 70% of the labour force is underemployed (63% male and 77% female) (CSO, 2010b). In rural areas, informal sector employment accounted for 96% compared to 74% in urban areas.

There are two important explanations why the poorest in rural areas did not benefit more from the economic growth. First, the trickle-down effects of mining are minor. The main beneficiaries are foreign companies, including new Chinese investors, and this has created a schism in the economy (Carmody 2009, 1203). Moreover, in the mining and construction sectors, work conditions are poor for Zambian workers hired by Chinese investors (Mwanawina, 2008, 23).

A second explanation is the sluggish growth of the agricultural sector (with the exception of 2010), as a result of low productivity. The majority of rural households rely on agriculture. About four-fifths of the rural population is classified as poor. Agricultural production is largely carried out by smallholder farmers, less than 80% of whom 'own' more than 5 ha of land. Maize is the principal crop, grown by an estimated 85% of farmers.

Table 10.2 Contribution of agriculture to economic growth 2001–2009									
	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP growth	4.9	3.3	5.1	5.4	5.3	6.4	6.2	5.7	6.3
Agriculture	-2.6	-1.7	5	4.3	-0.6	2.2	0.4	2.6	7.1
Contribution of agriculture to GDP growth					0.4	0.3	0.1	0.3	0.9

Source: OPM (2011).

There is broad consensus that improving the agricultural sector is one of the best ways to reduce poverty, especially in rural areas. In 2006, two researchers concluded that Zambia would probably not halve poverty before 2040, as long as the ability of the poor to participate in the growth process remains limited (Thurlow and Wobst, 2006, 48). Bigsten and Tengstrom (2008) reached similar conclusions. The authors concluded that poverty-oriented policies should focus on the rural sector and agriculture, and that there was a need for policies geared towards the productive sectors. At the same time, poverty-related social services such as health and education need to be strengthened.

¹³⁶ Changes in consumption patterns also cause the reduction of poverty levels to be underestimated.

The government has also recognized this in the FNDP. The Fertilizer Support Programme (FSP) aimed to increase agricultural productivity and production and increase income levels and food security in rural areas, but the programme was not particularly effective (Chapter 8). A benefit incidence analysis showed that FSP recipients are not amongst the poorest groups. FSP recipients owned more land and had higher incomes than non-recipients (Table 10.3). Not only was their income from harvesting and selling crops higher, which could be the result of higher maize yields, but so was their income from livestock and non-farming activities. FSP recipients have almost double the average net income of non-recipients. In terms of household characteristics, 12.4% of households headed by males receive subsidized fertilizers, whereas the figure for households headed by females was only 6.6%. A large proportion of farmers used no fertilizer at all. Reasons for not using the subsidized fertilizers are (a) farmers could not afford it (32%), (b) the FSP fertilizer was not available (25%), and (c) the household was not a member of a cooperative (24%). Other studies also confirm that the FSP has had little capacity to target relatively poor farmers (FSRP, various sources). It has been suggested that the new Farmer Input Support Programme (FISP) would be better equipped to target this group.

Table 10.3 Differences between FSP beneficiaries and other farmers (x 1000 ZMK)

	FSP beneficiaries	Non FSP
Gross value of harvest	3,423	1,313
Gross value of crop sales	1,841	437
Net off farm income	3,177	1,723
Income from livestock	624	303
Net income	7,055	3,427
<hr/>		
Crop production (hectares)	2.4	1.4
Maize production	1.6	0.8

Source: OPM (2011).

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Despite the record maize harvest, only 36% of Zambian smallholders did produce a maize surplus in 2010 (Nkonde et al., 2011, v). Evidence suggests that a small proportion of relatively well-capitalized farmers accounted for the bulk of the additional maize production. The price increases – resulting from the FRA policies to buy the maize at high prices – negatively affected households that buy maize. Moreover, much of the FRA's maize was at risk of spoilage due to inadequate access to storage facilities and poor prospects of offloading Zambian maize on regional export markets (Nkonde et al., 2011, v).

According to Thurlow and Wobst (2006), the government should limit intervention in commercial markets and encourage private investment and address the lack of infrastructure instead. However, high expenditure on the two subsidy programmes has achieved exactly the opposite and has prevented investments in infrastructure.

10.3.4 Budget support and poverty reduction

In principle, budget support contributes in several ways to poverty reduction:

- The provision of budget support is conditional on a Poverty Reduction Strategy Paper (in Zambia the FNDP and SNDP), meaning that the government must have adequate policies in place to combat poverty. This condition is also included in the underlying principles.
- Budget support widens the policy space for poverty-reducing policies.
- The policy dialogue may help to intensify the focus on poverty-reducing policies.

The FNDP mentioned a number of key areas for poverty alleviation (p. 33):

- social sector spending, particularly on education and health;
- agricultural (including livestock) development;
- carefully identified and well-targeted poverty-reducing and poverty alleviation interventions,
- employment creation, in particular, through, *inter alia*, the facilitation of opportunities for small- and medium-scale enterprises;
- provision of well-maintained strategic economic and social infrastructure, particularly feeder roads, irrigation and communications infrastructure, targeting primarily rural areas;
- fighting the HIV/Aids pandemic;
- tackling health concerns such as malaria and tuberculosis, which are the major causes of mortality and morbidity in Zambia; and,
- bridging the gender gap.

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While there was real progress in several of these areas (see Chapters 8 and 9), there are three reasons why budget support was not more effective in combating poverty in Zambia.

First of all, the FNDP defined a number of targets for poverty reduction, but it did not include a clear link between policy and meeting the targets. Economic growth, aided by liberalization, was supposed to more or less automatically help reduce income poverty. However, while this policy was effective in some sectors (such as mining), it did not strengthen the Zambian private sector (Carmody, 2009, 1204). Notably, market distortions continued to exist in agriculture, e.g. the sector that should have contributed to poverty alleviation in rural areas. Bigsten and Tengstam (2008) identified three factors that have limited the possibilities and effectiveness of pro-poor policies:

- tax revenue collection has not kept pace with GDP growth;
- inefficiencies within the government in achieving expenditure plans; and
- inefficiencies in the implementation of policies for private sector development.

Second, GRZ and cooperating partners failed to develop reliable indicators for the measurement of poverty in Zambia. The PAF does not include income poverty indicators, even though the general budget support is labelled Poverty Reduction Budget Support. The main reason is that there are no reliable indicators for measuring annual changes in poverty. Poverty data depend on four-yearly household surveys (LCMS). More importantly, GRZ and cooperating partners have not developed a credible intervention logic for poverty reduction. As a result, there are also no intermediate or throughput indicators that may

help to assess whether Zambia is still on track. As a result, every four years the results seem to come as a surprise.

The 2010 PAF includes five indicators that are somehow related to wealth creation:

- the implementation of a voucher scheme for agricultural inputs;
- kilometres of roads maintained;
- percentage of population with access to safe water;
- number of new connections to the poverty grid; and
- time taken to export a container.

In 2010, the total score on these indicators was 50%, with two targets met, one partly met and two not met. Best results were on roads and water and sanitation. However, the target for roads did not include the kilometres of roads maintained, but only the implementation of the road sector matrix. For rural water, the target of 57% water supply coverage in rural areas was assumed to be met (based on preliminary data). This evaluation has also raised the question of the GRZ's role in this achievement (see Chapters 8 and 9).

Third, it appears that cooperating partners' expectations were too high regarding the potential to reduce income poverty in a couple of years. This argument is related to the previous conclusions. Cooperating partners have embraced general budget support assuming that this would enhance the effectiveness of aid, without developing a realistic intervention logic at the country level: what were the objectives, by when were these objectives to be achieved, what was the point of departure, which instruments would help to meet the stated objectives (and how)? And even more importantly, how much money and how much time would it take to achieve the goals? The cooperating partners simply aligned themselves with the FNDP, assuming that its implementation would lead to the desired results. And if not, GRZ could be blamed. However, in the end, we should not forget that budget support was limited to about US\$200 million per year for about 10 million poor people (or 20 dollars per person per year).

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The AIID model also points to the potential distributional effects of aid. The model distinguished five income classes: small- and medium-scale farmers, large-scale farmers, self-employed, formal sector employees and employers. The most striking result is that the first group (which contains the vast majority of the poor) may benefit substantially from aid when labour in the copper sector is mobile. When labour in the copper sector is immobile, they do not benefit. When labour and capital in the mining sector are immobile, formal sector employees, large-scale farmers and employers benefit disproportionately. The key point here is that an increase in aid reduces the relative return to land substantially; this effect is much more pronounced on small farmers.

These conclusions about the distributional effects of aid underline the importance of targeting aid well. Nevertheless, of the main programmes aimed at helping the rural poor, the fertilizer support programme failed to achieve this objective.

10.4 Poverty and beneficiaries of services

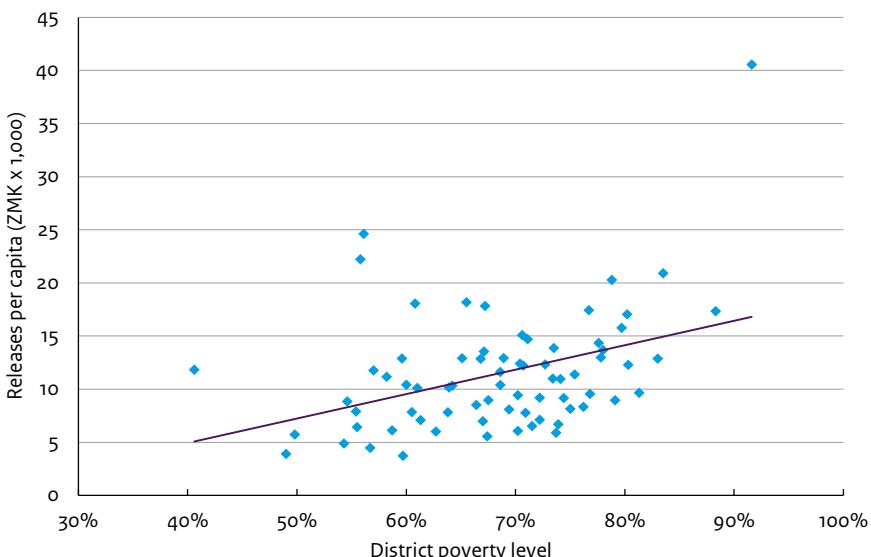
Another way to improve the quality of life of the poorest groups is by improving public services. Indeed, part of the economic growth was used to increase social expenditures. In light of this increase, Chapter 7 concluded that in principle the poverty orientation of the budget had improved. Nevertheless, this can only be true if the poorest groups were the main beneficiaries. This section analyses the beneficiaries of spending in three of the main social sectors: health, education and water supply. The analysis shows that there remain major differences between rural and urban areas, and between the poorest and richer districts.

10.4.1 Health

One of the three indicators of the PRBS PAF for health is the percentage of grants released by the Ministry of Health to the district boards. In 2010, 16% of the budget excluding salaries, capital development and drugs) was released to the districts. This was much higher than the target of 13%. These grants are distributed progressively. On average, poorer districts get a higher amount per capita than wealthier districts (Figure 10.5).¹³⁷ District service delivery budgets, with an average amount of ZMK 10,000–15,000 per capita (2008 data), show the same kind of relation between expenditure per capita and district poverty levels.¹³⁸

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Figure 10.5 MoH releases to districts by district poverty level (2010)



Source: MoH; authors' calculations.

¹³⁷ In 2004, the Ministry developed criteria for the resource allocation of operational grants to districts. It gives more weight to deprived districts using a material deprivation index, in order to address rural–urban disparities in social deprivation.

¹³⁸ The analysis for service delivery data is based on the financial report of the Ministry of Finance and National Planning (Head 46, Ministry of Health, Programme 8 by district).

Figure 10.5 shows four outliers with relatively high releases per capita in four smaller districts (with relatively low population totals). The thinly populated district Luangwa in Lusaka Province is the main outlier. These outliers suggest a strong relation between the release of funds per capita and population size or, in other words, the existence of scale effects. After correcting for these scale effects, there is no significant impact of district poverty level on district releases per capita.

Table 10.4 District releases by district population size and district poverty level (2010)¹

	Coefficient	Standard error	t-value	Significance
Inverse district population	0.77	0.07	11.40	**
District poverty level	-0.03	4.35	-0.01	
Constant	4.86	2.77	1.75	

¹ District releases per capita (x 1000); Inverse district population (1,000,000/population); District poverty level (%).

** Significant at 1% level.

Source: MoFNP, PRBS Review 2010.

The grants remain small, however, at an average of about ZMK 9,000 per capita (US\$ 1.80), since wages, capital expenditure and the provision of drugs are not included. In 2009, the Public Expenditure Review of the World Bank concluded that the poorest, most remote and least urbanized provinces receive the lowest per capita MoH releases. An analysis using data from the Ministry of Finance and National Planning confirms this (Figure 10.6), although there are substantial differences in expenditure per capita.¹³⁹

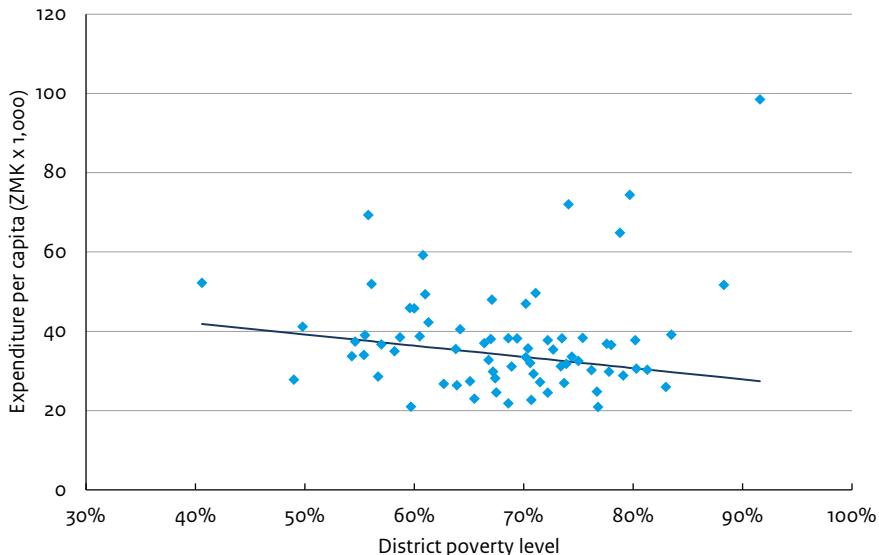
The improvement of key health services also varied across provinces. Rural and poorer households had less access to health services than urban and wealthier households. For instance, access was lower in the northern and north-western regions than in Lusaka (ODI/Mokoro, 2009, 11). Significant gaps existed in the number of facilities required to cover the population's needs, especially in rural and remote areas. There was a shortage of primary health-care facilities in particular (World Bank, 2009, 15). Rural health centres also had the highest staffing for low-skilled, non-clinical, non-administrative posts at 31%, compared to about 24%–28% for urban health centres and hospitals.

The rural–urban and poor–rich gap was especially large in the case of services that rely on skilled professionals, such as birth attendance. The percentage of births attended by skilled personnel in 2000 and 2001, for example, was 79% for urban areas and 28% for rural areas (World Bank, 2009). While the new Zambia Demographic and Health Survey (ZDHS) in 2007 confirmed a slight improvement (83% for urban areas and 31% for rural areas), major differences remained. The disparity between urban and rural areas also reflects an imbalance of wealth. In 2007, the percentage of births attended by skilled personnel was

¹³⁹ The graph shows one extreme outlier (the small district of Luangwa in Lusaka Province). This also suggests that scale effects play a role.

27% for the two lowest wealth quintiles; for the fourth wealth quintile this was 71% and for the highest wealth quintile 91%.

Figure 10.6 MoH district expenditure per capita by district poverty level (2008)



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Source: MoH; authors' calculations.

Table 10.5 Deliveries by wealth quintile (2007)

	Poorest	Second	Middle	Fourth	Richest
At home	71%	70%	62%	28%	8%
Public facility	24%	25%	33%	68%	84%
Private facility	5%	5%	5%	4%	8%

Source: ZDHS 2007.

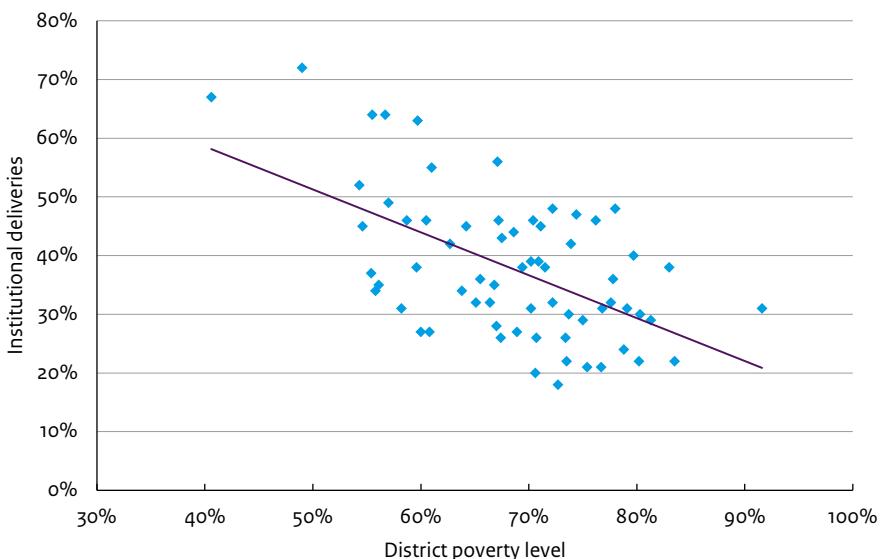
About half the women gave birth at home. Private facilities were very uncommon and only used by the richer households. Home deliveries were increasingly rare in the richer quintiles. The richer quintiles were reported to have used public facilities more often, indicating that these facilities have a pro-rich bias. Women in the lowest wealth quintile gave birth to their children at home, while women in the highest wealth quintiles remained in public or private health facilities.

Home deliveries were particularly common in the poorest provinces and the rural areas (Annex X). The data also show that more and more women gave birth in health facilities, although more people stopped giving birth at home in urban areas than in rural areas. Information about the educational background of mothers suggests that the percentage of

children born in a health facility in the poorest groups was increasing: in 2001 and 2002, 82% of the mothers without education gave birth at home; in 2007 this percentage had decreased to 74%.

Figure 10.7 confirms the negative correlation between district poverty levels and the percentage of women giving birth in an institutional facility. In the poorest districts, deliveries at home are more common than in richer districts. Many children born at home are not examined after birth, especially in rural areas. The data also show a minor negative correlation between district poverty rates and the full immunization of children under the age of one.

Figure 10.7 *Institutional deliveries by district poverty level (2008)*

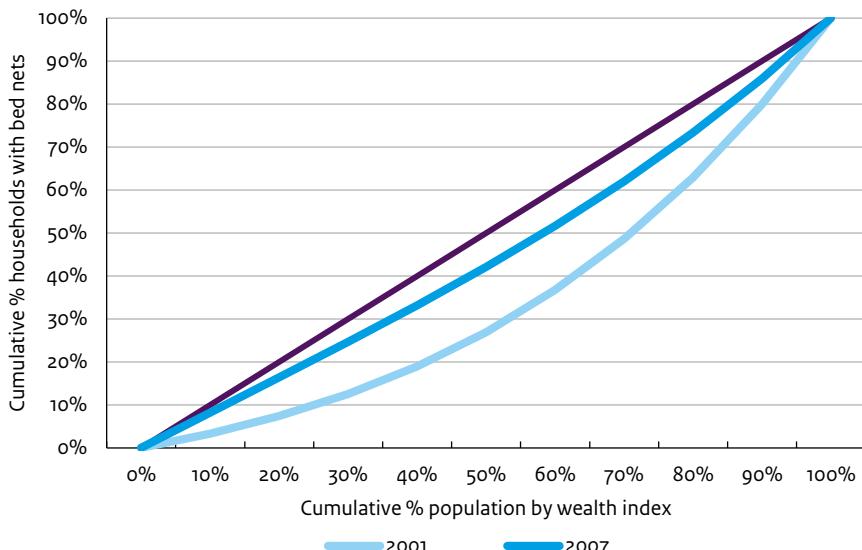


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Source: MoH; authors' calculations.

The bed-nets campaign (Chapter 9) was more successful in reducing inequality. In 2001, only 25% of rural households and 37% of urban households reported having at least one bed net. By 2007, these percentages had risen quite dramatically: to 71% and 72%, respectively. The pro-urban bias had also been completely eliminated by 2007. Figure 10.8 shows the concentration curve of bed nets. In this graph, the lower the curve is below the diagonal line, the more skewed the distribution is in favour of richer households. The distribution of bed nets has clearly become more balanced between the two years surveyed. In 2007, the curve was very close to the 45° line, indicating almost complete equality.

Figure 10.8 Distribution of bed nets by wealth indicator



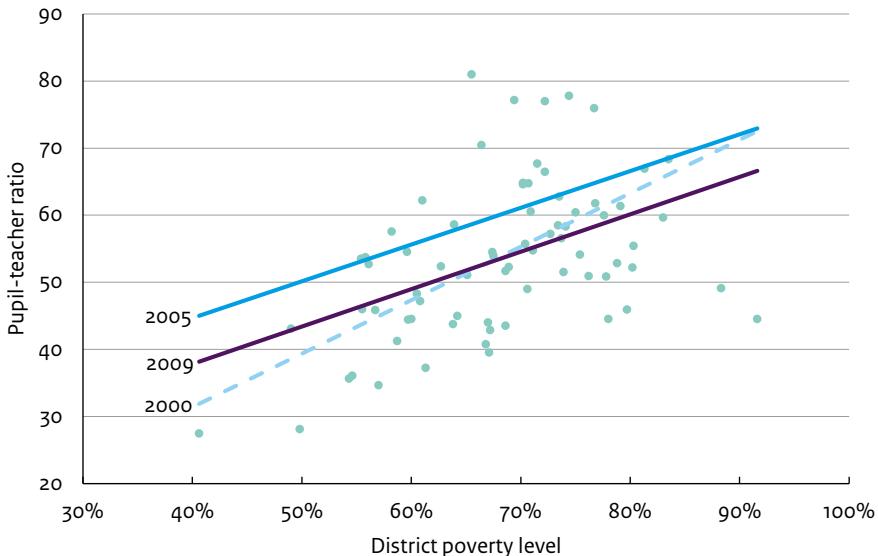
Source: Elbers et al. (2011).

10.4.2 Education

The picture in education is very similar to that in health. First of all, disbursements to schools (school grants and resources for infrastructure and textbooks) were progressive, with poorer districts receiving a higher amount per pupil than richer districts. However, like the operational grants in the health sector, these grants were very low. They were only a small part of the total resources available for primary schools, as the majority went to salaries and infrastructure. Pupil–teacher ratios are a better indicator of how resources were allocated. In the past, several studies concluded that teacher deployment had regressed in Zambia: pupil–teacher ratios were higher in rural areas and poor districts than in urban areas and richer districts (World Bank 2006; IOB, 2008). While the situation has slightly improved, disparities still exist. Figure 10.9 shows pupil–teacher ratios by district poverty level for 2000, 2005 and 2009. The figure confirms that in 2009, the deployment of teachers was still regressive, with higher pupil–teacher ratios in the poorest districts.¹⁴⁰ Nevertheless, deployment improved between 2000 and 2005. Between 2005 and 2009, pupil–teacher ratios improved in most districts, but regional disparities were no longer narrowing.

¹⁴⁰ The dots in the Figure 10.9 are the 72 districts in 2009 with the percentage of poor households (on the x axis) and the average pupil–teacher ratio for primary schools in the district (on the y axis). The three lines sketch the relationship between poverty levels and pupil–teacher ratios at district levels for the years 2000, 2005 and 2009.

Figure 10.9 Pupil–teacher ratios by district poverty level (2000, 2005 and 2009)*



* District data for 2009; regression lines for 2000, 2005 and 2009.

Source: Ministry of Education; authors' calculations.

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There are several explanations for the persistence of these disparities. First of all, most teachers prefer to work in urban areas, resulting in an enormous shortage of trained teachers in more remote areas. The Ministry of Education paid an incentive of 20% extra pay for teachers in rural schools in order to promote teacher deployment in remote rural areas. However, these bonuses did not provide sufficient compensation for the hardship and lack of housing facing these teachers. There is also a more encouraging explanation. One of the reasons why the Ministry was not more successful in combating inequality in pupil–teacher ratios was that enrolment rose faster in rural areas and poorer districts than in urban areas and richer districts. Between 2005 and 2009, total enrolment in basic schools grew by 18% in rural areas. The increase in enrolment in urban areas was much lower (7%). More teachers were recruited for rural areas, but as a result of higher enrolment (which was partly driven by increased teacher recruitment), the disparities between urban and rural areas did not diminish.

Evidence from the ZDHS also shows that the poorest groups, in particular, benefited from investment in education and the introduction of free primary education in 2002. In 2000, 51% of the children in the poorest wealth quintile attended primary school; in 2007, this figure had increased to 73%. Disparities in school attendance remain, but they have narrowed considerably. Disparities between regions have also narrowed considerably, with the largest increases in enrolment taking place in the poorest areas.

Table 10.6 Primary school attendance by wealth quintile (2000 and 2007)					
	Poorest	Second	Middle	Fourth	Richest
2000					
total	51%	58%	65%	73%	87%
2007					
total	73%	74%	80%	85%	90%
male	72%	75%	80%	85%	91%
female	74%	74%	80%	85%	88%

Source: IOB 2008 and ZDHS 2007

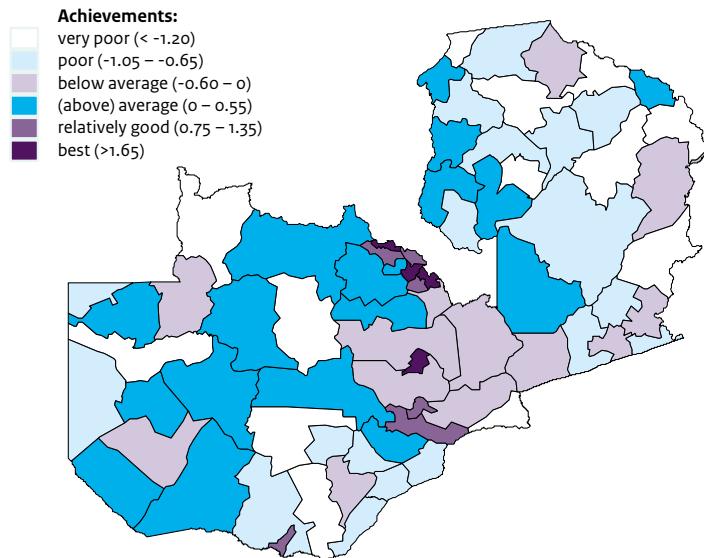
These increases in enrolment in the poorest and most remote areas had important implications. First, there it had a negative effect on the average class size and pupil–teacher and pupil–book ratios. However, there was an even more important effect: now children whose parents never received an education were going to school. These children lived in areas where people generally cannot speak English, and where there is no electricity at home for light to read books by or to power radios and televisions. This change had a much more far-reaching impact on the population than did the increases in class size (Chapter 9 and IOB, 2008). In terms of impact, the marked differences between districts in learning achievements, repeating years and dropout, confirm the relationship between socioeconomic background and learning achievements.

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In general, districts in Copperbelt, Lusaka, Livingstone, Kabwe and Kafue performed well in terms of these indicators, whereas the poorest districts in the Northern, Eastern and Southern Provinces was relatively poor.

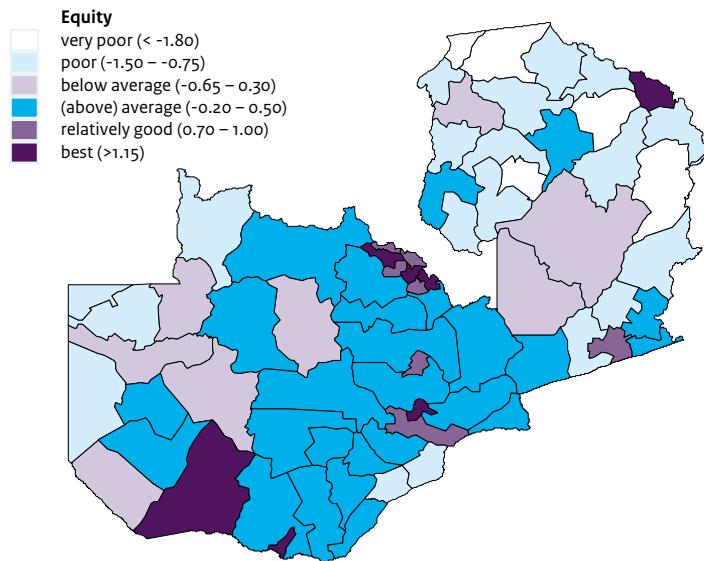
The MoE actively promotes the education of girls. Examples are lower thresholds for girls for the transition from Grade 7 to 8, and bursaries for girls. As a result, gender parity has almost been achieved at the lower and middle basic level (Chapter 9). The girl–boy ratio improved in Grade 9 from 0.87 in 2005 to 0.91 in 2009. Gender inequities are most persistent in the poorest districts and rural areas. Inequities are highest in the northern and north-western districts (Figure 10.11). As well as cultural differences, the gender of the teachers plays a role as well. In general, there are more female teachers in urban areas and male teachers in rural areas. The government policy is understandable from the point of view of the female teachers, as there is much more hardship in rural areas. However, this has had a negative impact on the enrolment of girls.

Figure 10.10 Achievements in basic education by district (2009)



Source: MoE and ECZ; authors' calculations.

Figure 10.11 Equity at district level (2009)



Source: MoE and ECZ; authors' calculations.

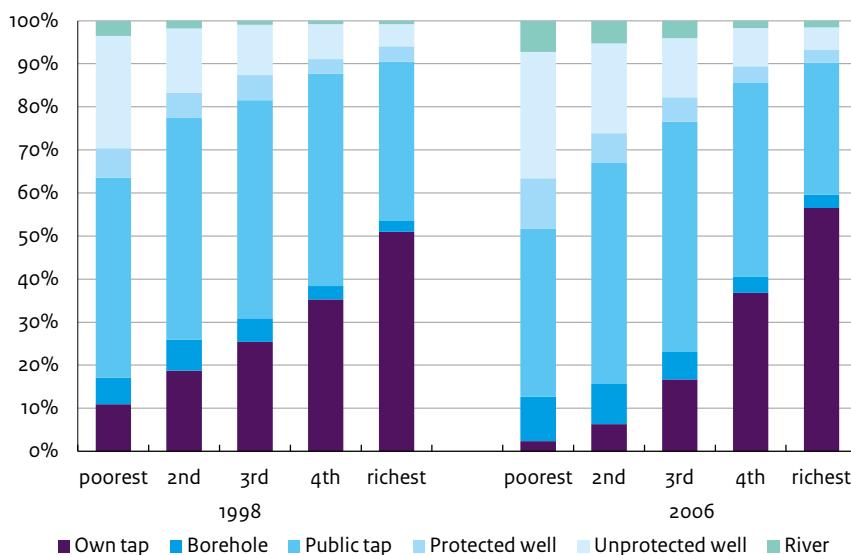
10.4.3 Water

Water and sanitation is another area where large differences have traditionally existed between urban and rural areas. In 2006, 87% of the households in peri-urban areas had access to safe water; in rural areas, this was 41%. Apart from urban–rural differences, access to sources of safe water is also related to household income. While slightly more than 60% of the poorest peri-urban residents (first quintile) had access to safe water in 2006, for the richest peri-urban residents, this figure was close to 100% (Figure 10.12). Compared to 1998, access to safe water has remained fairly constant for the richest households in peri-urban areas, while in the poorest quintile, there was even a decline in access rates.

Figure 10.13 depicts the water supply source used by households in rural areas along poverty quintiles. The figure shows that progress in terms of improving access to safe water in rural areas has been unequal. For the poorest households (first and second quintiles), access to sources of safe water remained more or less unchanged over time (2% increase), although ‘protected wells’ – a ‘relatively unsafe’ source in the safe water source category – were replaced by boreholes. In 2006, the predominant sources of safe water supplies for the poorest quintile were boreholes (25%), followed by protected wells (8%). In comparison, 66% of the richest quintile had access to safe water in 2006, which was partly the result of far better infrastructure in terms of taps and boreholes compared to the poorest two quintiles. Furthermore, access to safe water for the richest rural residents increased by about 25 percentage points between 1998 and 2006.

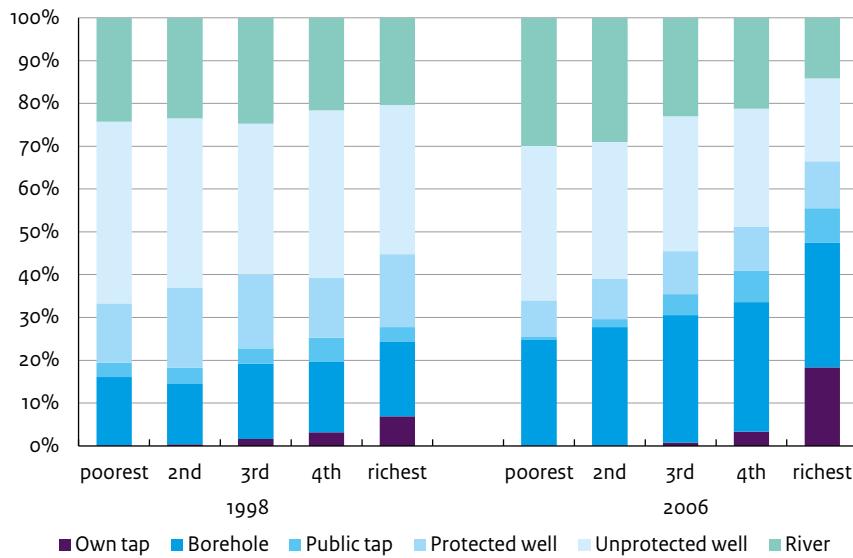
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Figure 10.12 Source of water supply by consumption quintile in peri-urban areas (1998 and 2006)



Source: LCMS 1998; analysis by KfW.

Figure 10.13 Source of water supply by consumption quintile in rural areas (1998 and 2006)



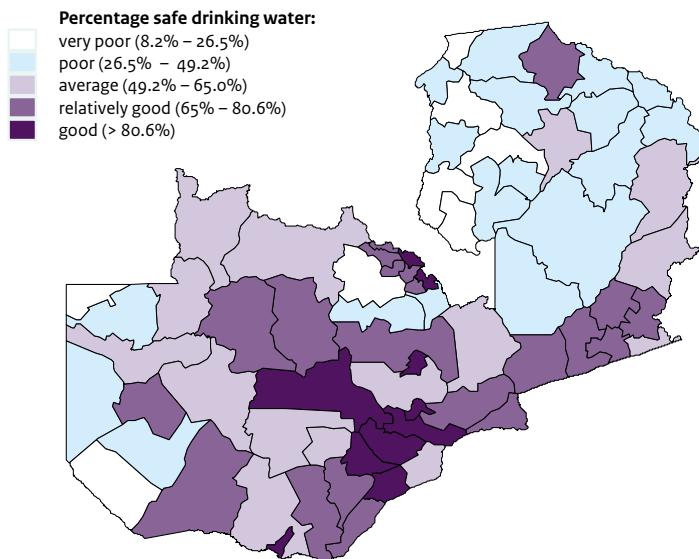
Source: LCMS 1998; analysis by KfW.

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Districts in provinces like Lusaka and Copperbelt had better access to safe water than remote districts like Serenje (in Central Province) and Shangombo (in Western Province), where only a small percentage of households had access to safe drinking water. Yet, in some of the poorest districts (e.g. Sesheke in Western Province) access to safe water supplies was better than in some richer districts.

Evidence does not suggest that considerable improvement has taken place in recent years, especially not in rural areas (Chapter 9). The lack of information on the availability of safe drinking water facilities in rural areas is striking. According to the ZDHS, 78% of the households in rural areas had no access to improved drinking water facilities in 2007; for urban areas this was 14%. In urban areas, water supply coverage (piped water) has improved from 67% in 2006 to 72% in 2009.

Figure 10.14 Distribution of access to safe drinking water by district



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Source: KfW (2010).

10.4.4 Access to facilities and the role of roads

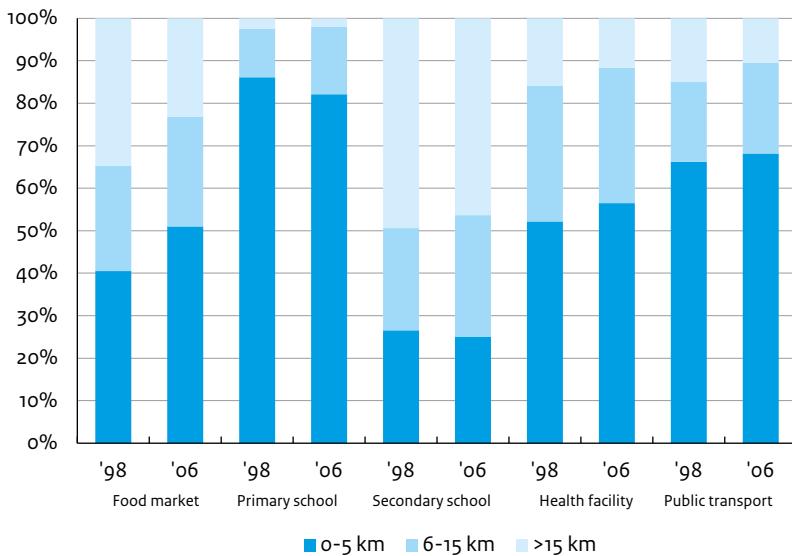
Access is closely tied to distance. In 2006, on average more than 90% of the households in urban areas lived less than 5 km from facilities like schools, food markets and health facilities, which is very similar to the situation in 1998. In rural areas, however, the access to such services and facilities was much more varied. Overall, more than 50% of rural households were over 16 km from major amenities (Figure 10.14). The proximity to services in rural areas varied depending on household poverty levels. On average, poor households were further away from the facilities than moderately poor and non-poor households. The data also suggest an accumulation of differences regarding access.

Compared to 1998, the situation in rural areas has improved slightly, especially the distance to food markets. The distance to primary schools (lower and middle primary schools) has deteriorated slightly as a result of the sharp increase in the enrolment of children from more remote areas. People in rural areas who live up to 15 km from these facilities usually reach them by foot. Other modes of transport, especially bicycles and public transport, are generally only used by people who come from farther distances.

The burden of reaching crucial facilities and services for rural households is obvious. Nevertheless, an analysis based on the 2006 Living Conditions and Monitoring Survey (LCMS) shows that at the time recent improvements to facilities (within the last year) were less common in areas where the poorest groups lived, even though the quality of those services was already as poor as it could get and the travelling distance further than in other areas (Figure 10.15). The differences were especially marked for road projects, even though

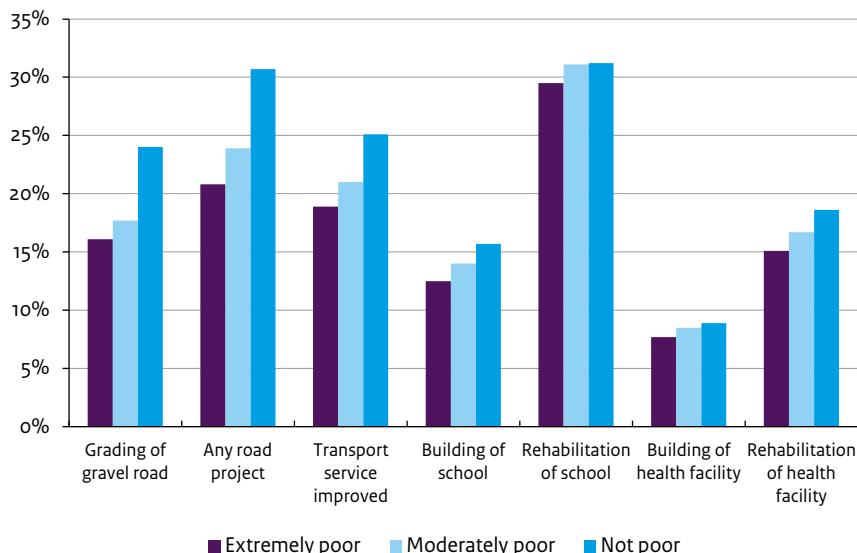
these projects are important for improving the living conditions of the poorest groups. Given the lack of progress in improving rural roads in recent years (Chapter 9), one may conclude that there is a continuous high demand for further road projects in these areas. The fact that households consider more road projects to be a priority attests to this.

Figure 10.15 Proximity to facilities in rural areas (1998 and 2006)



Source: LCMS 2006; analysis by KfW (2010).

Figure 10.16 Improvements to facilities in rural areas by poverty level (2006)



Source: LCMS 2006; analysis by KfW (2010).

10.4.5 The Constituency Development Fund

Field visits to rural areas in Southern Province and Eastern Province reveal that people feel that their living standards have not improved in the last five years, despite economic growth and increases in expenditure.

An instrument that should have contributed to the improvement of the quality of life in rural areas is the Constituency Development Fund (CDF). Zambia's CDF was approved by parliament in 1995 to finance micro-community projects for poverty reduction. As part of their capital programmes, each council is mandated to include CDFs for communities that are part of the capital budgets. The councils are required to account for these funds in accordance with the 1996 Local Government Act. The principle of the CDF is firmly imbedded in the wider decentralization policy. The CDF is one of the most significant transfers disbursed to the local councils.

Under this initiative, the government allocates development funds on an annual basis to all 150 constituencies in the country. These funds are under the control of the local member of parliament, who is a member of the CDC. The CDF has grown from ZMK 60 million (approximately US\$13,000) per constituency in 2006 to ZMK 666 million (proximately US\$148,000) per constituency in 2010. In 2008, the central government only released a total of ZMK 46 billion out of the planned ZMK 50 billion because of the failure by some constituencies to account for the 2007 CDF. In 2010, the CDF was increased to ZMK 100 billion. The budget is distributed in equal amounts to all constituencies, e.g. an amount of ZMK 666 million per constituency (about US\$150,000).

However, there is some evidence that funds are being politicized and are ‘largely selected not on the basis of any technical evaluation by DPOs (...) as a result of efforts by local politicians to appease party cadres and other local elites’ (MoFNP 2008b, 49). As a result, the CDF is rather perceived as part of a political patronage system, and there are indications that the fund is not an effective tool for improving local infrastructure development (Mukwena, 2002, 14; Leiderer et al., 2010).

Local authorities face a number of challenges:

- The Council lacks the capacity to mobilize resources to generate more local revenue and increase access to external funds to support efficient execution of local activities;
- there is a lack of efficient coordination with relevant central government agencies regarding the provision of social services (health, education and public safety);
- there is a lack of capacity to accelerate the expansion and improvement of infrastructure in districts, which is needed to implement and complete projects; and
- internal systems and processes are weak and incapable of effectively addressing auditing queries and other revenue-related reports.

In interviews, local officials indicated that the implementation of policies, such as the decentralization policy, was inefficient and delayed. Another major factor was that the central government’s funding of local governments was inadequate and unpredictable, which has led to hugely inefficient service delivery (see also Leiderer et al., 2010). Grants from the central government (Ministry of Local Government) were not consistent, and districts experienced huge variations in grants. These variations posed an enormous challenge to the overall service delivery mechanism as it distorted the work plan.

10.5 Summary and conclusions

Economic policy was favourable for economic growth, but this was not enough for a sharp reduction of poverty levels. In spite of the economic growth, poverty has not been reduced very much and the already high income disparities further widened between 1998 and 2006. Preliminary data for 2010 also do not point to significant improvements.

Rural poverty is especially persistent. One of the main causes has been the slow growth of agricultural production. A simulation of the (potential) effects of aid also showed that these groups do not automatically belong to the main beneficiaries of an increase in aid. Aid reduces the relative returns to land substantially and this has a specially significant effect on small farmers. This means that an increase in aid should be accompanied by well-targeted programmes. One of the main programmes in the agricultural sector, the Fertilizer Support Programme, was not sufficiently targeted at the poorest groups. Investments in roads have contributed to economic growth, but these investments were not yet high enough to reap the potential (economic) benefits. Moreover, investments in roads have focused on the main roads and not on secondary rural roads and therefore did not contribute very much to the alleviation of rural poverty.

The results of a 2006 household survey showed that recent improvements of facilities were less common in areas where the poorest groups lived, even though the quality of those services was already lowest and the distance higher than in other areas. The differences were especially high in road projects. In peri-urban and rural areas, access to improved water facilities had hardly improved for the poorest households and could even deteriorate. At the district level, disparities in access to safe drinking water, sanitation facilities and electricity are much larger and more related to poverty levels and urban–rural differences than disparities in access to and allocation of resources in health and education.

There are also more positive findings. In education, access of the poorest groups to basic education has improved enormously. Data show the continued existence of large differences in pupil–teacher ratios, with higher ratios in poor and rural areas. However, these differences have slightly decreased. Moreover, enrolment growth in the poorest districts was higher than enrolment growth in other districts, and this phenomenon contributed to the seeming ineffectiveness of deploying teachers to poor rural areas. Teacher recruitment in poorer areas was higher than teacher recruitment in other areas, but as a result of the high enrolment growth, disparities in pupil–teacher ratios have not diminished. School grants and operational grants in the health sector were progressive, with the poorest district receiving relatively more funds than wealthier districts.

Nevertheless they were far too low. The distribution of bed nets was another major success. However, these bed nets were funded by donors and not by the government.

In response to the FNDP's mid-term review, cooperating partners expressed their concerns about service delivery in rural areas. They noted that the lack of progress in rural areas called into question the credibility of GRZ's commitment to use public resources to fight poverty where it is needed most. Cooperating partners, who insisted that service delivery be improved in the most under-served areas, may have had a positive impact on the direction funding took, but at the same time their efforts were not very effective. Field visits and focus group discussions in rural areas show that the government and cooperating partners have not been able to meet the rising expectations of the poorest groups.

At the same time, one needs to be more realistic. It would be an illusion to think that the small amounts of aid (per capita) would make it possible to 'make poverty history' within a few years. First of all, the rising population numbers eat up a large portion of GDP growth. Second, an analysis based on poverty headcounts ignore that many households had incomes far below the poverty line. Four or five years of prolonged economic growth are not enough to lift these people out of poverty. Higher growth rates, more prolonged growth and above all more sharply focused income policies are necessary to alleviate income poverty.

11

Conclusions

11 Conclusions

This chapter summarizes the main findings and reaches conclusions based on the evaluation questions.

11.1 Inputs

1.1 Which inputs have been provided by budget support and to what extent do they correspond to the envisaged general budget support/sector budget support inputs?

Budget support consists, first of all, of the provision of direct, untargeted funding in support of the general budget or specific sector budgets. In Zambia, cooperating partners provide both forms of budget support. Altogether, budget support received by GRZ between 2002 and 2009 increased from US\$65 million in 2002 to US\$248 million in 2009. The share of budget support of total official development assistance flows to Zambia is still comparatively low (22% in 2008).

The *policy dialogue* structure around budget support in Zambia is outlined in the joint memorandum of understanding (MoU) and was signed by all Poverty Reduction Budget Support (PRBS) donors and GRZ. There are no specific dialogue mechanisms related to sector budget support operations as issues related to sector budget support are usually dealt with either within the context of general budget support or within the dialogue structures linked to sector-wide approaches.

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The *conditionality* attached to the provision of budget support funding is applied on two levels: the underlying principles that frame the general mutually agreed basis for the provision of budget support and the Performance Assessment Framework (PAF). PRBS is provided on the precondition that GRZ is committed to fight poverty; committed to democratic principles, the rule of law and good governance; committed to public financial management reform; and committed to pursuing sound macroeconomic policies. The PAF serves to regularly assess government, and more recently also the cooperating partners' performance in implementing the programme. The use of the PAF to determine disbursements varies widely between cooperating partners.

PRBS cooperating partners have also engaged simultaneously in a number of programmes and initiatives related to technical assistance (TA) and capacity development.

1.2 To what extent are the budget support operations that are in place consistent with Zambia's strategic and policy framework and with the overall development partners' development strategies?

PRBS donors have acknowledged the Government of the Republic of Zambia's preference for general budget support as an aid modality. Budget support operations were largely in line with the national strategic framework and priorities. Measured against the government's regularly updated medium-term financial plans, the funding was fairly

reliable. However, it did fall short of what was considered necessary to meet the ambitious poverty reduction and development goals formulated in the Fifth National Development Plan (FNDP). The broad and not very explicit formulations of prioritization and implementation in the plan made it relatively easy for cooperating partners to formally align themselves with the FNDP, and at the time it left the door open to push for donor-driven reform. The evaluation revealed three weaknesses:

- the PAF has too many indicators, thereby complicating policy prioritization;
- disbursement mechanisms do not correspond to a homogeneous incentive system but rather respond to the logic of individual cooperating partners; and
- the conditionality of the underlying principles provides extensive room for manoeuvre for individual cooperating partners, thereby potentially creating collective action problems.

1.3 How well was the design of general budget support and sector budget support inputs adapted to the specific political, economic and institutional context of Zambia?

In principle, budget support inputs in Zambia are well aligned to the specific economic and institutional context in Zambia and thus allow for genuine democratic ownership of the processes involved. However, there are several deficiencies with regard to institutional alignment, participation and democratic ownership in the policy dialogue. Even though the key dialogue processes are open to civil society participation, in practice, the involvement of civil society organizations or, for instance, parliamentarians has been less than satisfactory.

Moreover, serious weaknesses exist with regard to information management and record keeping for key PRBS processes. Despite the complexity of the PRBS and related dialogue processes, there is no institutionalized and effective joint knowledge and information management system regarding these processes on either side of the aid relationship. The MoFNP has insufficient capacity, as do cooperating partners, and both have failed to compensate for this weakness. In this respect, budget support operations have not been fully adapted to the intervention logic that highlights the importance of the alignment principle.

11.2 Output

2.1 To what extent has budget support contributed over time to an increased size and share of external funding subject to the government's budgetary process and improved the predictability of aid flows overall?

Budget support has increased the size and share of aid subject to GRZ's budgetary processes, facilitating planning, accounting and reporting procedures for the government with regard to aid inflows.

Aid predictability in Zambia in general is fairly poor, seriously undermining the effectiveness of GRZ planning and cash-flow management. This applies in particular to project-based aid, but also to PRBS funding. The main problem for PRBS predictability is timing rather than the amounts disbursed. Late disbursements affect budget

implementation and in this respect, the cooperating partners' disbursement patterns contribute to disappointing results.

2.2 To what extent has budget support contributed to the establishment of a framework of policy dialogue, focused on key government strategies and priorities?

A comprehensive dialogue structure has been established around the budget support process, which provides the basis of a regular and structured policy dialogue. These structures helped to discuss conflicting interests on conditionality and funding. In this regard, these structures have provided a strong institutional shield against the further fragmentation of the dialogue process. The established mechanisms also gave cooperating partners and GRZ a platform for dealing with highly controversial issues. The dialogue mechanisms were fruitful in preventing the implosion of attempts at harmonization and alignment during times of crisis.

Nevertheless, setting up a complex dialogue structure with important functions for an ambitious aid instrument such as budget support requires strong capacity and the political will to manage these dialogue structures in an effective and efficient manner. While cooperating partners and GRZ have continued to verbally express their intention to do so, the *de facto* capacity on both sides has been limited. The specific sector interests of individual cooperating partners tend to weaken the effectiveness of harmonization.

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2.3 To what extent has budget support contributed to the provision of non-financial inputs, such as technical assistance and capacity building, which are considered to be strategic government priorities?

In order to assist GRZ in improving the quality, efficiency, cost-effectiveness and delivery of public services to its people, cooperating partners have engaged in a number of programmes and initiatives of technical assistance and capacity development. These activities, partly conducted as accompanying measures of budget support, were embedded in the context of the government's own reform agenda. GRZ has been implementing the Public Service Reform Programme (PSRP) since 1993, which was recently re-formulated as PSRP II. In line with the GRZ-owned programme, the majority of budget support donors provide funding in support of the Public Expenditure Management and Financial Accountability (PEMFA) programme, the first component of PSRP. In addition, a number of cooperating partners support the government in building capacities at the Office of the Auditor General (OAG) as well as in parliament or engage in other budget support-related technical assistance.

2.4 To what extent has budget support contributed to the harmonization and alignment of external assistance, and reduced transaction costs over time?

While budget support has increased the size and share of aid subject to the GRZ's budgetary processes, this did not happen at a level where a substantial reduction of overall transaction costs of development cooperation could be expected.

The coordination with the cooperating partners' activities that are not directly linked to the provision of budget support does not seem to have had a substantial effect on aid harmonization and alignment beyond activities directly related to PRBS. For instance, there is no coherent and harmonized approach to capacity development under which a formalized coordination and dialogue process on TA activities could be established. As a consequence, the PEMFA programme was insufficiently coordinated with other TA activities, and while PEMFA provided a strong framework for donor coordination and harmonization within the programme and for PFM dialogue with the GRZ, the cooperating partners seem to have partly lost sight of coordination with other TA outside PEMFA (and provided through other aid modalities). As a consequence, no formalized coordination and information exchange mechanisms with other TA activities have been established. Due to the failure of the GRZ to conduct a comprehensive assessment of capacity building needs, a lack of coordination, and the interests of cooperating partners, much of the capacity building was supply oriented, rather than demand oriented.

11.3 Induced outputs

3.1 To what extent did budget support contribute to the improvement of fiscal discipline and macroeconomic management?

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Over the past years, GRZ has performed fairly well with regard to macro-economic management and fiscal discipline. While strong economic growth was a main factor, budget support certainly helped to maintain fiscal discipline, in particular during the international financial and economic crisis. The Highly Indebted Poor Countries (HIPC)/Multilateral Debt Relief Initiative (MDRI) debt relief helped to bring down external and domestic debt to moderate levels, and international reserves have increased significantly. Zambia's revenue performance was consistently above the average of low-income countries in sub-Saharan Africa. In 2008, revenue (excluding grants) had reached 18.6% of GDP, which was in line with the target set in the FNDP. There is no evidence of substantial crowding out of domestic resources in the sense that the provision of budget support would have led to reduced mobilization of domestic revenue. Nonetheless, there is substantial scope to increase the tax-to-GDP ratio further by broadening the tax base and by taxing the mining sector more heavily.

3.2 To what extent did budget support contribute to improved budget management and overall PFM?

Notwithstanding repeated delays in the implementation of reforms and the continued need to further strengthen the PFM system, the most recent Public Expenditure and Financial Accountability (PEFA) assessment, conducted in 2008, confirmed that PFM performance in Zambia has improved in all dimensions of the PEFA indicators. A broad consensus exists among actors on both sides of the aid relationship as well as within civil society that these achievements were predominantly due to the general focus of the PRBS dialogue and underlying principles. At the same time, Zambia's PFM system continues to exhibit substantial weaknesses, even in those areas that are arguably of particular relevance to PRBS effectiveness and the minimization of fiduciary risks such as policy-based budgeting, budget variance and expenditure controls.

Further improvement is needed in external budget oversight. In particular, even though the effectiveness of the Auditor General's Office improved significantly, important challenges with regard to follow-up of audit findings remain. Strengthening the legislature's oversight function appears to be even more difficult. There continues to be significant overlap between the executive and the parliament, and this has had a negative impact on the parliament's independence.

3.3 To what extent did budget support contribute to an improvement of policy processes and policy implementation (including ownership and transparency)?

The quality of policy processes, especially of those related to transparent and accountable public financial management, is still poor as a result of capacity shortages, coordination problems and a number of political challenges. These processes slightly improved between 2005 and 2006, and in 2008, but since 2009 it has been difficult to maintain the momentum of this development.

Nevertheless, it is worth mentioning that budget support made at least a partial contribution to some policy reform processes. The first example is the *reform of the budget calendar* approved in late 2009 and implemented in 2010. The *support of the decentralization* process has also been an area where the PRBS had some, albeit limited, success. The overall political and fiscal decentralization process in Zambia has been weak, and despite some initiatives by GRZ, the implementation process stagnated for several years. The PRBS High Level Policy Dialogue was helpful in achieving reforms, because PRBS partners signalled to GRZ that they would consider a further delay another political sign of non-compliance with the underlying principles.

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3.4 To what extent did budget support contribute to the level and composition of public spending?

Budget support facilitated the increase of GRZ's budgets and expenditure between 2005 and 2009. The direct contribution of PRBS increases to total budget growth was relatively modest: 5.6 percentage points of the 34% rise in real expenditure between 2006 and 2009 can be explained by the increase in budget support resources. Nevertheless, the resources in question were decidedly more important for the government's fiscal space than the relatively small budget share would suggest. This is because domestic revenue barely covers – mostly statutory – recurrent expenditure. For discretionary spending, and in particular capital expenditure, the government still relies heavily (if not exclusively) on loans and grants.

Budget allocations and expenditure in Zambia in the social sectors are roughly in line with the strategic priorities as set out in the FNDP and can be considered fairly pro-poor. Budget support resources, even though certainly not decisive in determining these allocation patterns, have facilitated significant increases in social sector spending, especially in education and health. There is evidence that budget support did not crowd out (but rather crowded in) domestic resources in these sectors. Between 2005 and 2008, budgets and expenditure in these sectors increased more than in other sectors, especially as result of increased domestic expenditure. In the same years, poverty-related expenditure in the social

sectors increased from 35% to 38% of domestic revenue (which includes increases of between 43% and 47% in poverty-related programmes in the productive sectors).

A continuous concern is the persistently high wage bill, which erodes the share of capital expenditure in total spending and poses a potential threat to the implementation and continuation of investments in programmes that reduce poverty. In this respect, the acceptance of the new pay policy may be seen as one of the PRBS partners' success stories, provided that this policy will be implemented as intended.

3.5 To what extent have there been improvements in governance and democratic accountability, particularly regarding the relative roles of parliament and civil society in relation to the budget?

When assessing budget support's effect on the quality of policy processes and governance, one has to keep in mind Zambia's difficult political environment. The available evidence suggests that, at least, mildly positive effects on policy processes and overall governance quality have taken place. However, while the period between 2006 and 2010 saw an overall upward trend regarding some core governance indicators, *ownership of improved core governance dimensions* has decreased over the last two years. Nevertheless, budget support is one of the few external factors that has built up a certain amount of leverage, and which has worked against the further deterioration of governance in the last two years. The PRBS group is still the most coherent external actor that has partly compensated for weak domestic power-sharing arrangements. Budget support still carries considerable weight as far as the government's 'fiscal space' for development-oriented investments aimed at maintaining political support is concerned. Given serious political competition in Zambia's electoral democracy, budget support may be politically important for GRZ in its dealings with political opposition as it may be envisaged as a 'seal of donor approval'.
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3.6 To what extent did the rule of law improve in the country?

Zambia ranks slightly above average in sub-Saharan Africa regarding various governance indicators, including corruption and the rule of law. With regard to corruption, the World Bank Governance Indicators also suggest an improving trend since 2004, which nevertheless has been slightly reversed since 2009. An Office of the Auditor General that is more influential and has a growing capacity to oversee public spending is a sign that the rule of law is improving. On the other hand, the consequences after the alleged misappropriation scandals have been modest at best, given the fact that the prosecution of the politicians involved in the scandal is not making headway. Moreover, marginalized citizens still have difficulty accessing the justice system. Budget support therefore has only contributed to improving the rule of law in a narrow sense by strengthening the Office of the Auditor General. More systemic effects of budget support rule of law in Zambia in general were negligible.

11.4 Outcome

4.1 How did the economy perform and interact with the economic and institutional environment?

Since 2000, Zambia has been undergoing an encouraging macroeconomic trend. From 2003 onwards, real GDP growth fluctuated from 5.7% to 6.3% (with an average of 6.1% for the evaluation period). Substantial investments were made in some of the major sectors, particularly in mining, manufacturing and tourism. Starting from an undiversified economy based on the extraction of mineral resources, the country managed to diversify its sources of economic growth, albeit to a limited degree. Today, the mining sector still accounts for 70% of the country's exports and 4% of its GDP. On the negative side, the agricultural sector has been underperforming. One reason for this stagnation is a continuously low level of productivity caused by the sector's dependence on the right weather conditions, farmers' limited access to agricultural inputs, credit problems and outstanding land reforms.

4.2 How did the overall target groups' quality of life (impact), including citizens' security and access to services (outcome) change over time?

In the health sector, tuberculosis and (recently) malaria have experienced positive developments. The percentage of children under five years of age who are underweight has fallen from 29% in 2001 to 15% in 2007. The disease burden has increased, however, mainly as result of the high prevalence of HIV/Aids. There has been a significant improvement in indicators such as infant mortality, child mortality and maternal mortality, although results in these indicators are still off track (in comparison with the MDG, FNDP and PAF targets). Health service delivery data also reveal imbalances. The poorest areas are still under-served. These imbalances are reflected in the decreased use of health services and the higher disease burden in the poorest and most remote areas.

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In education, enrolment in basic education continues to rise. Total enrolment in the primary education subsector grew from 2.8 million in 2005 to 3.4 million in 2009. Enrolment growth in the poorest districts was higher than in other districts. Moreover, enrolment growth was mostly achieved in the lowest income quintiles. Enrolment of children from the poorest households and of children in remote rural areas has improved significantly. Gender disparities still exist, but they have diminished as well. Gender parity has almost been achieved in the lower and middle basic levels. Gender disparities are especially high in rural and poor districts. At the upper basic level, girls continue to drop out of the school system in significantly greater numbers than boys. The quality of education remains poor, partly as a result of a lack of resources. The number of pupils completing primary education and upper basic education has increased enormously, but average results have not improved.

In spite of these improvements, access to many facilities is still difficult for the poorest groups. Improved facilities were less common in areas where the poorest groups lived, even though the quality of those services was already as low as it gets, and people in this group had to travel further than people from other areas. The differences were especially stark for

road projects. Data show modest improvements in access to *safe drinking water and sanitation facilities*. However, there are large differences in access to safe drinking water between urban and rural areas, and between income groups, with the poorest, rural households as the most underserved group. In peri-urban and rural areas, access to safe water facilities did hardly improved for the poorest households and could even deteriorate.

4.3 To what extent have citizens' incomes and the distribution of income changed, with particular focus on the poorest segment of the population?

Efforts to fight income poverty appear to be disappointing. Poverty levels decreased only marginally between 1998 en 2006 (from 73% to 64%). The highest reductions in poverty levels were in urban areas, and poverty levels remained stable in rural areas. Poverty rates are much higher in rural areas than in urban centres. Rural poverty levels remained more or less stable (between 77% and 80%). The majority of rural households rely on agriculture, and therefore the only slight growth in the agricultural sector explains why poverty incidence is still highest among rural small-scale farmers. Poverty is most widespread among households whose head never went to school. There is no difference in the level of poverty between male-headed and female-headed households. Income differences, and the gap between urban and rural areas, have widened. The bottom 50% of the Zambian population receives a meagre 15% of the country's total income, while the top 10% receives 48%. Preliminary data for 2010 do not point to a strong improvement.

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11.5 Impact

5.1 To what extent can changes in the performance of the economy be related to changes in macroeconomic and fiscal management, and/or changes in other government policies or policy processes, and/or other external or internal factors?

Prudent macroeconomic policies and significant structural reforms associated with the HIPC–MDRI debt relief sparked an economic turnaround in the last decade. External and domestic debt has been reduced to moderate levels, and international reserves have increased significantly. The Bank of Zambia has managed monetary policy well with a view to reducing inflation, while at the same time maintaining conditions to facilitate economic growth. The key macroeconomic policy challenge facing the country in the near future is to create fiscal space for spending to enhance economic diversification and reduce Zambia's dependence on copper exports. This requires mobilizing more revenue from mining, for example, containing current spending, including on the wage bill, and improving overall spending efficiency. The high wage bill endangers investments in infrastructure and especially in roads. Investments in roads contributed to economic growth, but these investments were not yet high enough to reap the potential benefits.

A major concern in the literature on aid effectiveness is that aid may lead to what economists call the Dutch Disease, the unintended effect of reducing exports. A simulation of the effects of Dutch Disease for Zambia shows that the effect is modest: about 20%–30%

of the amount of aid is ‘lost’ through the subsequent fall in exports, so that the aid-financed increase amounts to 70%–80% of the total amount. While 20%–30% is an impressive number, it is much lower than what was envisaged in policy discussions in Zambia.

5.2 To what extent can changes in people’s overall quality of life, including citizens’ security and the access to and use of services, be related to changes in government policies or policy processes, and/or to other external or internal factors?

For the health sector, the analyses show that government and cooperating partners improved service delivery and reduced the prevalence of diseases such as tuberculosis and malaria. The impact analysis also identified positive impacts on child mortality, maternal death, malaria and diarrhoea. The use of bed nets, especially in rural areas, was important for reducing malaria.

In education, budget increases enabled the Ministry of Education to invest more in teachers and classrooms, which improved pupil–teacher ratios, pupil–classrooms ratios and pupil–book ratios, and these factors had a significant impact on results. GRZ and grant-aided schools were responsible for 63% of total enrolment growth between 2005 and 2009. Community schools were mainly responsible for the remaining growth. The number of examination candidates in Grades 7 and 9 grew rapidly and pass rates improved. Completion rates improved from 82% in 2005 to 92% in 2009 for the middle basic level, and from 43% to 53% for the upper basic level. A lack of resources was partly responsible for the continuously poor quality of education. It must be noted, however, that the enormous enrolment growth has hugely changed student demographics in Zambia. In 2010, many children from poor, remote rural areas, whose parents never had the chance to enjoy an education, went to school.

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Econometric analyses showed that roads projects have a significant impact on secondary school attendance rates and visits to modern health facilities, and they altered the number of households living in extreme poverty.

The econometric analyses also showed that access to safe water and adequate sanitation significantly improved health, particularly by reducing the incidence of bloody diarrhoea in children below the age of 60 months, by increasing the school attendance rates of girls and boys, and by reducing the share of households living in extreme poverty. The effects were greatest in households that had access to both safe water and adequate sanitation, while the effects of safe water in rural areas could only be identified for boreholes, implying that boreholes (apart from piped water which is rarely available) are the only really safe source of drinking water in such areas. In addition to the impact of an improved water supply and sanitation infrastructure, water treatment also had a major impact on the quality of life in rural households as well. In terms of safe sanitation, the analyses suggest that girls benefit more than boys when it comes to school attendance, which suggests there are differential gender effects.

5.3 To what extent are changes in citizen's incomes and the distribution of income related to changes in government policies or policy processes, and/or to other external or internal factors?

So far, government policies aimed at reducing income poverty were ineffective. While the economic policy promoted favourable economic development, GDP growth was hardly able to reduce income poverty. Income disparities widened. High poverty levels persisted, especially in rural areas. In agriculture, one of the main programmes, the Fertilizer Support Programme, did not sufficiently target the poorest farmers. Investments in roads did not target poor rural areas either.

At the same time, one needs to be more realistic. It would be an illusion to think that the small amounts of aid (per capita) would make it possible to 'make poverty history' within a few years. The rising population numbers has had a negative impact on per capita growth, and therefore also on the reduction of poverty. Higher growth rates, more prolonged growth and above all much more focused income policies are necessary to alleviate income poverty.

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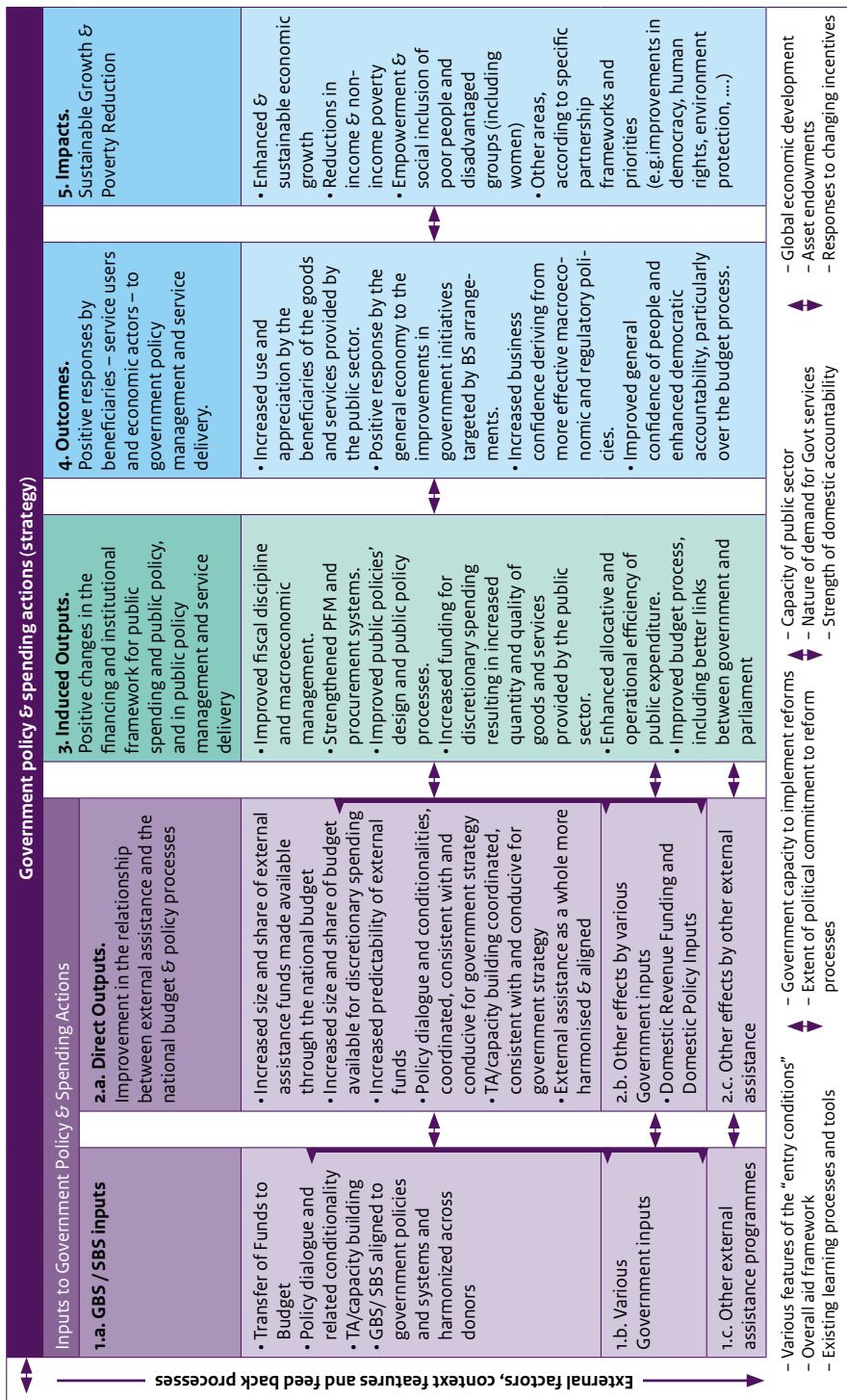
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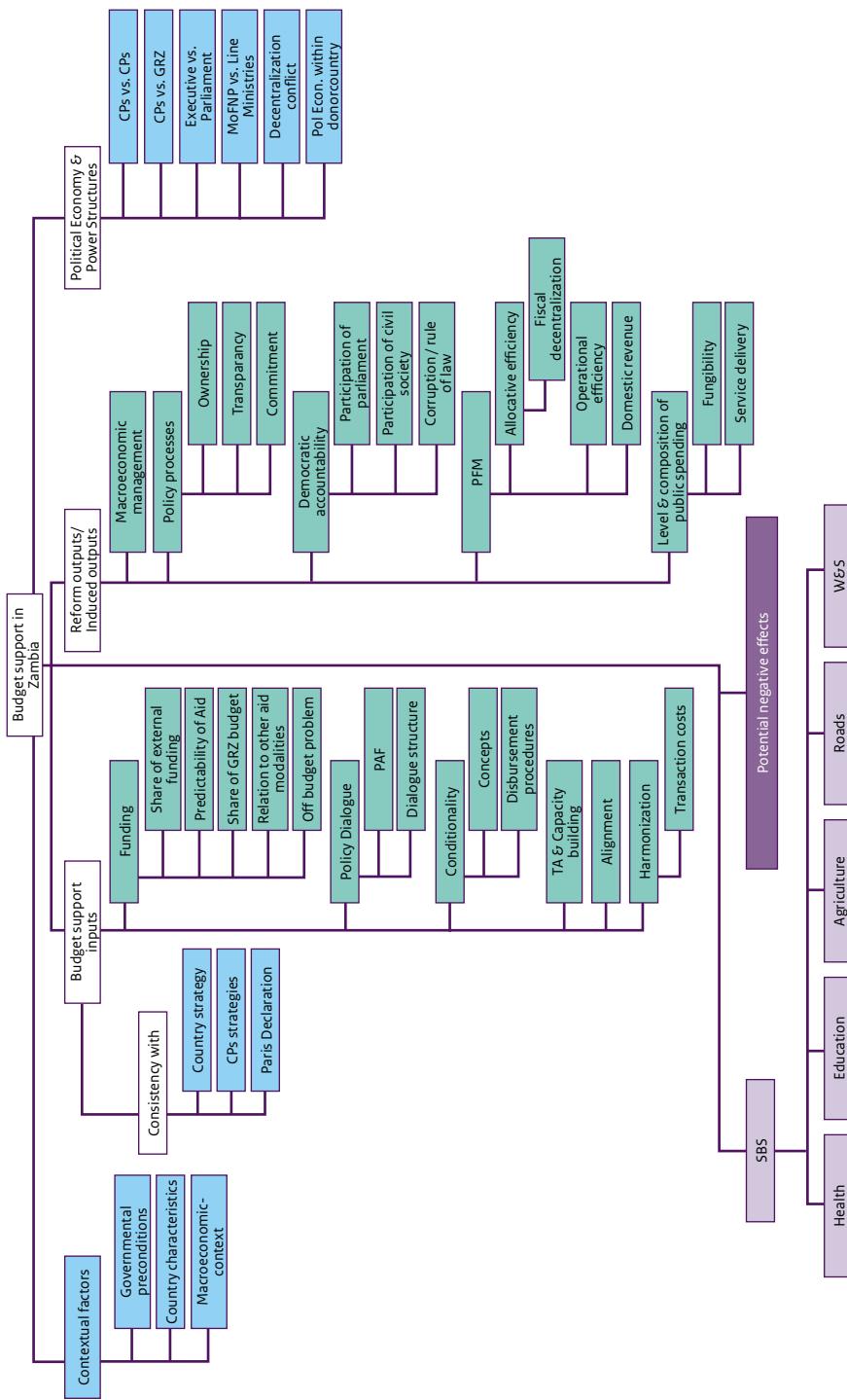
Annexes

Annex I: Causality map budget support



Annex II: Analytical grid for qualitative data analysis

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Source: Leiderer and Faust (2011).

Annex III: Use of 2008-2010 PAF indicators for PRBS disbursement decisions

Indicator	World Bank	AfDB	European Commission	Sweden	Norway	UK	The Netherlands	Germany	Finland
DEC 1									
PSM 1									
PSM 2	PA								
PSM 3									
PFM 1				VAR	VAR				
PFM 2	PA		VAR-APT	VAR	VAR				
PFM 3			VAR-APT	VAR	VAR				
PFM 4			VAR-APT	VAR	VAR				
PFM 5		PA	VAR-APT	VAR	VAR				
PPF 1	PA		VAR-MDGT	VAR	VAR				
DTR 1			VAR-MDGT	VAR	VAR				
FSD 1	PA		VAR-MDGT	VAR	VAR				
AGR 1									
AGR 2									
AGR 3	PA								
INF 1									
INF 2			VAR-MDGT						
INF 3			VAR-MDGT	VAR	FIX	VAR	FIX	VAR	FIX
INF 4									
INF 5									
PSD 1	PA		VAR-MDGT						
PSD 2		PA	VAR-MDGT						
PSD 3	PA	PA	VAR-MDGT	VAR	VAR				
HEA 1			VAR-MDGT	VAR	VAR				
HEA 2			VAR-MDGT	VAR	VAR				
HEA 3									
HEA 4									
EDU 1			VAR-MDGT	VAR	VAR				
EDU 2a									
EDU 3									
EDU4			VAR-MDGT	VAR	VAR				
HIV 1				VAR	VAR				
HIV 2									
HIV 3			VAR-MDGT						
ENV 1									
PA = Prior Action; must be achieved before floating tranche is released		Fixed tranches: linked to overall satisfactory progress/no specific threshold for PAF score		Used for disbursement decision of variable tranche; tranche linked to individual indicators or overall PAF score; APT = Annual Performance Tranche, MDGT = MDG-Tranche (three-year basis)					

Source: authors' own figures based on information provided by cooperating partners; Note: the list of indicators in the PRBS Inventory is not fully consistent with the indicators listed in the 2009 PAF and 2010 PAF Annual Review.

Cooperating partner	GB commitment (million US\$)	Reason given by cooperating partner for delay
2007		
Sweden	14.24	IMF review delayed
The Netherlands	10.96	In 2007 the signing of the bilateral agreement took a longer than expected.
Germany	6.85	Delay due to late signing of documents.
EC	37.14	Delays were mainly of administrative nature, with a number of additional supporting documents requested by EC HQ.
AfDB	45.91	The first and major reason was delayed submission of the PRBS June review report, as agreed at inception. In addition, there was a delay associated with the supply of wrong account details for holding the funds. Disbursement was indeed effected as soon as these two issues were rectified.
World Bank	10.00	The government advised that they would rather have the credit disbursed in 2008 than in late 2007 as was planned. Thus negotiations were deferred to 2008.
2006		
Norway*	12.98	An extra allocation was made from HQ in Norway that facilitated an additional disbursement of NOK 35 million late in 2006. However, flexibility was expressively given and GRZ could have requested to transfer this amount to 2007 so as to not disturb the cycle of planning and expenditure in 2006 unduly.
UK	35.56	PRBS cooperating partners disburse upon written request from the government. DFID received a late disbursement request for the Q3 payment.
World Bank	9.86	The Bank was committed to disburse against the new PAF and the new PRSP. However, the government launched its PRSP only in early 2007.
2005		
Norway	6.13	The bilateral agreement between Zambia and Norway was signed in the 4th quarter 2005, and linked to this the first disbursement was made in the same quarter. Initially an amount of NOK 30 million was planned but additional availability of funds on the Norwegian aid funds in 2005 led to a reallocation exercise leading to an additional NOK 9.5 million for Zambia that was channelled as GBS.
World Bank	20.00	The government delayed in meeting the milestones.

*No delay but additional funding; Source: SPA (2008).

The 2009 scandal in the health sector

The dialogue mechanism and its effectiveness has been put to the test after a whistle-blower tipped off the Anti-Corruption Commission (ACC) in 2009 about theft in the MoH involving the disappearance of over ZMK 27 billion in 2008–2009 and an estimated ZMK 64 billion or more since 2006. A number of donors, including the most important ones in the health sector – the Netherlands, Sweden, the GAVI Alliance and the Global Fund to Fight AIDS, Tuberculosis and Malaria – immediately decided to suspend and/or delay aid disbursements. During that year, cooperating partners complained about GRZ's lack of vigour in tackling this corruption case (as well as tackling corruption in general), and at one point aid flows to the Ministry of Health dried up completely.

Resumption of disbursements was tied to conditions in an action plan. The conditions included recovery and repayment of misappropriated funds, prosecution of the officers involved and measures to prevent the same thing from happening again. Sweden and the Netherlands proposed a joint Swedish–Dutch (Sida–DGIS) position on these conditions, which GRZ would have to meet before donors would consider gradually releasing funds again to the MoH.

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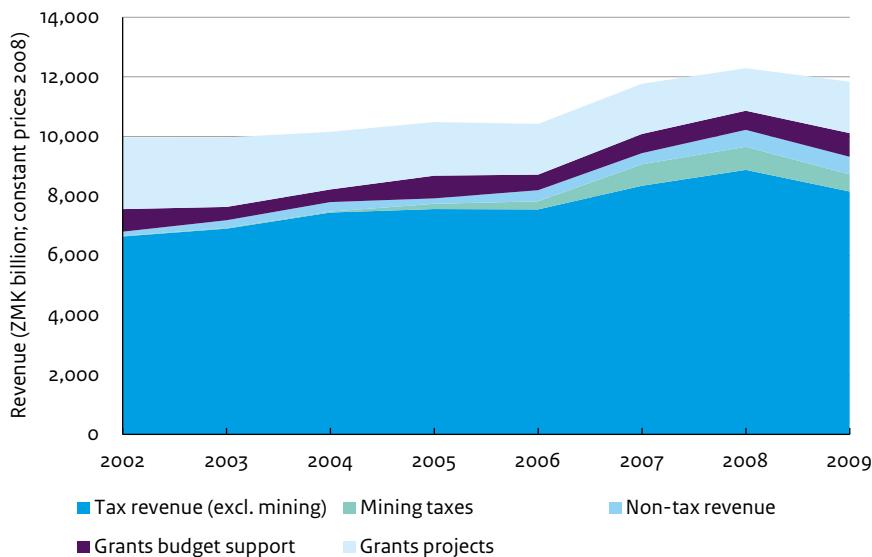
The embassies proposed the following ways of moving forward again:

- To adopt an action plan as the basis for lifting the suspension of disbursements to the MoH.
- To make a first tranche available if and when all benchmarks of the immediate actions recommended in the Action Plan have been met and verified, based on a revised and prioritized MoH work plan and liquidity plan for the remainder of this year. The second and third tranches are to be released upon full completion of the stated benchmarks, taking into account MoH's reporting on the implementation of the action plan.
- Corrective measures should include the recovery and repayment of misappropriated funds based on the outcome of the Auditor General's forensic audit.
- Preventative measures should include additional oversight and safeguarding measures provided by the Office of the Auditor General, who will conduct continuous pre- and post-audits and report its findings on a quarterly basis. This should be complemented by the immediate strengthening of key departments such as procurement, accounts and internal auditing.

Structural measures should include strengthening MoH's financial management capacity, including the revival of the Audit Committee, the annual external performance audits and the institutionalization of the core values of integrity and good management practices within the MoH.

Source: De Kemp, Faust and Leiderer (2010); Saasa (2010).

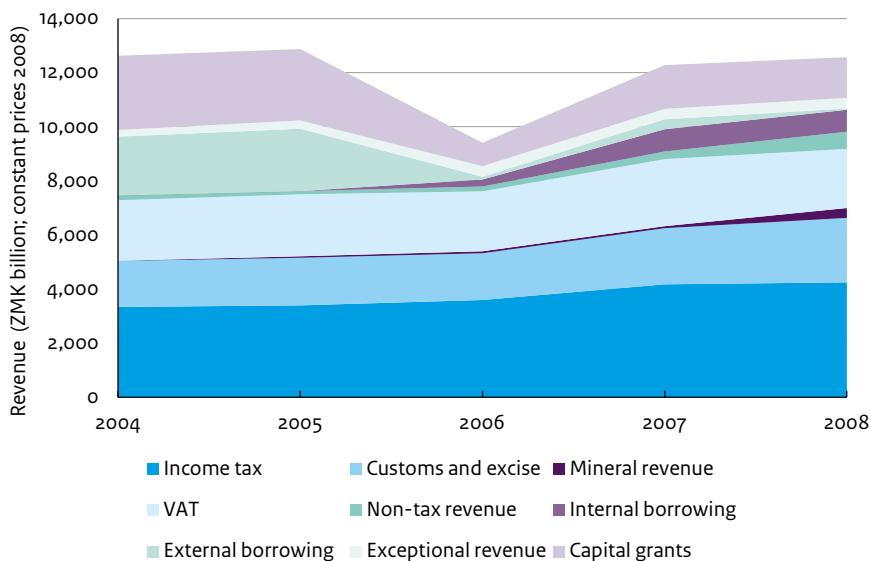
Figure VI.1 Revenue 2002–2009, CP data



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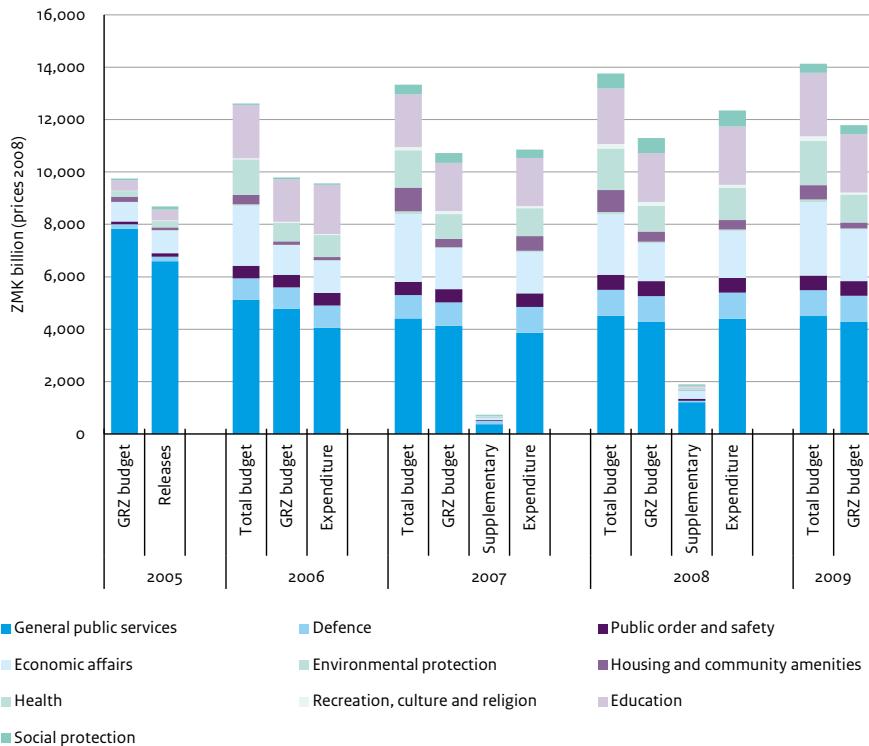
Source: Whitworth (2010); MoFNP Financial Reports; authors' calculations; 2009 provisional.

Figure VI.2 Revenue 2002–2009, MoFNP data



Source: MoFNP Financial Reports; authors' calculations; 2009 provisional.

Figure VII.1: Budget and expenditure by function (2005–2009)



Note: Only domestic expenditure is reported by functional classification in the Accountant General's reports. For 2005, only the domestic budget and releases are reported by functional classification in the quarterly reports and almost certainly are subject to serious reporting error. The financial report for 2009 was not yet available in functional classification at the time of writing; budget figures for 2006 and 2009 are originally approved budgets excluding supplementary budgets, which are only available by functional classification for 2007 and 2008.

Source: MoFNP.

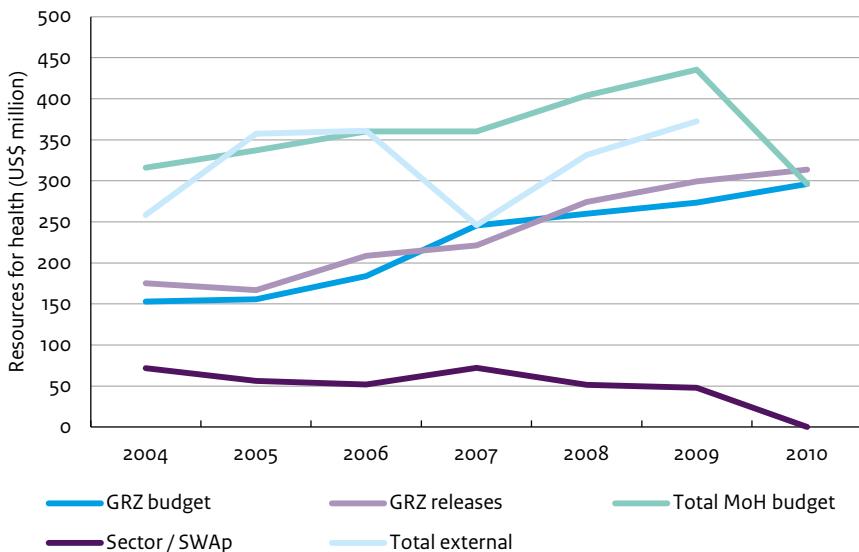
Table VII.1: Budget for several sectors (2005–2009; ZMK billion)*

	2005	2006	2007	2008	2009
Agriculture					
GRZ	346	401	663	526	919
CP	1	210	356	261	155
Total	347	611	1,019	787	1,074
Health					
GRZ	416	557	830	974	1,134
CP	484	524	388	539	671
Total	900	1,081	1,218	1,512	1,805
Education					
GRZ	864	1,277	1,616	1,879	2,425
CP	255	279	269	272	353
Total	1,119	1,556	1,885	2,151	2,778
Roads					
GRZ		292	382	670	921
CP		308	74	264	238
Total		600	456	934	1,159
Water					
GRZ	169	67	133		
CP	412	151	289		
Total	581	218	422		
Total budget:					
GRZ	6,947	7,904	9,678	11,295	12,740
CP	3,079	2,286	2,356	2,466	2,539
Total	10,026	10,190	12,034	13,761	15,279

* Including education SWAp in 2005. Data for roads and water and sanitation are from the KfW evaluation and they do not necessarily correspond with the GRZ budget.

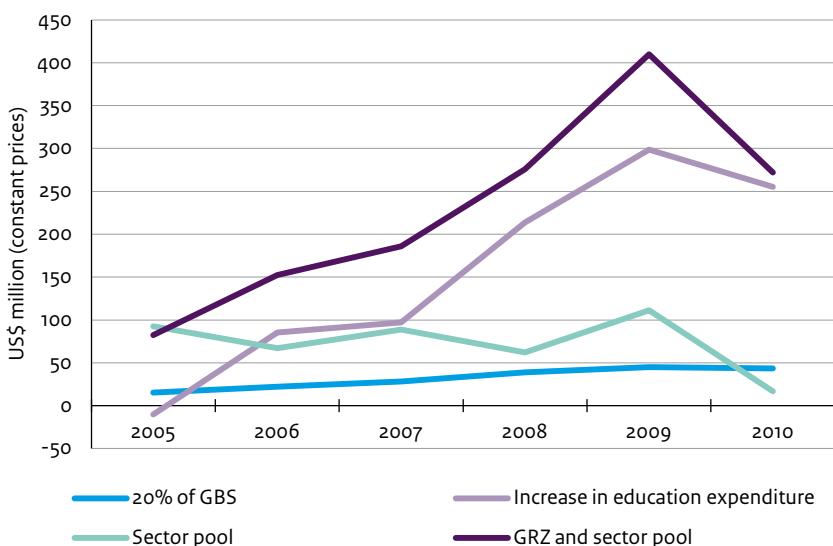
Source: MoFNP; KfW authors' calculations.

Figure VIII.1 Development resources for health 2004-2010 (constant prices 2008; US\$ million)*



* Domestic contribution (MoFNP) to the MoH budget and releases; sector support and SWAp disbursements, total MoH budget (including project support) and total external support (mainly off-budget); Project support not included.
Source: MoFNP, MoH and WHO (for total external support); authors' calculations.

Figure VIII.2 Development of GBS, sector pool and increases in domestic expenditure for education 2005–2010 (constant 2008 prices; US\$ million)



Source: MoFNP and MoE; authors' calculations.

Table VIII.1 Budget and expenditure in the health sector (2004–2010; US\$ million, constant 2008 prices)							
	2004	2005	2006	2007	2008	2009	2010
Budget:							
GRZ	153	156	184	245	260	273	296
CP	163	181	173	115	144	162	-
sector support and basket	72	56	47	64	57	78	0
projects	91	125	126	51	87	84	
Total	316	337	357	360	404	435	
MoH as % of total budget	8.5	9.0	10.6	10.1	11.0	11.8	8.2
External contribution to the MoH budget (%)	52	54	48	32	36	37	-
Expenditure MoH:							
GRZ releases	175	167	209	221	274	299	314
MoFNP (financial reports)*	283	167	218	275	324		
MoH (nat. health accounts)	323	340	300				
World Bank (2009)**	254	236	226	289			
Functional classification:							
Health as % of total budget (%)	10.4	10.6	10.7	10.7	10.7	11.9	8.2
Domestic health budget as % of total domestic budget	6.4	6.1	7.2	8.9	8.8	9.0	10.0
Total health expenditure (THE)***	755	841	807	796	863	741	
THE as % of GDP***	6.6	7.0	6.3	5.8	5.9	4.8	
Gen. government as % of THE***	57.3	54.9	60.7	55.8	62.0	53.0	
External support as % of THE***	34.2	42.5	44.7	30.9	38.4	50.3	
Health as % of gen. gov. ***	14.2	14.7	16.4	13.4	15.3	10.8	

* From 2005, a large part of health expenditure under the SWAp was no longer accounted for in the expenditure presented in the MoFNP's financial reports. As a result, the under-spending in the health sector was very high between 2005 and 2008.

** GRZ and basket funds.

*** WHO data.

Source: Ministry of Finance and National Planning (Financial Reports); WHO (financial health data Zambia); authors' calculations.

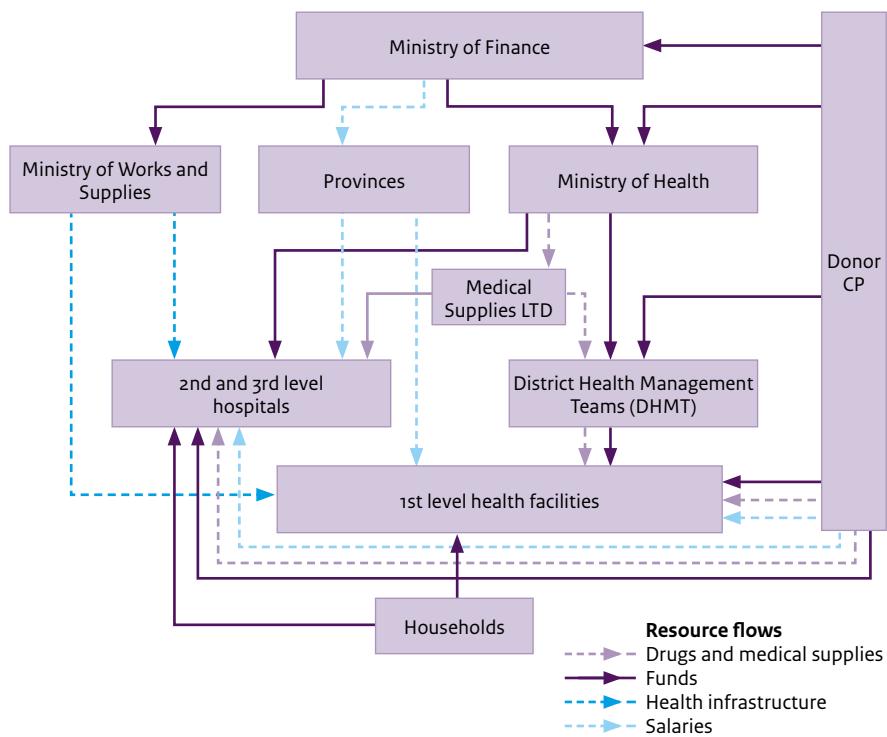
Annex VIII: Sector budgets and expenditure

**Table VIII.2 Development of the budget and expenditure on education
(2005–2009; constant prices in million US\$)**

	2004	2005	2006	2007	2008	2009	2010
Budget:							
GRZ	332	327	422	478	501	585	631
cooperating partners	124	137	92	79	73	85	84
Total	456	464	514	557	574	670	715
Budget by subheading:							
Primary schools	288	263	286	338	358	391	431
High schools	38	68	84	75	97	129	150
Tertiary education	57	74	65	95	99	95	89
Administration and support	73	59	77	48	19	55	40
Early child care (ECCDE)			2	1	1	0	0
Total budget	456	464	514	557	574	670	710
Expenditure:							
GRZ	336	326	421	432	549	634	590
Sector pool/NIF	92	92	67	89	62	111	17
Total expenditure	428	418	488	521	611	745	607
Total expenditure as % of GDP	3.7%	3.5%	3.8%	3.8%	4.2%	4.8%	3.6%

Source: MoFNP and MoE; authors' calculations.

Annex IX: Resource flows in Zambia's health sector



Source: Adapted from World Bank (2009); DIE (2010); modified by IOB.

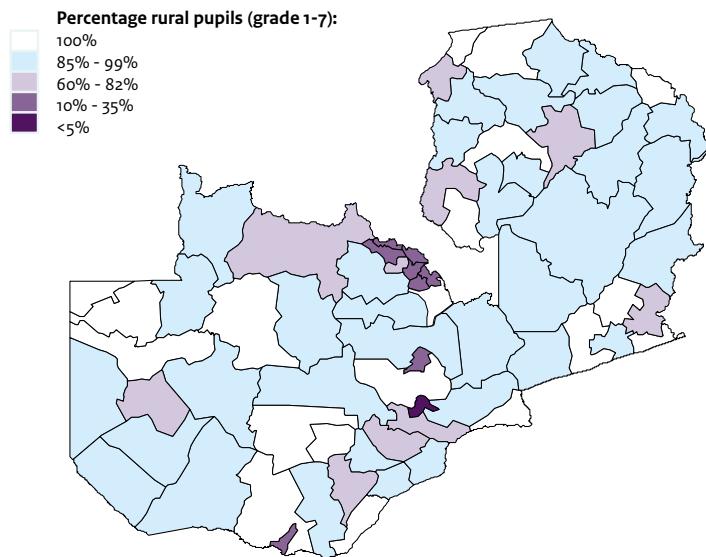
Annex X: Selected outcome and impact indicators

Table X.1 Place of delivery of most recent birth (2001–2002 and 2007; percentages)

	2000–2001			2007		
	Public facility	Private facility	At home	Public facility	Private facility	At home
Residence						
Rural	20	8	72	28	5	67
Urban	67	12	21	80	5	16
Province						
Northern	20	8	72	26	6	69
Luapula	23	6	71	34	2	64
Eastern	24	7	68	39	6	55
Southern	25	7	68	38	0	62
Central	31	3	66	31	3	67
Western	26	7	66	38	8	54
North-Western	26	21	53	36	6	58
Copperbelt	51	21	28	65	12	24
Lusaka	74	1	25	77	2	22

Source: ZDHS (2001–2002) and ZDHS (2007).

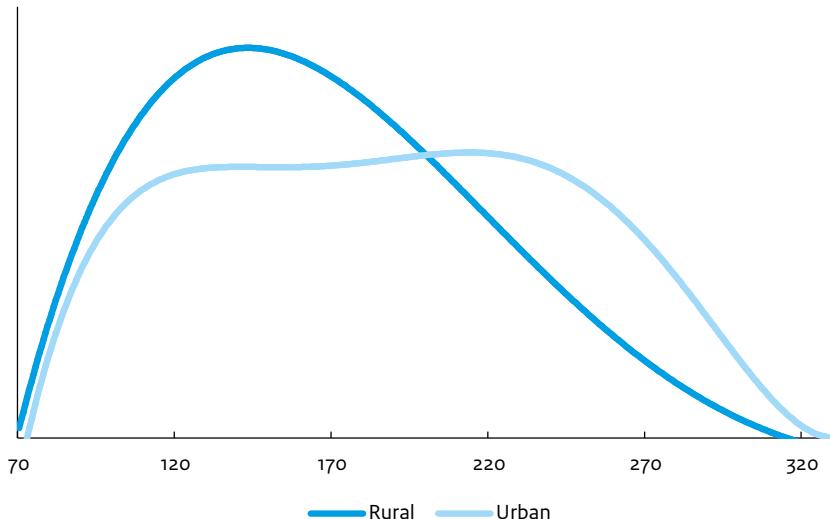
Figure X.1 Percentage of rural pupils by district (2009)



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Source: MoE, EMIS (2009).

Figure X.2 Distribution of examination scores by location (2009)



Source: ECZ, authors' calculations.

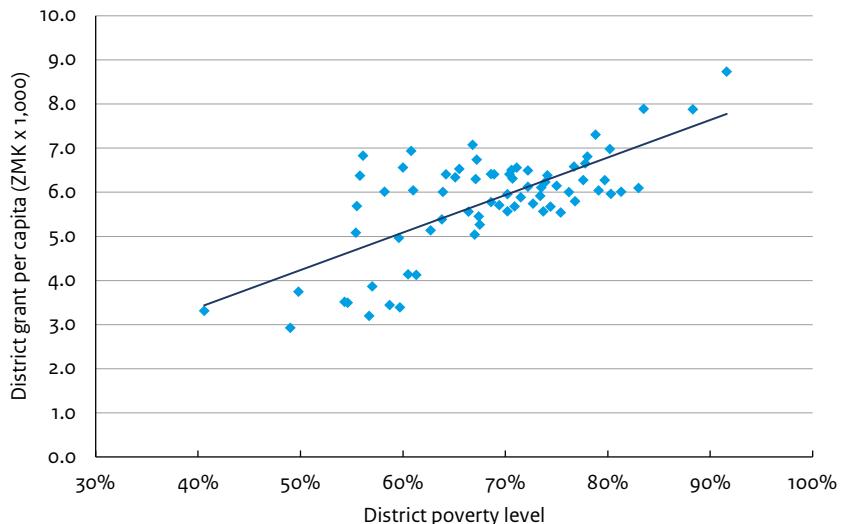
Annex XI: Dutch Disease effects of aid

Table XI.1 Factor mobility in mining and the effects of aid

Aid used for public investment				
	Factor mobility in mining:			
	capital and labour mobile	only capital mobile	only labour mobile	enclave
Δ Aid/GDP	0.013	0.013	0.013	0.013
Δ Exports/GDP	-0.007	-0.003	-0.006	-0.002
Δ Imports/GDP	0.006	0.010	0.006	0.010
Dutch Disease measure (%)	0.530	0.212	0.512	0.199
GDP	1.000	1.000	1.000	1.000
Mining GDP	0.969	0.999	0.971	1.000
Factor prices in mining:				
unskilled wage	1.011	1.029	0.944	0.978
skilled wage	1.009	1.031	0.973	0.978
profit rate	1.003	0.977	1.004	0.978
Factor prices outside mining:				
unskilled wage	1.011	1.029	1.013	1.031
skilled wage	1.009	1.031	1.011	1.033
profit rate	1.003	1.032	1.004	1.033
land rental rate	0.905	0.569	0.881	0.551
Welfare	1.001	1.002	1.001	1.002

Source: Elbers and Gunning (2010).

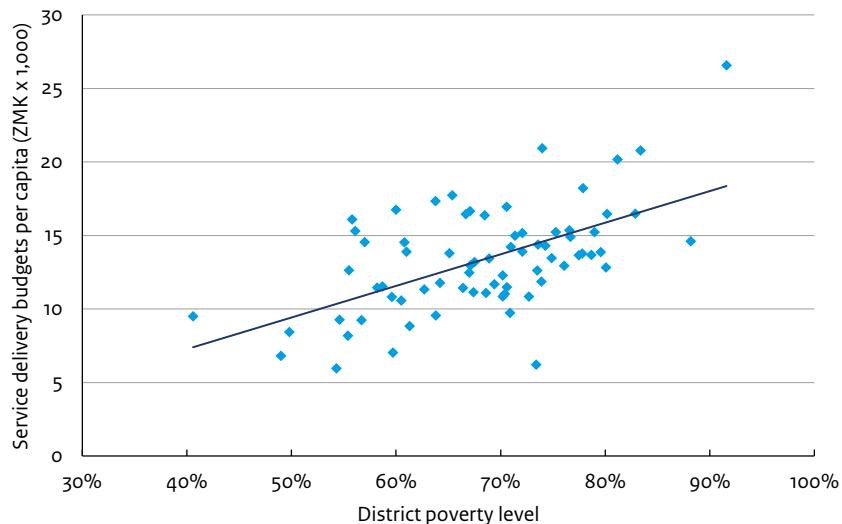
Figure XII.1 Operational grants by district poverty level (2007)



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Source: 2008 PRBS Review Report; authors' calculations.

Figure XII.2 Health service delivery budgets by district poverty level (2008)



Source: MoFNP financial reports.

Name	Organization
Banda, Dingiswayo	Ministry of Agriculture and Cooperatives, Senior Economist, Agriculture Statistics & Early warning
Banda, Modesto	Central Statistical Office, Deputy Director, Agricultural Statistics
Banda, Saul	Ministry of Education, Policy and Research Advisor
Bangwe, Lewis	AFDB, Agriculture Specialist
Beaume, Eric	European Commission, Head of Operations
Belinda, Mrs.	District Council Chadiza, Acting Planning Officer
Benthe, Martin	German Development Service, Programme Coordinator Water and Sanitation
Blokhus, Frans	GITEC, Team Leader and Resident Engineer
Botterweck, Gerd	Friedrich-Ebert Stiftung, Resident Director
Bowden, Andrew	Irish Aid, Governance Advisor
Bushe, Mike	Agricultural Consultative Forum, CACMER
Bwalya , Alex	Ministry of Local Government and Housing, Acting Provincial Local Government Officer
Bwalya , Samuel	Ministry of Finance and National Planning, FMS Officer
Chabala, Chola	Ministry of Finance and National Planning, M&E specialist, M&E Department, Planning & Economic Management Division
Chanza, Collins	Ministry of Health, Chief Planner of Development Cooperation
Chapoto, Antony	Food Security Research Project, Research Coordinator
Chengo, Arnold	Ministry of Education / AED
Chibonga, Pamela	Ministry of Finance and National Planning, Senior Budget Analyst
Chikwekwe, Mwila	Impreuna Consulting
Chileshe, Alexander	Economics Association of Zambia , Executive Director
Chipuwa, John	Ministry of Communication and Transport, Deputy Permanent Secretary
Chisenda, Danies	Ministry of Finance and National Planning – Budget Department, Director Budget Department
Chitambala, Valentine	Ministry of Education, Directorate of Planning and Information
Chitumbo, Kelvin	National Water Supply and Sanitation Council, Chief Inspector
Chiwele, Rhoda	RuralNet Associates Ltd., Consultant
Chongo, Reuben	Agricultural Consultative Forum, CARE International
Chulu, Efreda	Central Statistical Office, Director of Census and Statistics
Chundu, Benny	Ministry of Energy and Water Development, Director of Planning
Cibbamulilo, Patrick	JICA, Senior Programme Officer
Cunningham, Gerry	Irish Aid, Head of Development Cooperation
Daka, Given Mwanakatwe	Royal Netherlands Embassy, Education Specialist

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Daka, Monica	Chikwanda Basic School, Depute Headmaster
De Voogd, Hans	Embassy of the Netherlands, First Secretary, Macroeconomic Affairs
Delaunay-Belleville, Eddy	EU, Rural Development & Food Security Adviser
Di Mauro, Franscesca	European Commission, Head of Section – Budget Support
Dollery, Stephen	Cowi Consult, Team Leader
Gonga, Samuel	Devolution Trust Fund, Manager
Govereh, Jones	ACTESA/COMESA, Senior Policy Coordinator
Griffiths, Dann	USAID, Team Leader, Economic Growth
Gulati, Raj	Agricultural Consultative Forum, Profert (Z) Ltd
Haan, Peter de	Royal Netherlands Embassy, Health Specialist
Haantuba, Hyde	Agricultural Consultative Forum, Coordinator, ACF Secretariat
Hakanema, Gideon	RDA, Department for Corporate Services/Procurement Officer
Hamududu, Highvie H.	National Assembly of Zambia, Chairperson of Estimates Committee
Hara, Matthew	Office of the Auditor General, Director Provinces
Harris, Clare	DFID, Economic Development Advisor
Hussen, Adam	Ministry for Energy and Water Development, Director – Dept. of Water Affairs
Imakando, Moosho	Norwegian Embassy, Programme Officer, Agriculture
Ishiguro, Kaori	Embassy of Japan, Researcher/Adviser
Jayne, Thom	Food Security Research Project, Dept. of Agricultural Economics, Michigan State University
Kabaghe, Chance	Food Security Research Project, Director
Kalaba, E.	Ministry of Agriculture and Cooperatives, Deputy Director, Programme Planning, Monitoring & Evaluation
Kambaila, M.	Central Statistical Office, Head of LCMS
Kanyama, Tembo	DEB Chadiza, District Education Planning Officer
Kanyika, Joe	Examinations Council Zambia
Kaonga, Bype	Ministry of Works and Supply, Director of Planning
Kapinka, Kelly M.	Ministry of Works and Supply, Assistant Director of Planning
Kapoor, Kapil	World Bank, Country Manager
Kasaro Ngolwe, Agnes	Sida, Programme Officer
Kaunda, Emmanuel	National Road Fund Agency – M&E Department, Monitoring and Evaluation Manager
Kettner, Jürgen	European Union, Second Secretary and Head of Infrastructure Section
Klawitter, Simone	GTZ, Programme Manager, Financial Advisor and DTF–NWASCO
Konga , Alice	Bank of Zambia, Senior Economist, Balance of Payments & Debt Division; Economics Department
Kressirer, Robert	GTZ, Office Manager
Krimmel, Thomas	KfW, Consultant

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Kwambwa, Miyanda	Irish Aid, Senior Education Adviser
Lagerstedt, Adam	Ministry of Health, Advisor to the Permanent Secretary
Laursen, Jytte	Danish Embassy, Counsellor Development, Senior Economist
Lubambo, Peter	Ministry of Local Government and Housing, Director Equip II
Lupele, Justin (EQUIP II)	MoFNP (Finance and Planning), Chief Economist, ETC – Transport Responsibility
Lupunga, Paul	National Road Fund Agency, Director and CEO
Mabenga, Raphael	World Bank, Transport Specialist
Makasa, Davies	Ministry of Agriculture and Cooperatives, Deputy Director, Policy Analysis & Statistics
Malawo, Emma	RDA, Manager
Malubila, Stephen	Ministry of Energy and Water Development, Programme Manager and Water Advisor
Mandohs, Andy	Embassy of Finland, Counsellor
Manner, Kati	Ministry of Works and Supply, Chief Engineer of RDA
Mape,	Ministry of Works and Supply, Assistant Director (Technical)
Masce, Meiz	Ministry of Local Government and Housing, n/a
Matengu, Mbala	Ministry of Finance and National Planning , Principal Planner, Economic Management Department
Mbewe, Kennedy	Ministry of Agriculture and Cooperatives, Director, Marketing Department
Mbozi, Green	Agricultural Consultative Forum, General Manager, Seed Co.
Mbungji, Marx	Office of the Auditor General, Deputy Auditor General CSD
Mendamenda, Davison K.	German Embassy, Ambassador
Meyke, Frank	KfW, Financial Specialist Macroeconomics and Public Expenditure
Misale, Cetty	Ministry of Finance and National Planning, FMS Officer
Moyo , Matilda	Ministry of Works and Supply, Director Building Department
Mtuale, Mr.	MoFNP (Finance and Planning), Director
Mubanga, Paul	Economics Association of Zambia , Economist
Mubitwa , Kaalu	Central Statistical Office, Deputy Director, Economic Statistics
Mukuka, P.	AfDB, Senior Country Economist
Mukungu, Ashie	Road Development Agency, Principle Engineer
Mulanga, Daniel	Chipata Municipal Council, Rural Water Supply & Sanitation Coordinator
Mulenga, Chama	NWASCO, NIS Specialist
Mulenga, Mugeni	Ministry of Education, Directorate of Planning and Information
Mulopa, Noel Chiluba	Zambia Development Authority , Strategy Department
Mumba, Florence	Central Statistical Office, Head of LCMS Department
Munkoni, Kambaila	Examinations Council Zambia
Musakanya, Teza N.	

Musonda, Bupe	Ministry of Education, Directorate of Planning and Information
Musonda, Herold	Central Statistical Office, Senior Statistical Officer, Agriculture and Environment
Musonda, Mukupa	RDA, Corporate Services Department
Musuku , Steven	Bank of Zambia, Senior Economist – Balance of Payments & Debt Division; Economics Department
Musunga, Agnes	MoFNP (Finance and Planning), Director Monitoring & Evaluation
Mutale, Peter	National Water Supply and Sanitation Council, Technical Inspector
Mwanamwambwa, Cathyryn	CARE International, Regional Director – North
Mwansa, Louis	Office of the Auditor General, Director Planning
Mwape,	National Construction Council
Mwasambili, Rees	African Development Bank, Water and Sanitation Specialist
Mwenechanya, Mbosonge	Royal Norwegian Embassy, Technical Adviser Development
Mwila , Alfred	Zambia Revenue Authority, Assistant Director Research and Planning
Mwila, Aaron	RDA, Chief engineer Planning, Department for Construction and Maintenance
Mwila, Pascal	Ministry of Energy and Water Development – Department of Water Affairs, Research and Monitoring – Ground Water Unit
Nawiko, Masiye	Agricultural Consultative Forum, Programme Officer, ACF Secretariat
Nayee, Sulu	Agricultural Consultative Forum, FABS Ltd
Ndakala, Charles	Ministry of Education, Systems development manager, Directorate of Planning and Information
Ndambo, Ndambo	Zambia National Farmers' Union, Executive Director
Ndongwe, George	Lusaka Water & Sewerage Company Limited, Managing Director
Nijhoff, Jan	Food Security Research Project, Policy Adviser
Nkoya, Shadreck	Examinations Council Zambia
Nkunika, Bizwayo N	Ministry of Works and Supply, Permanent Secretary
Nyambe, Dominic	Ministry of Education, Standards
Nyambe, Vincent	National Road Fund Agency, Fund Manager
Nyawali, Lazarous	RDA, Regional Road Engineer Livingstone
Ohlsson, Eva	Embassy of Sweden, First Secretary, Agriculture and Food Security
Pain, Chris	GTZ, Macroeconomic Advisor MoFNP, M&E Unit
Palale, Patricia	World Bank, Public Sector Management Specialist
Perznowska, Veronica	Swedish Embassy, First Secretary Health and HIV/Aids
Phillips, Martin	Ministry of Finance and National Planning, Fiscal Decentralization Advisor

Phiri, Felix	Ministry of Education, Director Planning and Information
Phiri, John	Ministry of Agriculture and Cooperatives, Chief Agriculture Economist
Phiri, Mr.	DEB Chadiza, District Education Standards Officer
Rabenau, Kurt von	KfW, Consultant
Rademacher, Georg	German Embassy, Head of Cooperation – WZ-Referent
Revilla, Julio	World Bank, Senior Country Economist
Rieger-Ndakorerwa, Gudrun	German Development Service , Regional Director
Röper, Achim	DED, IT Advisor
Saasa, Oliver	Premier Consult Limited, Senior Consultant
Sakala, Esther Mwansa	DEB Chadiza, DEBS
Sashi, Bwalya	Ministry of Energy and Water Development, Planner
Schönhoven, Christian	KfW, Economist – Road Sector Expert
Shibuya, Yuki	Japan International Cooperation Agency, Assistant Resident Representative
Siame, Mike	Agricultural Consultative Forum, Kamano Seed
Siame, Nkumbu	Ministry of Local Government and Housing, Principal Engineer – Roads
SiameDickie	International Fund for Agricultural Development (IFAD)
Siantomba, Jonathan	Office of the Auditor General, Deputy Director Revenue
Sievers, Peter	Royal Danish Embassy, Counsellor, Development
Simate, Nyambe	Ministry of Works and Supply - Rural Roads Unit, Acting Chief Engineer
Simbuwa, MT	Ministry of Works and Supply, Assistant Director
Simfukwe, Humphrey	Ministry of Works and Supply, Senior Architect
Simoonga, Christopher	Ministry of Health, Ag. Dirctor Policy and Planning
Sipsayazi Dyirogo, David	Ministry of Energy and Water Development, Programme Accountant – Waste Resources Action Pros
Sooka, Masiliso	Central Statistical Office, Head, Agriculture Statistics Branch
Stenger, Hans-Jürgen	GTZ, Senior Financial Advisor
Stoll, , Uwe	KfW, Office Director
Stoyke, Ulrich	GAUFF , Consultant
Sugimoto, Akira	JICA / MACO, Technical Adviser
Sverken, Karin	Swedish Embassy, First Secretary BS and Public Sector Reform
Tembo, Jacob	Chadiza Basic School, Headmaster
Tembo, Stephen	RuralNet Associates Ltd., Consultant,
Tumbwe , Boniface	Ministry of Finance and National Planning, Chief Accountant BEA
Walker, Briton	Agricultural Consultative Forum, PROFIT, USAID
Watae, Sydney	USAID, Governance Expert
Whitworth, Alan	DFID, Economic Advisor
William Mayaka, William	Central Statistical Office
Wishart, Marcus	World Bank, Energy and Water Development

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Workneh, Paulos S.	UNICEF, Water and Environmental Specialist
Zanotta, Alessandro	European Commission, EU Advisor Macroeconomic and Public Finances
Zgambo , Peter	Bank of Zambia, Senior Economist – Research Division; Economics Department
Zulu, Giveson	UNICEF, WES Specialist
Zulu, Lytton	Agricultural Consultative Forum, Cropserve
Zwan, Leo van de	Royal Netherlands Embassy , Education specialist
Zyambo , Rachel	Ministry of Finance and National Planning, Deputy Accountant General

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Ian Christoplos

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Final Country Case Study Report
Andrew Lawson, Mailan Chiche, Idrissa Ouedraogo
Commissioned by Sida, Danida and AfDB

2012:11 Between high expectations and reality: An evaluation of budget support in Zambia (2005-2010)

Synthesis report
Antonie de Kemp (IOB), Jörg Faust (DIE), Stefan Leiderer (DIE)



Between high expectations and reality: An evaluation of budget support in Zambia (2005-2010).

This report presents an evaluation of the joint budget support in Zambia, commissioned jointly by Sweden, Germany and the Netherlands.

Budget support emerged in response to the dissatisfaction with earlier aid mechanisms, found to be fragmented, uncoordinated and resulting in high transaction costs. It is a transfer of financial resources linked to dialogue, conditionality and capacity building. "The effectiveness of budget support relies on the complex interaction between these elements", the evaluators write. They assess how the Zambian Government and international development partners have applied the instrument as well as the impact in some key sectors. Budget support is found to have contributed to tangible results for poor people such as improved health services, better education and improved roads. Innovative solutions to problems in these areas may be scaled up to a national level using budget support. Channeling aid through the government budget is also found to have facilitated better planning, accounting and reporting procedures for the government. However, impact on policy and governance has been limited. The evaluators argue that success of budget support largely depends on whether the government and the different donors involved have the same policy objectives and agendas. The budget support to Zambia could have been even more effective with a better harmonization. There is also a need to be more realistic about the potential of budget support, and aid in general, to reduce poverty, according to this evaluation.