# CONSULTANCY STUDY ON CSPR 2004 ADVOCACY CAMPAIGN

**FINAL REPORT**


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# ACRONYMS

| | |
|---|---|
| ABB | Activity Based Budgeting |
| ADC | Area Development Committee |
| AFRODAD | African Forum and Network on Debt and Development |
| AIDS | Acquired Immuno-Deficiency Syndrome |
| CAS | Country Assistance Strategy |
| CSPR | Civil Society for Poverty Reduction |
| DDCC | District Development Coordinating Committee |
| DSA | Daily Subsistence Allowance |
| GDP | Gross Domestic Product |
| HDR | Human Development Report |
| HIP | Harmonisation in Practice |
| HIPC | Highly Indebted Poor Country |
| HIV | Human ImmunoVirus |
| IDA | International Development Association |
| IFMIS | Integrated Financial Management Information System |
| IMF | International Monetary Fund |
| JCTR | Jesuit Centre for Theological Reflection |
| MFPED | Ministry of Finance, Planning and Economic Development |
| MMD | Movement for Multiparty Democracy |
| MoFNP | Ministry of Finance and National Planning |
| MoU | Memorandum of Understanding |
| MP | Member of Parliament |
| MTEF | Medium Term Expenditure Framework |
| NGO | Non-Governmental Organisation |
| ODI | Overseas Development Institute |
| PAF | Poverty Action Fund |
| PAM | Program Against Malnutrition |
| PAYE | Pay As You Earn |
| PDCC | Provincial Development Coordinating Committee |
| PEAP | Poverty Eradication Action Plan |
| PRGF | Poverty Reduction Growth Facility |
| PRP | Poverty Reduction Programs |
| PRSP | Poverty Reduction Strategy Paper |
| PSIA | Poverty and Social Impact Assessment |
| RAMCOZ | Roan Antelope Mining Corporation of Zambia |
| RDC | Resident Development Committee |
| RDCs | Recurrent Departmental Charges |
| SAG | Sector Advisory Group |
| SAP | Structural Adjustment Program |
| SMP | Staff Monitored Program |

| | |
|---|---|
| TB | Tuberculosis |
| TNDP | Transitional National Development Plan |
| UNDP | United Nations Development Program |
| ZESCO | Zambia Electricity Supply Corporation |
| ZNCB | Zambia National Commercial Bank |

# EXECUTIVE SUMMARY

The purpose of this study was to provide a basis for developing advocacy messages for the priority setting of poverty eradication on the national agenda. The study was prompted by an observable worrying trend in the allocation and disbursements of budgetary funds to Poverty Reduction Programs (PRPs). This trend can only be translated as inadequate commitment from Government and cooperating partners to the cause of poverty eradication. CSPR feels that there has been lack of political will, poor fiscal management, and low level targeting leading to diversion of resources meant for poverty reduction as well as non-prioritization of the poverty eradication agenda.

To gauge the extent to which the Zambian Government has prioritized poverty reduction on the national development agenda, it is necessary to look beyond policy pronouncements and analyze the processes of actualizing stated intentions into concrete programs and activities. To the degree that Zambia's PRSP has been well received by the key stakeholders, to that degree, it can be said that the Government has clearly prioritized poverty reduction. Agreeing on what needs to be done, however, is one thing, getting to actually do it is another. Firstly, there is an urgent need to rethink the formulation of Zambia's macroeconomic policy framework in order to make poverty reduction an integral part of its objectives. Unfortunately for the poor of Zambia, Government has not demonstrated willingness to share control over the all important issues of fiscal and monetary policies. Secondly, there has been no reorientation in Government expenditure patterns to accord poverty reduction high priority.

This study is proposing that to prioritize poverty eradication on the national agenda, there is need to undertake the following measures:

- Ministry of Finance should make poverty reduction an explicit objective of macroeconomic policy with quantifiable and monitorable indicators in the annual budget.
- Formulation of macroeconomic policy objectives should not be restricted to Government and the multilateral financial institutions. There is need for national debate on key macroeconomic objectives.
- Government must conduct a Poverty and Social Impact Assessment of its macroeconomic objectives and suggest compensatory measures to losers.
- Expenditure patterns in the national budget must begin to change to reflect priority given to the PRSP sectors.
- PRP allocations must be timely disbursed and in full.
- Overally there's need to undertake reforms in the structure of the national budget in order to transform it into a tool for achieving the PRSP goal of poverty reduction.

The study observed that, whereas the formulation of the PRSP has opened up a new avenue of broadening the circle of participation in decision-making in national development, this prospect, however, can only become a reality if Parliament and Civil Society participate more meaningfully in this process than the case has been hitherto. It is important that, as preparations for the second cycle of the PRSP commence, the people's elected representatives and civil society, exert more influence on the process. This may entail reviewing the current legal framework in which Parliament fulfills its public finances oversight. On the other hand, Civil Society participation in the poverty reduction process will need to go beyond being merely consulted and embrace joint decision-making, initiation and control. Additionally, there will also be need to decentralize participation from the capital to the provinces, districts, and sub-districts. To this effect, this study is proposing the following:

- Review and amend legislation that regulates the National Assembly's role in matters of public finances management in order to give greater voice to the National Assembly than has been the case hitherto.
- No budget lines allocated to poverty reduction should be moved to another concern-no matter the pressure on Government to look for funds to meet a "non-poverty reduction" concern.
- Pass legislation on Public Access to Information with explicit provision on " access to information on international agreements on finance and development."
- Set up a special departmentally related Parliamentary committee to oversee the implementation of the PRSP.
- Auditor-General should undertake special audit of the utilization of PRP funds on an annual basis.
- Devolve Civil Society participation in the implementation of the PRSP to provincial, district and sub-district levels.
- CSPR must coordinate Civil Society participation in the Sector Advisory Groups in order to ensure pursuit of a common vision and objectives.

The study further observed that there is need to devise a mechanism that would enable external aid flows earmarked for PRPs to continue even during times of uncertainties brought about by Government's failure to comply with donor conditionalities. Zambia's precarious financial situation as a result of its unsustainable external debt has made it a hostage to donor influence. Zambia needs donors for both its development programs and debt relief. There is concern, however, that the relationship between Zambia and its donors is not leading to sustainable solutions to both its external debt problem and rampant poverty. The strong links between financing of the PRSP and the HIPC Initiative have taken the initiative to drive the development agenda out of the Government hands. In the event that the Zambian Government fails to observe donor conditionalities, poverty reduction programs suffer through withholding of pledged financial assistance. Moreover, the proliferation of donor funded activities imposes a serious administrative burden on the already overstretched capacity of the public service. This speaks of the need to better coordinate donor programs and align them with the priorities identified in the PRSP. The study is therefore proposing the following measures:

- Donor funding of the PRSP should be delinked from conditionalities surrounding Zambia's attainment of the HIPC Completion Point.
- Donors should include Civil Society in discussions centred on policy based lending programs (e.g. PRGF).
- Donor support to strengthening the Public Expenditure Management and Financial Accountability systems should be accompanied by commitment to Direct Budget Support and Sector-Wide Approaches.
- Donors should seriously consider total debt cancellation as proposed by Jubilee-Zambia.

- Donors should support Civil Society's calls for establishment of a Debt Mechanism.

Another conclusion of the study is that, priority setting of poverty eradication on the national agenda requires the participation of key stakeholders, including Civil Society in the entire PRPs cycle. The study looks at participation as a process that can be distinguished by four successive stages, namely, information-sharing, consultation, joint-decision making and, initiation and control by stakeholders. The PRSP is a three year rolling plan which presents civil society with the possibility of strengthening its participation in poverty reduction activities over time. This participation should, however, be viewed as an on-going process. The study therefore proposes possible entry points for strengthened civil society participation in decisions of allocations, disbursements, monitoring and evaluation of poverty eradication funds. In this regard, the study makes the following specific recommendations:

- Aim for strong institutionalized participation based on sound legal frameworks.
- Be guided by a dynamic common civil society perspective to avoid being used by Government to just validate its own programs.
- CSPR coordinated civil society participation in Sector Advisory Groups.
- Fight for access to timely released information.
- Build capacities of civil society constituencies in budget work.

In addition, the study has proposed the following specific entry points based on Walter Eberlei's analysis for Civil Society to engage donors in matters of decision-making regarding poverty reduction:

- PRS cycles-because the PRSP is envisaged as a three year rolling plan, civil society would do well to ready itself for participation in the formulation and implementation of each cycle, always preparing itself with quality analysis and hindsight knowledge gained from the preceding cycle.
- Budget cycles-annual national budget preparation is another important entry point which civil society can participate in to ensure that budget objectives and policies reflect priorities of poverty reduction and pro-poor programs.
- Macro-economic policy planning-this is yet another crucial area for pro-poor planning.
- Sectoral development policies-as the shift is made from project planning to sector-wide approaches, civil society could contribute to upholding of the pro-poor agenda by participating in planning activities.
- Political processes at sub-national level- here the critical issue is the implementation of the decentralization policy.

The study also examined strategies and mechanisms for protecting resources meant for poverty eradication in terms of legal provision and budget execution. The single most important strategy for protecting poverty reduction funds is to get Government to commit itself to disbursing poverty reduction allocations in full and on time, regardless of the prevailing fiscal situation. This can not happen unless there's strong political will from key decision makers, such as the President and Parliament. The Debt mechanism proposed by Jubilee-Zambia is a good starting point for initiating this process. Uganda's experience with its Poverty Action Fund is a clear demonstration that such arrangements can work. The study is therefore recommending the following measures:

- Cultivate political will from the President, Cabinet, National Assembly and opposition political parties.
- Advocate for strengthening of institutional capacities at the Ministry of Finance and National Planning, Provinces and Districts to effectively prioritize and implement poverty reduction programs.
- Advocate for timely and full disbursement of poverty reduction funds.
- Establish a Debt Mechanism as proposed by Jubilee-Zambia.
- Advocate for increased funding to Ministry of Community Development and Social Services to design better, well targeted and adequately funded Public Welfare Assistance Scheme.
- Learn from the case of Uganda’s Poverty Action Fund.

# 1. INTRODUCTION

The purpose of this study was to provide a basis for developing advocacy messages for the priority setting of poverty eradication on the national agenda through the creation and strengthening of mechanisms aimed at appropriate allocations and disbursements of public resources.

CSPR was prompted to undertake this study by what it perceived as a worrying trend in the allocation and disbursements of budgetary funds to Poverty Reduction Programs (PRPs) under the Government's Poverty Reduction Strategy Paper (PRSP) which was launched in July 2002.

It was observed, for instance, that in 2002, K450 billion was allocated to PRPs in the national budget of which K110.7 billion was released, representing 24.5 percent of the total allocation.[1] Moreover, the K450 billion allocated to PRPs only represented 8 percent of the total national budget. In the 2003 National Budget, Government allocated K420.7 billion to PRPs, indicating a decline of K29.3 billion in nominal terms over the 2002 allocation and much more in real terms. Due to the anticipated budget over-run, this allocation was reduced further, resulting in a total disbursement of K212.9 billion at the close of the year. This disbursement represented 50.4 percent of the allocated amount and is higher than the 24.5 percent spent in 2003. The apparent increase in the amount does not mean much because had Government maintained the allocation for 2003 at the same nominal level of K450 billion, the actual expenditure of K212. 9 billion would have stood at 47.3 percent of that allocation.

In 2004, PRP activities have been allocated K521.7 billion which represents 15.9 percent increase over the K450 billion. This percentage, however, is offset by the 17.2 percent 2003 end year inflation.

In view of the above, CSPR's concern is that there has been inadequate commitment from Government and cooperating partners to the cause of poverty eradication. CSPR feels there has been lack of political will, poor fiscal management, and low level targeting leading to diversion of resources meant for poverty reduction as well as non- prioritization of the poverty eradication agenda.[2]

## 1.1 Objectives of the Study

The objectives of this study were to:

a) Assess the extent to which the Zambian Government has prioritized poverty reduction.

b) Assess and indicate the influence of the National Assembly and Civil Society over the decision-making on allocation, disbursements and use of public resources.

c) Assess and indicate donor influence and conditionalities on the use of the resources.

d) Suggest the entry point for Civil Society participation in decisions of allocations, disbursements, monitoring and evaluation of poverty eradication funds, and

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[1] The statistics in this section of the study are taken from CSPR (2004), Draft CSPR 2004 Advocacy Campaign

[2] Ibid

e) Suggest strategies and mechanisms for protecting resources meant for poverty eradication in terms of legal provision and budget execution (e.g. possibilities of all poverty funding to be directly disbursed to implementing agencies).

### 1.2 Methodology of the Study

Data for this study was gathered through desk research as outlined in the terms of reference given to the consultant. Additionally, the study process involved working closely with the Information Dissemination and Advocacy Task Force established by CSPR. Three meetings of the Task Force were held to review progress of the study. Written comments were also passed on to the researcher for incorporation. The consultant had initially proposed to include some field interviews with selected key informants but this did not take place in a systematic way due to time constraint.

## 2. ASSESSMENT OF THE EXTENT TO WHICH THE ZAMBIAN GOVERNMENT HAS PRIORITIZED POVERTY REDUCTION

### 2.1 Issue

While broad consensus exists on the priority sectors for poverty reduction, the problem, however, has been lack of political will to translate this (consensus) into action.

### 2.2 Analysis

To gauge the extent to which the Zambian Government has prioritized poverty reduction on the national development agenda, it is necessary to look beyond policy pronouncements and analyze the processes of actualizing stated intentions into concrete programs and activities. To achieve this goal, this study has focused on three key issues: (i) process of priority setting, (ii) macroeconomic policy framework, and (iii) public spending. It is argued that these three are important variables that indicate the importance that government attaches to any matter of development policy.

#### 2.2.1 Priority Setting

The Zambian PRSP has been highly commended for the consultative process that characterized its formulation.

Firstly, the extensive consultations that preceded the official launch of the Zambian PRSP in July 2002, were unprecedented in the country's history of economic policy making. The process of formulation of the PRSP involved the participation of a diverse set of actors, including the Cabinet, government bodies, the private sector, academia, NGOs, donors, and the provinces (PRSP). This process has been important in bestowing a sense of domestic-ownership on the document. Of course not all the above groups feel they participated sufficiently in the drawing up of the PRSP. One oft-heard complaint which applies to all PRSPs in the countries where they have been adopted is that, "Governments preferred to use the loose concept of participation, which focuses almost exclusively at allowing people to participate in a controlled manner where the final product is not jointly validated and owned."[3] It is particularly argued that the level of participation declined as the process

[3] See AFRODAD (2003), Africa's Experience With the PRSP: Content and Process

approached finality[4]. Indeed, in the Zambian case, Civil Society complained for being left out at the drafting stage. This is what prompted fears that their proposals would be watered down or out rightly rejected.

Notwithstanding the weaknesses in the consultative process cited above, there is broad consensus that the Zambian PRSP is a true reflection of the views of many who participated in its formulation. Civil Society, for example, is on record that despite its initial fears at being excluded from the drafting stage, 80 percent of its proposals were incorporated in the final document that was produced by Government[5].

Secondly, the wide stakeholder participation in the formulation of the PRSP ensured that there was broad consensus in the choice of priority sectors contained in the strategy. The Zambian PRSP has identified three thematic areas as priority for achieving poverty reduction.[6] Firstly, the productive sectors comprising agriculture, tourism, transport, and energy infrastructure. Secondly, there is strong emphasis on the social sector, consisting of education and health. Last but not the least, are cross-cutting issues of HIV/AIDS, gender and environment.

The understanding behind the choice of these sectors is that they have the greatest positive externalities in the fight against poverty. Agriculture has been accorded the highest priority because it is the sector in which the poor are concentrated and thus the main source of their livelihood. Therefore, agricultural-led diversification of the economy is held as the main engine for the creation and expansion of the poor's opportunities to earn a decent income in a sustainable way.

Besides agriculture, increased investments in the social sectors, particularly health and education, is seen as equally important in unlocking of the country's vast resources for poverty eradication. Good health and increased productivity are seen as closely linked variables. Similarly, expansion of investments in human capital is an essential element in economic transformation. The PRSP, however, is careful to point out that what benefit the poor immediately are investments in basic education and primary health care, as opposed to tertiary education and hospital-based curative health, respectively.

Finally, the PRSP has also placed strong emphasis on the cross-cutting issues of HIV/AIDS, gender and environment. The strategy aims at mainstreaming these issues into all its development programs and activities.

The choice of the above priority sectors is of course not without its challenges. It has been suggested, for example, that:

- There has to be further tightening of the priorities with greater specification of concrete pro –poor programs and activities and their sequencing over the PRSP timeframe.
- The targets and indicators for monitoring need to be refined, in particular, reflect a better correlation with the millennium development goals.

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4 Ibid

5 IMF/IDA (May, 2002), ZAMBIA Poverty Reduction Strategy Paper Joint Staff Assessment p.3

6 I owe this classification to Seshemani, V (2002) The PRSP Process in Zambia-Paper presented at the Second Meeting of the African Learning Group on the Poverty Reduction Strategy Papers (PRSP-LG) 18-21 November, 2002, Brussels.

- There needs to be much greater attention to social safety nets, and
- There could be better integration of cross-cutting issues, notably of HIV/AIDS, gender, water etc. in the various programmes.[7]

Others have also pointed out that:

- The key to effective prioritization is for countries to fully cost their proposed actions within a medium-term expenditure framework (MTEF) that takes into account the existing fiscal constraint and that is consistent with the overarching need for macroeconomic stability and fiscal and debt sustainability.
- An important aspect of prioritizing public actions for poverty reduction is increasing the allocation of public spending for poverty-reducing activities while reducing unproductive expenditures.[8]

But to the degree that Zambia's PRSP has been well received by the key stakeholders who participated in its formulation, to that degree, it can be said that the Government has clearly prioritized poverty reduction. However, as already implied in the above caveats, prioritization is more than public declarations. Agreeing on what needs to be done is one thing, getting to actually do it is another. More importantly, is the design of macroeconomic policies and allocation of public funds. To these two issues we now turn.

### 2.2.2 Macroeconomic Policy Framework

The burden of external debt has exerted disproportionate influence over the design of the Government's macroeconomic policy framework. In a sense, when the MMD Government took office in 1991, it found a situation which necessitated this close relationship with the external creditors, a point succinctly put by an advisor to the Ministry of Finance and National Planning:

> Economic reform is meant to fundamentally alter a country's growth prospects. In principle, reform is not primarily a means of satisfying external creditors. But because of Zambia's poor credit standing, a practical precondition for the resumption of sustained growth is for Zambia to re-establish a reputation of responsible financial behavoiurs. Thus, a major objective for the reform effort has been to gain regular access to international finance as due to its debt overhang Zambia could not finance its economic imbalances independently of donor support (McPherson 1995:14)[9]

The quest to obtain debt relief has been expressed in the design of macroeconomic policies that seek to adhere to the conditionalities laid down by Zambia's external creditors, both multilateral and bilateral. Observers are concerned that there may be a serious conflict of interest and adverse trade-offs between the standard macroeconomic policies supported by the country's donor community and the goal of poverty reduction enunciated in Zambia's PRSP. This is what has led to the cynicism that the PRSP may just be another structural adjustment program in different clothing.

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7 Ibid

8 IDA/IMF (2002), Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Main Findings p.15

9 Quoted in Rakner, L (2003), Political and Economic Liberalisation in Zambia 1999-2001 (Nordic Africa Institute, Stockholm) p.135

Zambia's external debt of $6.5 billion as at December 2003 is high and unsustainable.[10] The country's per capita debt is one of the highest in the world. It is widely recognized that this external debt situation is not only unsustainable but a heavy burden on present and future generations.[11] According to the PRSP, debt servicing, on the average gobbles about 10 percent of GDP while the entire social sectors together account for only 5 percent.[12] Other estimates even quote higher figures. A study by Jubilee-Zambia entitled, *Where Does the Money Go?* (2002), for example, reveals that in the last ten years, the Zambian government has on average been spending as high as 20% of its GDP on debt service payments while education and health sectors have been receiving 3% and 2% respectively. As a result, Zambia is unable to build up a strong human capital base to spearhead national development.

In the words of Zambia's Minister of Finance and National Planning, the severity of Zambia's external debt "highlights the need for deeper debt relief and indeed debt cancellation from…cooperating partners."[13] What worries the opponents of Zambia's external debt, however, is that Government is too inclined to seeking debt relief and cancellation within the parameters set by its creditors. This approach inevitably leads the Government to seek to please the donors in the formulation of macroeconomic objectives. It is felt that while this may produce stabilization and economic growth, it may not lead to poverty reduction. It is also for this reason that civil society organizations like Jubilee-Zambia have called for outright debt cancellation in order to free resources for poverty eradication.

There are serious indications to suggest that the Government has given little thought to the need to rethink its macroeconomic policy framework to make it more amenable to the goal of poverty eradication. It is doubtful that an economic policy whose preoccupation is staying current with external debt repayments can simultaneously significantly reduce poverty.

Although the PRSP has been widely lauded for the participatory manner which characterized its formulation, analysts are concerned that participation has never extended to discussions surrounding the Poverty Reduction and Growth Facility (PRGF), which contains the macroeconomic framework.[14] Detailed discussions of the PRGF have been confined to the IMF staff teams and the Zambian Government.

The Zambian Government is desperate to graduate from the Staff Monitored Program (SMP) and reach agreement on a new PRGF with the IMF. Satisfactory performance under the PRGF has also been made part of the conditions to reach the completion point under the HIPC Initiative. The Minister of Finance and National Planning could never have been more explicit on this issue as he was in his 2004 Budget address to Parliament:

> " Mr Speaker, in 2004, the country faces a number of challenges. The main challenge is to reach agreement with the IMF by June 2004. This is a critical and cardinal condition for the country to reach the Completion Point under the enhanced HIPC Initiative by the end of the year."[15]

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[10] Budget Address by The Honourable Ng'andu P. Magande, MP Minister of Finance and National Planning . Delivered to the National Assembly on Friday, 6th February, 2004 p.5

[11] UNDP (2003), Zambia Human Development Report 2003, Lusaka p.21

[12] MoFNP (2002), Zambia Poverty Reduction Strategy Paper 2002-2004, Lusaka p.27

[13] Budget Address op. cit. p5

[14] AFRODAD op. cit.

[15] 2004 Budget Address op. cit p10

Although both the PRGF and HIPC Initiative are linked to the unlocking of substantial donor resources in support of the Government's PRSP, analysts are concerned that discussions around these programs are narrowly focused on price stabilization and growth issues.[16]

The Zambian PRSP recognizes that, in as much as growth is imperative for poverty reduction, this cannot happen if growth is accompanied by rising inequalities[17]. It further acknowledges the need to put in place ameliorative policies to target losers from the adjustment that is a pre-condition for growth. More significantly, the Zambian PRSP embraces the concept of broad –based growth or growth with redistribution in its stated approach to poverty reduction. This knowledge, however, does not seem to extend to the design of macroeconomic policy objectives. For example, the PRSP's envisaged macroeconomic indicators make no explicit reference to poverty reduction. The Government PRSP's macroeconomic indicators are as follows:

- An annual average growth rate of 4.3 percent in 2002 and 4.0 percent each in the years 2003 and 2004.
- The external current account and the overall balance of payments to improve to minus $597 million and minus $99 million, in 2004 from an estimated minus $665 and minus $420 million in 2002, respectively.
- A financing gap of $95 million and $72 million is forecast for the years 2003 and 2004, respectively, and will have to be financed from external support or closed through demand management measures.
- By 2004, end year inflation is planned to drop to 5 percent.[18]

It is not surprising, therefore, that the macroeconomic policy objectives of Government as enunciated in the annual budget statements of 2002 to 2004, have remained as they were prior to the adoption of the PRSP. Emphasis is on GDP growth rate, inflation rate, money supply growth rate, international reserves and fiscal deficit. The only exceptional year was 2003 when ensuring food security and reducing poverty levels were made explicit objectives of macroeconomic policies. Even then it is to be noted that there were no quantifiable targets set to measure progress towards achievement of food security and reduction in poverty levels.

If poverty reduction is truly to be considered a priority of Government it needs to be explicitly stated as one of the macroeconomic objectives of the annual national budget, with clear and measurable targets. As long as the Government's macroeconomic policy objectives remain couched within the neo-liberal framework of the era of Structural Adjustment Programs (SAPs), poverty reduction will always play second fiddle to macroeconomic stabilization and growth considerations.

There are trade-offs associated with macroeconomic austerity measures. There is now enough empirical evidence to show that the benefits of rapid growth do not automatically reach all

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16 This focus on price stabilization and growth issues comes out strongly in Zambia-Joint Statement by the IMF Mission and the Government of Zambia-Press Release No. 03/195 Nov. 17, 2003

17 MoFNP (2002) Zambia Poverty Reduction Strategy Paper 2002-2004 p.40

18 Ibid p.40

segments of society.[19] As a matter of fact, adjustment induced growth is consistent with social hardships, increased unemployment and poverty.[20]

The foregoing analysis therefore suggests the need to urgently rethink the formulation of Zambia's macroeconomic policy framework in order to make poverty reduction an integral part of its objectives. It has been suggested that an alternative approach to integrating social policies with macroeconomic policies should make explicit the premise that all macroeconomic policies have a social content as they are enacted within a certain set of distributive relations and institutional structures; and that all macroeconomic policies produce a variety of social outcomes.[21]

An important step to making poverty reduction a priority national agenda is therefore to open up the process of formulating macroeconomic policy objectives. A promising line in this respect is to carry out poverty and social impact assessments (PSIA) of macroeconomic policies in order to ascertain their impact on the different segments of society and specify corrective measures to address the negative consequences. This approach is consistent with the UNDP's human development approach which places emphasis on the empowerment and the building of capabilities of the disadvantaged groups. The participation of the poor and their civil society advocates in setting the country's macroeconomic indicators is therefore an urgent issue. Unfortunately for the poor of Zambia, Government is unwilling to share control over the all important issues of fiscal and monetary policies.

### 2.2.3 Public Spending

As already alluded to above, an important aspect of prioritizing public actions for poverty reduction is increasing the allocation of public spending for poverty-reducing activities while reducing unproductive expenditures.

The PRSP is being implemented through the Poverty Reduction Programs (PRPs) budget lines in the National Budget. Three issues are pertinent in this respect. First, in relation to overall Government expenditure, there is no noticeable re-orientation of the budget to increase funding to the PRSP sectors. Second, disbursements to the PRPs have always fallen short of what was allocated. Third, it is unclear that disbursements are benefiting those most in need, the poor.

Table 1 shows that expenditure on the economic sectors which are supposed to generate the growth on which so much store has been placed to reduce poverty, declined from 16.5 percent in 2001 to 11.4 percent in 2002, before dipping to 9.4 percent in 2003. On the other hand, constitutional and statutory expenditures rose sharply from 7.0 percent in 2001 to 32.0 percent in 2003. The social sectors have not fared any better, with expenditure falling from 25.0 percent in 2001 to 23.4 percent in 2002, and 21.9 percent in 2003. Administration, though showing signs of decline, continues to dominate overall expenditure. In 2001, administration consumed 51.6 percent before declining to 45.4 percent and 36.7 percent in 2002 and 2003, respectively.

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[19] For a good analysis of this issue, see, Nilufer Cagatay et al (2000) Budgets As If People Mattered: Democratising Macroeconomic Policies SEPED Conference Paper Series No. 4 http://www.undp.org/seped/publications/conf pub.htm

[20] AFRODAD op.cit

[21] op.cit p9

It is clear from table 1 that Government expenditure patterns do not reflect prioritization of poverty reduction. The statistics reveal that the cost of running government remains very high. There have been several suggestions put forward on how Government can save resources on administration and reallocate them to poverty priority areas but Government has not paid heed to such suggestions. CSPR, for example, has suggested that:

- To downsize the Cabinet and reduce the number of Deputy Ministers;
- To cut expenditure on both domestic and foreign travels by high ranking government officials, posh cars and utility bills;
- To reduce the current Daily Subsistence Allowance (DSA) of government employees on foreign trips from US$250 to US$100 per day (UN rate)
- To reduce the number of by-elections through political will that does not promote the opposition MPs from crossing the floor frequently;
- Senior public servants should be given an all inclusive monthly package that includes basic salary, transport, and housing allowance so as to avoid misuse of ROC resources by senior government officials;
- All civil servants that benefited from the purchase of Council, government and Public Institutional houses should not be entitled to housing allowance, even under the new Rent Assistance for 2004; and
- To minimize delegations representing Zambia abroad.[22]

On the other hand, high constitutional and statutory expenditure is also a reflection of the burden of external debt on the national budget. In the 2004, national budget, for example, K541.7 billion has been allocated to foreign debt servicing while poverty reduction programmes are to receive K521.7 billion. This competition between debt repayments and poverty reduction is regarded as an immoral one.[23]

**Table 1 Zambia: Functional Distribution of Expenditure, 2000-2003**

| **Class/Sector** | 2000 (K' million) | % of Total | 2001 (K' million) | % of Total | 2002 (K' million) | % of Total | 2003 (K'million) | % of Total |
|---|---|---|---|---|---|---|---|---|
| **Economic** | **237,326** | **11.0** | **495,764** | **16.5** | **425,415** | **11.4** | **504,606** | **9.4** |
| Transport and Communi-cations | 125,552 | 5.8 | 299,970 | 10.0 | 187,759 | 5.0 | 151,028 | 2.8 |
| Agriculture | 47,195 | 2.2 | 103,162 | 3.4 | 81,347 | 2.2 | 219,339 | 4.1 |
| Energy | 3,692 | 0.2 | 7,520 | 0.2 | 7,877 | 0.2 | 6,198 | 0.1 |
| Commerce, Trade, And Industry | 14,373 | 0.7 | 12,236 | 0.4 | 44,221 | 1.2 | 16,147 | 0.3 |
| Lands and natural Resources | 10,851 | 0.5 | 26,965 | 0.9 | 49,548 | 1.3 | 54,034 | 1.0 |
| Tourism | 10,229 | 0.5 | 19,601 | 0.7 | 24,833 | 0.7 | 28,969 | 0.5 |
| Mining | 8,924 | 0.4 | 3,571 | 0.1 | 5,296 | 0.1 | 8,455 | 0.2 |
| **Social** | **416,655** | **19.2** | **751,198** | **25.0** | **870,307** | **23.4** | **1,178,981** | **21.9** |
| Education and Training | 234,316 | 10.8 | 405,654 | 13.5 | 467,700 | 12.6 | 696,846 | 13.0 |
| Health | 146,736 | 6.8 | 259,184 | 8.6 | 289,313 | 7.8 | 395,752 | 7.4 |
| Housing urban Development | 4,364 | 0.2 | 10,097 | 0.3 | 5,455 | 0.1 | 8,081 | 0.2 |

[22] CSPR calls for people centred budget in CSPR (2003), Poverty Eradication Newsletter Vol.1, Issue 2 p 10.
[23] Ibid

| Class/Sector | 2000 (K' million) | % of Total | 2001 (K' million) | % of Total | 2002 (K' million) | % of Total | 2003 (K'million) | % of Total |
|---|---|---|---|---|---|---|---|---|
| Welfare | 12,557 | 0.6 | 32,108 | 1.1 | 54,882 | 1.5 | 37,789 | 0.7 |
| General social | 12,557 | 0.6 | 34,952 | 1.2 | 42,259 | 1.1 | 33,237 | 0.6 |
| Information Services | 6,125 | 0.3 | 9,202 | 0.3 | 10,699 | 0.3 | 7,276 | 0.1 |
| **Admini-stration** | **1,371,390** | **63.3** | **1,550,979** | **51.6** | **1689998** | **45.4** | **1,971,349** | **36.7** |
| Central Admin. | 826,625 | 38.2 | 715,798 | 23.8 | 693,556 | 18.6 | 846,389 | 15.7 |
| Defense and security | 223,835 | 10.3 | 340,526 | 11.3 | 413,979 | 11.1 | 506,918 | 9.4 |
| Law and order | 156,478 | 7.2 | 277,593 | 9.2 | 303,238 | 8.1 | 323,580 | 6.0 |
| Foreign Representation | 64,475 | 3.0 | 77,650 | 2.6 | 121,399 | 3.3 | 133,500 | 2.5 |
| Policy making and legislation | 29,678 | 1.4 | 35,391 | 1.2 | 72,044 | 1.9 | 74,488 | 1.4 |
| Judicial and legal | 15,704 | 0.7 | 27,266 | 0.9 | 44,051 | 1.2 | 58,569 | 1.1 |
| Local government | 54,596 | 2.5 | 76,755 | 2.6 | 41,731 | 1.1 | 27,906 | 0.5 |
| **Constitutional and Statutory*** | **140,271** | **6.5** | **210,507** | **7.0** | **740,411** | **19.9** | **1,719,676** | **32.0** |
| **Total** | **2,165,642** | **100.0** | **3,008,449** | **100.0** | **3726131** | **100.0** | **5,374,613** | **100.0** |

Sources: Ministry of Finance and National Planning

* This includes other expenditures, such as interest payments, amortization on foreign debt.

### Table 2: Sectoral Disbursements to PRPs, January 2002-June 2003

| Sector | Allocation (k billion) | Release (k billion) | Difference (k billion) | % of allocation released |
|---|---|---|---|---|
| Agriculture Prp | 76.21 | 48.10 | 28.11 | 63.10 |
| Energy | 11.00 | 5.00 | 6.00 | 45.50 |
| Roads | 56.10 | 47.91* | 8.20 | 85.40 |
| Education | 95.80** | 13.20** | 82.6 | 13.80 |
| Health | 34.60** | 40.80*** | 6.20 | 117.9 |
| Social safety Nets | 66.10 | 35.90 | 30.2 | 54.3 |

Source: MoFNP (2004)
* Actual utilization is put at to K15.9 billion
** These figures only refer to GRZ allocations and actual releases without donor contributions
*** This amount represents GRZ releases up to October 2003

### Table 3 Provincial PRPs Allocations and Disbursements Jan,2002 – June, 2003

| Province | Allocation (k' billion) | Release (k'billion) | Difference (k'billion) | % of allocation released |
|---|---|---|---|---|
| Central | 10.70 | 6.30 | 4.40 | 58.9 |
| Copperbelt | 9.80 | 2.90 | 6.90 | 29.6 |
| Eastern | 14.30 | 2.20 | 12.10 | 15.4 |
| Luapula | 10.70 | 4.70 | 6.00 | 43.9 |
| Lusaka | 7.80 | 2.40 | 5.40 | 30.8 |
| Northern | 9.80 | 2.60 | 7.20 | 26.5 |
| North western | 13.70 | 4.10 | 9.60 | 29.9 |
| Southern | 14.20 | 5.80 | 8.40 | 40.8 |
| Western | 11.70 | 4.60 | 7.10 | 39.3 |
| **Total** | **102.70** | **35.60** | **67.10** | **34.7** |

Source: MoFNP (2004)

## 2.3 Summary

The Zambian Government has identified priority areas for poverty reduction. In other words, in the PRSP, the Government has a document which many observers have commended as the first step in tackling the nation's pervasive poverty. Unfortunately, there's little on the ground to suggest a moving away from the pre-PRSP formulation of macroeconomic policy objectives which was done in secrecy and in close consultation only with the international financial institutions. The negative consequence of this approach is that, poverty reduction has not been made into an explicit macroeconomic objective of Government in a policy relevant way. More worrying, however, is that there has been no re-orientation in Government expenditure patterns to accord poverty reduction high priority. The PRSP was traded as the overall guiding document for development and financing in Zambia. The implementation, however, shows serious disparity between the structure of the national budget and the PRSP document. This is a clear lack of political will to undertake the necessary structural reforms that will transform the national budget into a tool for achieving the PRSP goal of poverty reduction.

### 2.4 Recommendations

- Ministry of Finance should make poverty reduction an explicit objective of macroeconomic policy with quantifiable and monitorable indicators in the annual budget.
- Formulation of macroeconomic policy objectives should not be restricted to Government and the multilateral financial institutions. There is need for national debate on key macroeconomic objectives.
- Government must conduct a Poverty and Social Impact Assessment of its macroeconomic objectives and suggest compensatory measures to losers.
- Expenditure patterns in the national budget must begin to change to reflect priority given to the PRSP sectors.
- PRP allocations must be timely disbursed and in full.
- Overally there's need to undertake reforms in the structure of the national budget in order to transform it into a tool for achieving the PRSP goal of poverty reduction.

## 3. ASSESS AND INDICATE THE INFLUENCE OF THE NATIONAL ASSEMBLY AND CIVIL SOCIETY OVER THE DECISION-MAKING ON ALLOCATIONS, DISBURSEMENTS AND USE OF PUBLIC RESOURCES

### 3.1 Issue

Whereas the formulation of the PRSP opened up a new avenue of broadening the circle of participation in decision-making in national development; this prospect, however, can only become a reality if Parliament and Civil Society participate more meaningfully in this process than the case has been hitherto.

### 3.2 Analysis

For the purpose of achieving positive results in the fight against poverty, important institutions such as the National Assembly and civil society organizations must participate meaningfully in an-going manner in decision-making on allocations, disbursements and use of public resources. The first cycle of Zambia's PRSP (2002-2004), has revealed that, the National Assembly was not fully on board during the process of formulation of the PRSP, though individual Members of Parliament made important contributions to the process. Many observers were dismayed that the World Bank and International Monetary Fund could endorse the Zambian PRSP without it being first publicly debated in Parliament. This was a serious anomaly that impacted negatively on the sense of country ownership of the document. It is important therefore that as preparations for the second policy cycle of the PRSP are about to commence, the people's elected representatives exert more influence on the process. For this to happen, there may be need to review the current legal framework in which Parliament fulfils its mandate vis-`a-viz the Executive's management of public finances.

Civil Society in Zambia is already actively engaged in interrogating issues of poverty reduction, particularly through its umbrella organization, Civil Society for Poverty Reduction (CSPR). However, to strengthen its role in poverty reduction advocacy, Civil Society needs to overcome the shortcomings which the first PRSP policy cycle has brought to the fore. There's need for civil society participation in the poverty reduction process to go beyond being merely consulted to joint decision making, initiation and control. There's also need to decentralize participation from the capital to the provinces, districts, and sub-districts.

### 3.2.1 Legal Framework[24]

This section of the study looks at the legal framework within which the National Assembly is mandated to fulfill its public finances oversight function.

The main pieces of legislation considered here are the Constitution, the Public Audit Act of 1980, Financial Regulations and the Loans and Guarantees (Authorisation) Act Chapter 366 of the laws of Zambia. Each of these is examined in turn.

**The Constitution**

Part X of the Constitution of Zambia deals with f inance. It is this part of the Constitution that mandates Parliament to approve government expenditure and taxation proposals. In principle, the Government cannot spend any funds unless they are voted by Parliament. It is also the exclusive mandate of Parliament to impose and regulate taxes.

Although in principle, the Constitution is meant to provide checks and balances in the management of public finances, in practice, Parliament's performance in this regard has been unsatisfactory.

Parliament's mandate has been undermined by several derogations. For example, whereas article 115 states clearly that no expenditure may occur without an appropriation being approved by Parliament, clause 2 (d) of the same article provides for exceptional circumstances under which the President can authorize expenditure without waiting for Parliament's approval. Similarly, article 117 provides the Minister of Finance the authority to make substantial modifications to spending without seeking prior approval from Parliament.

The Minister of Finance and National Planning is obligated to legalize his/her expenditures by tabling the same before Parliament, either in form of a Supplementary Appropriation Bill, or an Excess Expenditure Appropriation Bill, depending on whichever expenditure was

[24] In discussing this legal framework I have drawn heavily on Mutesa, F (2004), Public Finance Management in Zambia-study commissioned by Transparency International-Zambia

incurred. The difficulty with this, however, is the time lag between the action by the Ministry of Finance and time by which bills must be submitted-fifteen months after the close of the budget year. This means that, Parliament is requested by the executive to legitimize spending that has already taken place. Government Financial Reports indicate that ministries have sometimes received supplements far in excess of their original budget. Moreover, a pattern emerges where sectors that benefit from supplementary budgets are not "productive" sectors. With respect to poverty reduction, the problem is that funds earmarked for poverty reduction programs can easily be misapplied since it takes a longtime for Parliament to discover what has happened.

The role of Parliament is further undermined by the institution's cosmetic participation in the formulation of the budget. In this regard, it has been observed that Parliament's role is confined to one largely of review and approval. Parliament has no authority to increase the overall budget envelope. Parliament can only make reallocations from one sector to another. In practice, Parliament is unable to even make reallocations because of the short time given for scrutinizing the voluminous documents provided with the budget, a problem compounded by lack of in-house expertise to provide technical advice to Parliament. Finally, Parliament is faced with political pressure to quickly pass the budget because the provisional warrant that legally enables the government to function runs out on April 1.

In general, it is noted that the current legal framework does not give Parliament sufficient power to participate effectively in the budget process and monitor the executive's expenditures. It is important that this weakness be urgently redressed if Parliament is to play an effective role in prioritizing poverty reduction on the national agenda. Furthermore, presentation of the budget to Parliament should be done well before the beginning of the new financial year to allow for a more productive discussion of the budget, with the possibility of making amendments to the total resource envelope, as well as, reallocations among different sectors. Other measures required to strengthen Parliament's role in decision-making over public finances should include obtaining prior approval from Parliament before supplementary appropriations should be released and requiring the Executive to explain how it would offset reductions in the budget from other line items, or identify new revenue sources before requesting supplementary appropriations.

**The Public Audit Act of 1980**

The Public Audit Act of 1980 defines the roles, responsibilities and report obligations of the Auditor General. The Act gives the Auditor General authority to audit books, records and reports of institutions in which government has an interest. The Finance (control and Management) Act gives the Auditor General authority to scrutinize the financial affairs of government departments and statutory corporations for audit purposes.

The Public Audit Act empowers the Auditor General to follow up records of institutions beyond those described in the Finance (Control and Management) Act to include every private institution that receives a government grant, subsidy or subvention in any financial year. Under the Public Audit Act, the Auditor General has authority to request from independent auditors of parastatals any document, reports or information relating to the accounts of parastatal companies.

The Auditor General is further empowered to have access, for the purposes of audit scrutiny, to all contracts involving government or its agencies and enterprises.

Follow up action on the findings of the Auditor General is not effective to deter financial malpractices in the institutions and agencies covered in the Auditor General's reports. This problem is compounded by the late production and publication of the reports. Article 121(4) of the Constitution requires the Auditor General to send an annual report to the President, who is required to table it before the National Assembly. The Auditor General, however, is authorized by the Public Audit Act to prepare a special interim or other audit report relating to his/her investigations if he/she has reason to believe that delay in reporting serious irregularities in expenditure of public funds through the annual report may occasion financial loss to the government or prejudice effective financial control.

When the Auditor General's report is presented to the National Assembly, it is first examined by the Public Accounts Committee which then tables it before the whole House for debate and adoption. The Committee has powers to summon witnesses, question them and demand explanations (Integrity syst.21). The Committee, however, lacks powers to punish erring officers. The responsibility of dealing with erring officers is passed on to the executive. The executive is required to submit a Treasury Minute or Action Taken Report to the National Assembly after six months outlining what measures it has taken to correct the anomalies that were pointed out by the Committee.

It has been observed that the Office of the Auditor General has been receiving a fraction of the funds it needs to operate efficiently and effectively. The budget of the Office is determined by the Ministry of Finance and National Planning and usually bears little relationship to the Plan of Operation prepared by the Auditor General.

Inadequate funding has affected the operations of the Auditor General's Office and crippled the timely production of the audit report. Consequently, not all public expenditures are audited annually. Some expenditure is not audited for several years. The auditor General's reports are always late, sometimes by several years. This makes the usefulness of these reports questionable as they deal with events that are often beyond redress. The abusers of funds may have retired, resigned, transferred to other departments or even died.

**Financial Regulations**

Financial Regulations form a subsidiary legislation Cap.600 which contains general financial rules and procedures, some Ministry of Finance/treasury regulations (1985) and circulars, the accounting guides of 1992 and other procedures and instructions such as stores regulations of 1969. Financial Regulations complement the Finance (Control and Management) Act.

More important for the purposes of this study, is article 19 of the Financial Regulations which empowers the Permanent Secretary of the Ministry of Finance and National Planning (MFNP) to impose restrictions on any subhead or item of expenditure in the estimates.

A particular weakness of the Financial Regulations is the emphasis on centralization at the expense of decision-making by line ministries. It has been observed that under the cash-budget system, this seems to have been interpreted by the Ministry of Finance and National Planning as a carte blanche for unilaterally deciding which of those activities approved by Parliament will actually be funded (Mwanawina et al p19). The effect of this practice is the negation of the Appropriation Act as the basis for government spending. Furthermore, effectiveness of spending by line ministries is affected as the composition of departmental spending is arbitrary realigned. Consequently, Parliament's oversight in the management of public finances is further undermined.

There is need to restore the authority of the Appropriation Act as the basis for allocation of public expenditures.

**The Loans and Guarantees (Authorisation) Act Chapter 366**

The Loans and Guarantees (Authorisation) Act chapter 366 empowers the Minister of Finance to raise loans from time to time, both within and outside the country, on behalf of the government as he or she deems fit. The ceilings on such loans are authorized from time to time by resolution of Parliament prescribed by statutory instruments.

The law requires the Financial Report to provide a statement on the particulars of debt charges paid in that particular year with regard to loans raised under the Act. Loans are raised through several ways including the issue of bonds or stock; issue of treasury bills; or by agreement in writing.

There is inadequate public information on total public debt. The budget provides information on the level of external debt but does not give information on more intricate details such as currency of denomination, maturity profile and interest rates of loans.

Moreover, excessive power is given to the Minister of Finance and National Planning to commit the nation to external debt obligations without Parliamentary approval. Under the Loans and Guarantees Subsidiary legislation, the Minister of Finance is permitted to commit the nation to a maximum of K20 trillion as outstanding external loans at any one time. This figure represents more than 300 percent of GDP (in 1998, the nominal level of GDP stood at K6.0 trillion) (Mwanawina et al p13).

There is need for a more active involvement of Parliament in contracting public debt

### 3.2.2 Reform of the Budget Process

The advent of multi-partyism in 1991 brought with it the need to reform parliament as part of the process of enhancing democratic governance. As early as 1992, the Government of Zambia and the Government of the United States of America signed a Grant Agreement whose essence was to modernize strategic Government institutions in order to enhance Democratic Governance in the country. One of the four areas of the Grant agreement was the Legislative Performance component that targeted the reform of Parliament.

The Parliamentary Reforms Committee that was appointed to spearhead the above effort, recognized the limitations of Parliament in regard to the role of the National Assembly in the budget process. The Committee cited political alignments, procedures, analytical deficiencies and constitutional constraints as some of the factors severely limiting the role of Parliament in the budget process.

### 3.2.3 Civil Society's Watchdog Role

Civil Society's influence on allocations, disbursements and use of public resources is mainly exercised through advocacy. In some cases, as for instance, during the formulation of the

PRSP, civil society is invited by Government to participate under conditions and terms determined by Government.

An important observation is that Civil Society's participation in the PRSP lacks a clear legal framework. Civil Society participation has largely depended on Government's goodwill and tended to be ad hoc. To the degree that participation has not been institutionalized, this has weakened Civil Society's influence over public finances management, particularly in relation to ensuring the prioritization of poverty reduction on the national agenda.

Four key elements of participation have been identified in the literature, namely, information sharing, consultation, joint decision-making and initiation and control by stakeholders.[25] In Zambia, like in several other countries implementing PRSPs, only one element of participation has been followed effectively, i.e., consultation. Civil Society participated in the eight thematic working groups during the formulation of the PRSP and participation continues in the reconstituted Sector Advisory Groups (SAGs) during the implementation phase.

There are serious flaws still remaining in Civil Society's participation in the implementation phase of the PRSP. Access to Government information remains difficult, which weakens Civil Society participation. As already alluded to above, joint decision-making with Government over macroeconomic policies, particularly, fiscal, monetary and structural policies, is missing.

The important contributions to decision-making that Civil Society has made at the national level is not replicated at the provincial and district levels. This may be reflective of several factors such as, the entrenchment of top-down approaches, absence of appropriate structures, lack of capacities and poor information flows. It is important that these weaknesses are addressed because it is at these levels that implementation, monitoring and evaluation of poverty reduction programs take place.

The weaknesses in Civil Society participation in poverty reduction efforts identified above will not go away without a sustained advocacy campaign to sensitize its constituency and demand that Government undertake the necessary reforms.

Finally, Civil Society should not underestimate its potential to influence positive change in Government policy on poverty reduction. Through sensitization work, networking and advocacy, Civil Society is able to demonstrate to Government and the country's donor community that there are alternative strategies to expedite poverty reduction.

### 3.3 Summary

Current legislation which regulates the National Assembly's role in decisions regarding allocations, disbursements and use of public resources is weak and needs urgent reform. The present arrangement does not allow the National Assembly to alter the total Government resource envelope, or make re-allocations to priority sectors. At the same time, legislation gives too much discretionary power to the Executive arm of Government. The National Assembly is not even in a position to effectively check unconstitutional use of public

25 Action Aid (2002) "Inclusive Circles lost in Exclusive Cycles" Synopsis 30 in Narendra Jadhav (2002) Synopses of External Comments and Contributions on the Joint IMF/World Bank Staff Review of the PRSP Approach-IMF/World Bank

resources. Civil Society, on the other hand plays an important advocacy role in matters of public finances management. But if the spirit of participation that was introduced during the formulation of the PRSP is to be maintained, this participation must go beyond merely being consulted to include joint decision making, initiation and control.

### 3.4 Recommendations

- Review and amend legislation that regulates the National Assembly's role in matters of public finances management in order to give greater voice to the National Assembly than has been the case hitherto.
- No budget lines allocated to poverty reduction should be moved to another concern- no matter the pressure on Government to look for funds to meet a "non-poverty reduction" concern. The feeling among Civil Society stakeholders is that there would be need for legislation to protect these funds from misapplication. This, however, would need to be backed by intense awareness raising campaign for both the Parliamentarians and general public so that the rule of law is respected.
- Pass legislation on Public Access to Information with explicit provision on " access to information on international agreements on finance and development."
- Set up a special departmentally related Parliamentary committee to oversee the implementation of the PRSP.
- Auditor-General should undertake special audit of the utilization of PRP funds on an annual basis. This would entail strengthening the capacity of the Auditor-General's office to overcome the present time lag in production of reports.
- Devolve Civil Society participation in the implementation of the PRSP to provincial, district and sub-district levels.
- CSPR must coordinate Civil Society participation in the Sector Advisory Groups in order to ensure pursuit of a common vision and objectives.

## 4. ASSESS AND INDICATE DONOR INFLUENCE AND CONDITIONALITIES ON THE USE OF PUBLIC RESOURCES

### 4.1 Issue

There is a need to devise a mechanism that would enable external aid flows earmarked for PRPs to continue even during times of uncertainties brought about by Government's failure to comply with donor conditionalities.

### 4.2 Analysis

The unsustainable nature of Zambia's external debt has heightened the role of donors in the management of the country's economic affairs. Donors fill an important financing gap in Zambia's public expenditure. Foreign financing of the country's fiscal deficits, however, has exacerbated rather than abated the country's dependency on external financing and debt relief. The escalation of this dependency syndrome has transformed the terms and conditions under which Zambia receives donor support. These terms and conditions have generated mixed reactions both at home and abroad. On the one hand, the conditions attached to continuing external financial assistance, are seen as necessary for the restoration of the economy's financial stability. On the other hand, these conditions are viewed as worsening poverty in the country. This section of the study reviews this paradox with a view to proposing measures that Civil Society can take to ensure that the influence of Zambia's donors does not undermine implementation of poverty reduction programs.

### 4.2.1 External Borrowing and Debt Relief

Zambia's external debt overhang is enormous. It is estimated that Zambia's external debt stock stood at US$6,862.6 million or 182 percent of GDP as at end of June 2003.[26] Zambia has continued to incur new loans to finance its import requirements and development programs. At the same time, as debt repayments have fallen due, Zambia's inability to meet its external debt obligations has caused it to seek debt relief. Both fresh loans and debt relief have come at a cost which has caused consternation among many observers.

### 4.2.2 PRSP, HIPC Initiative and PRGF

The heavy price that Zambia has had to pay to continue accessing external resources and meet its external debt obligations is best exemplified in the inter-relationships between the HIPC Initiative, the PRSP and the PRGF.

The PRSP is an important pre-condition for both eligibility for debt relief under the joint World Bank and IMF HIPC Initiative and access to the Poverty Reduction and Growth Facility (PRGF). The latter is the IMF's low-interest lending facility for poor countries.

Zambia reached the HIPC Decision Point in December 2000 and qualified for interim debt relief. The Decision Point is the:

> Point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decides on the amount of assistance to be committed.[27]

The significance of HIPC for Zambia cannot be overemphasized. Without it, the country would have been required to pay US$606 million debt service in 2001(Stephen Mbewe).[28] After reaching the decision point, Zambia's debt repayments were staggered and broken into manageable amounts of US$ 170 million (2001), US$160 million (2002), US$220 million (2003) and US$210 million (2004 ) and US$210 million in 2005.[29]

[26] MoFNP (March 2004), Zambia-First PRSP Implementation Progress Report January 2002-June 2003 p 10
[27] IMF (September 2003), The Poverty Reduction and Growth Facility; A Factsheet
[28] Stephen Mbewe (2000), "Strategising Debt Conference", Ministry of Finance and Economic Development, Lusaka, December 7, 2000.
[29] Ibid

### 4.2.3 HIPC Triggers

Zambia was expected to reach the HIPC Completion Point at the end of December, 2003, at which point it was going to obtain the bulk of the debt relief, approximating US$3.8 billion. The completion point is the:

> Point at which a country receives the remaining balance of assistance committed at the decision point, together with an additional disbursement of interest income.[30]

Reaching completion point, however, was conditional upon Zambia's meeting certain triggers or conditionalities. These triggers were contained in the letter of Intent that Zambia sent to the IMF in 2002. More specifically, Zambia's fiscal policy targets were derailed by the personal emolument increases awarded to civil servants, which were not provided for in the budget and the payment of retrenchment packages to miners at the former Roan Antelope Mining Company of Zambia (RAMCOZ).[31] This resulted in a budget overrun of about K610 billion. This, in turn, led to failure to sign a new PRGF arrangement with the IMF, which is also an important trigger for reaching the HIPC completion point.

Failure to reach agreement on a new PRGF led the donor community to withhold budget support. It is reported that by October 2003, onlyUS$9.6 million was disbursed out of the pledged US$56 million for the year.[32] Consequently, a number of planned poverty reduction activities could not be implemented.

In the absence of a PRGF, Zambia was put on an IMF Staff Monitored Program (SMP) which is meant to review progress towards signing a new PRGF. The SMP is also monitored by fiscal and structural triggers which are deemed essential to signing a new PRGF. It is hoped that, depending on satisfactory progress on the SMP, Zambia may sign a new PRGF with the IMF in June, 2004 and reach the HIPC completion point in December 2004. Government has made this an important economic policy objective.

From the foregoing analysis it is clear that the donors exercise significant influence on the use of public resources in Zambia. In the first place, given Zambia's financial straits, donor funding is crucial to the implementation of the country's development programs. For instance, it is projected that the PRSP will require external financing to the tune of US$1,125 million over 2002-2004, of which the expected HIPC resources amount to about US$733 million. This is approximately 10 percent of GDP.[33]

What is in contention, however, is the manner in which donors exercise their influence and the impact this has on poverty reduction efforts in the country. To begin with, exponents of donor leverage on government policy see donor influence as a positive factor in prodding Zambia to adopt the difficult but necessary reforms. In other words, it is argued that without donor conditionalities government would dither on adoption of the reforms required to restore financial stability and growth. It has been observed, for example, that:

[30] IMF op. cit.
[31] Budget Address 2004 op.cit.
[32] MoFNP (March 2004) op.cit.p11
[33] IDA/IMF (May 2002) op.cit

> The negotiations between the MMD government and its external partners indicate that all major economic reforms came as a result of distinct pressure from its external partners.[34]

Donor conditionality is particularly appreciated and welcomed, even by some critics in the context of the need to promote fiscal discipline and improve accountability in the management of public finances. Donor conditionality is also appreciated in the context of political governance and human rights. It is noted, however, that donors are more successful in gaining compliance to economic policy reform than they do in the case of political reforms.[35]

The debate on donor influence and conditionality, however, seems to tilt largely in favour of critics. First, the high levels of financing for the PRSP expected to come from external partners is in itself a serious source of concern. This is particularly so in the light of the decline in external financial flows in recent years. It is reported, for example, that external program assistance to Zambia declined sharply from US$539 million in 1999 to US$376 million in 2001.[36] In 2003, project assistance declined further to US$347.7 million.[37] Balance of payments support fared even worse, from a programmed assistance of US$111 million only US$56.8 million, or 50.5 per cent was received.[38] It is the uncertainty surrounding external financial flows which has put a question mark on the prospects of the PRSP.

Second, critics of donor influence and conditionality question the genuineness of Government's commitment to poverty reduction. It is feared that Government's commitment to poverty reduction may wane after it achieves its goal of reaching the HIPC Completion Point.

Third, donors and creditors' strong emphasis on economic growth as the only requirement for reducing poverty casts into doubt their real commitment to poverty reduction. Fourth, donors and creditors have a tendency to ignore the expressed concerns and desires of the people in matters of national development. For instance, donors and creditors have continued to call for outright privatisation as a solution to improving the operations of some of the strategic entities of the economy and not the alternative to improve the management systems and impose greater political conditionality (cut the invisible political hand that obtains funds from say ZANACO and ZESCO).

Fifth, donors and creditors are more concerned and reactive to economic conditionality than social conditionality. For instance, they reacted quickly to Zambia's budget overrun but have not come out strongly that the Government has not met one of the HIPC's conditionality-to improve the conditions of work for teachers and health staff in rural areas.

Sixth, an important concern for Civil Society in Zambia is the secrecy which continues to surround the Government's loan negotiations with donors. Negotiations over the PRGF exclude Civil Society. This is seen to be against the spirit of participation and transparency which characterized the formulation of the PRSP. The fear of civil society is that as long as

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34 Rakner, L. op.cit.p134
35 Ibid
36 IDA/IMF (May 2002) op.cit
37 Budget Address 2004 p.8
38 Ibid

such negotiations are not done in a transparent manner and with the broad participation of important stakeholders, agreed upon conditionalities may affect the country's ability to pursue its poverty reduction goals. This concern extends to the internal preparation of the national budget. The 2004 national budget, for example, has put the government at loggerheads with the Labour movement over the issue of Pay As You Earn (PAYE). It is widely felt that the increase in PAYE has been done to please the donors in the Government's bid to enter into a new PRGF and reach the HIPC Completion Point. Civil Society has also expressed unhappiness over some of the structural reforms, particularly the issue of Privatisation of the remaining parastatals which constitute an important trigger for reaching the HIPC Completion Point.

Seventh, there are concerns that have been expressed by leaders on the African continent regarding the sustainability of the PRSPs' emphases on investments in the social sector:

> The focus on expanding basic social services that can be observed in many PRSPs gives rise to the question how to finance the necessary investment, maintenance, and recurrent cost. An additional aspect is that much of this funding is provided in the form of loans, meaning that countries run a risk of slipping back into debt (plus the exchange rate risk) if official revenue is not increased from other sources.[39]

The above concern may not yet be pronounced in Zambia but it's one which both Government and Civil Society would do well to give active attention to.

Finally, regarding the issue of conditionality, there's a feeling that the current practice of intrusive conditionality should be done away with in preference of focus on outcomes rather than on ex ante promises.[40]

The foregoing analysis of the influence of donors and conditionalities on public resources is what has led to calls for broad participation and transparency in discussion of external loan conditions. In particular, civil society would like to see an increased role for the National Assembly in this process.

**Table 4: Progress on Implementation of HIPC Triggers, 2003**

| **HIPC Triggers** | **Status or Comments at end-December 2003** |
|---|---|
| **Poverty Reduction**<br><br>The adoption of a PRSP with implementation and monitoring for at least one year | The PPRSP was adopted in 2002 following Cabinet approval. Thus, implementation started in 2002. In December 2003, Government prepared the first annual implementation progress report, which was discussed with the civil society |
| **Progress in Combating HIV/AIDS**<br><br>Full staffing of secretariat for National HIV/AIDS/TB Council<br><br>Integration of HIV/AIDS awareness and prevention programmes in the pre-service and in-service programs of at least 10 key ministries | <br><br>All positions have been filled<br><br><br>Implemented |

[39] BMZ Contribution to the World Bank/IMF PRSP/PRGF Review undated p.6
[40] African Forum on Poverty Reduction Strategies, Dakar September 10-13, 2001 http://www.worldbank.org/wbi/attackingpoverty.

| HIPC Triggers | Status or Comments at end-December 2003 |
|---|---|
| **Progress in Education Sector Reform** | |
| Increasing the share of education in the domestic discretionary budget from 18.5 percent in 1999 to at least 20.5 percent | The share was 19.7 percent as at end-December 2003 |
| Raising the starting compensation of teachers in rural areas | Implemented |
| Formulating an action plan for increasing student retention | Implemented |
| **Macroeconomic and Structural Reforms** | |
| Maintenance of a stable macroeconomic environment | New PRGF was delayed largely due to fiscal slippages |
| Implementation of an Integrated Financial Management Information System (IFMIS) on a pilot basis | Pilot implementation expected to commence in April 2004 |
| Implementation of a Medium Term Expenditure Framework (MTEF) prepared by MoFNP and approved by Cabinet | Draft MTEF for 2004-2006 is close to completion |
| Complete the review of entry conditions for the strategy to commercialize ZESCO | Implemented |
| Conclude negotiations for the sale of the majority (controlling interest) in ZNCB, and approve negotiations with the preferred bidder | Negotiations were in progress with the preferred bidder |

Source: Ministry of Finance and National Planning :2004 p.9

### 4.2.4 HIP

Another issue that has become an important point of discussion in the context of donor influence and conditionality in the use of public resources is what has come to be referred to as Harmonization in Practice (HIP).

HIP has stemmed from the realization that the current practice of multiple conditionalities imposed by donors providing different kinds of assistance across the sectors of the economy is a strain on the limited administrative capacity of the public service. In the words of the IMF and the World Bank:

> Donor alignment and harmonization of donor processes are crucial to sustaining the PRSP approach. In part, the approach has been designed to overcome long-standing problems of poor donor coordination, weak country ownership of donor-financed programs, and the fragmentation of governmental programs and institutions caused by multiple, and often inconsistent donor aid delivery and management policies and procedures.[41]

The challenge for donors is not only to align their assistance programs with the Government's PRSP priorities but also to provide more predictable financing within the context of the medium-term framework plan of Government. This change would ideally include a shift

[41] IDA/IMF (March 2002) op.cit.p21.

away from project funding to sector-wide approaches and general budget support. Donors, however, remain cautious over such proposals in the absence of improved Government fiscal discipline and accountability. In Zambia, it is hoped that the successful implementation of the Integrated Financial Information Management Systems and Activity Based Budgeting (ABB) would help to create donor confidence in basket funding arrangements.

There has been modest progress towards HIP. Firstly, the World Bank has led the way with the preparation of its Country Assistance Strategy (CAS) unveiled in March, 2004 which is said to have been put together in close consultation with local stakeholders including different government bodies at the national, provincial and municipal levels, external partners, civil society, private sector and other groups and individuals. The CAS has also been hailed as being supportive of the Government's PRSP. It remains to be seen, however, how much alignment with Government policies has taken place in practice. The World Bank and IMF have also adopted a joint approach to carrying out reviews of the implementation of the PRSP. This, however, needs to be extended to bilateral partners as well.

On April, 1, 2004, the Zambian government and 10 development agencies took a step closer to HIP by signing a Memorandum of Understanding (MoU). It was reported that the:

> The MoU is aimed at improving the effectiveness of aid to Zambia as an instrument to reduce poverty as well as to reducing the burden that multiple donors' procedures, policies and information requirements place on the scarce time of government officials.[42]

It is now well understood that donor influence must give way to a greater sense of ownership of the PRSP by aligning their lending programs with the PRSP priorities. This is a challenge to both Government and its external cooperating partners. This is an opportunity that CSPR and its partners should seize to advocate for protection of funding earmarked for poverty reduction programs.

### 4.3 Summary

Zambia's precarious financial situation as a result of its unsustainable external debt has made it a hostage to donor influence. Zambia needs donors for both its development programs and debt relief. There is concern, however, that the relationship between Zambia and its donors is not leading to sustainable solutions to both its external debt problem and rampant poverty. The strong links the between financing of the PRSP and the HIPC Initiative have taken the initiative to drive the development agenda out of the Government hands. In the event that the Zambian Government fails to observe donor conditionalities, poverty reduction programs suffer through withholding of pledged financial assistance. Moreover, the proliferation of donor funded activities imposes a serious administrative burden on the already overstretched capacity of the public service. This speaks of the need to better coordinate donor programs and align them with the priorities identified in the PRSP.

[42] The Post, April 2, 2004

### 4.4 Recommendations

- Donor funding of the PRSP should be delinked from conditionalities surrounding Zambia's attainment of the HIPC Completion Point.
- Donors should include Civil Society in discussions centred on policy based lending programs (e.g. PRGF). The goal should be to work out conditionalities that insulate donor funding from disruptions that arise from government failure to fulfill its promises. In other words, conditionality should not punish the victims of poverty but aim at encouraging good behaviour on the part of government.
- Donor support to strengthening the Public Expenditure Management and Financial Accountability systems should be accompanied by commitment to Direct Budget Support and Sector-Wide Approaches
- Donors should seriously consider total debt cancellation as proposed by Jubilee-Zambia
- Donors should support Civil Society's calls for establishment of a Debt Mechanism

## 5. SUGGEST THE ENTRY POINT FOR CIVIL SOCIETY PARTICIPATION IN DECISIONS OF ALLOCATIONS, DISBURSEMENTS, MONITORING AND EVALUATION OF POVERTY ERADICATION FUNDS

### 5.1 Issue

Priority setting of poverty eradication on the national agenda requires the participation of key stakeholders, including Civil Society in the entire PRPs cycle.

### 5.2 Analysis

Donor insistence on civil society participation in the PRSP has opened a window of opportunity for the latter to increase its influence over national policy-making and implementation of development programs. The fact that the impulse for this participation has come from outside, may be a weakness but it should not stop civil society from taking advantage of the opened-up space to domesticate the process.

Above, we referred to participation as a process that can be distinguished by four successive stages, namely, information-sharing, consultation, joint-decision making and, initiation and control by stakeholders. The PRSP is a three year rolling plan which presents civil society with the possibility of strengthening its participation in poverty reduction activities over time.

This participation should, however, be viewed as an on-going process. This section of the study proposes possible entry points for strengthened civil society participation in decisions of allocations, disbursements, monitoring and evaluation of poverty eradication funds.

#### 5.2.1 Institutionalizing Participation

To begin with, to move to higher forms of participation such as joint-decision making and initiation and control by stakeholders, civil society in Zambia must seek for more institutionalized frameworks than the ad hoc arrangements which characterized the formulation of the PRSP. This is what will contribute to solving the sense of alienation from important decisions which frustrated civil society during the drafting of the final PRSP document.

The climate in Zambia is conducive to making civil society a real partner in the planning and implementation of PRSPs. Government has pointed the way by transforming the thematic working groups in which civil society were represented into Sector Advisory Groups (SAGs).

> Whereas the PRSP Working Groups focused on planning issues, the SAGs are expected to deal with planning, implementation, monitoring and evaluation of the PRSP/Transitional National Development Plan (TNDP). They are also to make recommendations with regard to new sector policies or retention of existing policies.[43]

The SAGs are expected to meet on a quarterly basis. SAGs have so far come up with reports on the implementation of PRPs for 2003 in the different sectors covered by the PRSP. There is need to extend civil society participation from the central government level to other levels of administration such as, the Provincial, District and sub-district levels. The obvious choices of institutional frameworks for institutionalizing participation at these levels are the Provincial Development Coordination Committees (PDC Cs), the District Development Coordinating Committees (DDCCs), the Area Development Committees (ADCs) and Resident Development Committees (RDCs).

The problem with these institutional frameworks, however, is the controversy which surrounds their legal status. These institutions are a creation of Cabinet decisions which are perceived by many actors as lacking the full legal backing which is conveyed only by Statutory Acts and Acts of Parliament.

The concern expressed over the above structures is justified in light of the fate that befell the Highly Indebted Poor Countries (HIPC) tracking and monitoring team. The operations of the HIPC tracking and monitoring team which included the Jesuit Centre for Theological Reflection (JCTR) and the Civil Society for Poverty Reduction (CSPR) were suspended in April 2004. In justifying the action of Government, Secretary to the Treasury, Situmbeko Musokotwane, explained that: " The team is not legally covered and is therefore exposed to being sued by people."[44] The HIPC monitoring team was governed by a Memorandum of Understanding (MoU) entered into with Government on May 9, 2003 to track and monitor the utilization of HIPC resources in order to promote a spirit of transparency and accountability.

The explanation of Secretary to the Treasury was not convincing coming in the wake of the team's reports which reported glaring acts of abuse in the utilization of HIPC funds in which senior Government officials were implicated.

The key to effective participation in public finances management also entails capacity building of civil society constituencies. This would involve various kinds of training

[43] MoFNP (2004), Report on the Sector advisory Groups Workshop Held at Mulungushi International Conference Centre on 21st January, 2004 p.1

[44] The Post, April 3, 2004.

including participatory poverty assessment and monitoring, expenditure tracking and monitoring, and general budget work.

Lastly, in discussing different entry points of civil society participation in the use of public resources, there's need to anticipate changes that are likely to be introduced with the implementation of the decentralization policy. As a matter of fact, because decentralization is based on the premise of enhanced participation, it becomes all the more important for civil society to keep an active watch on how this process unfolds in the country and actually work to expedite its implementation.

### 5.2.2 Entry Points

Following Eberlei[45], civil society may wish to see participation as a process with multiple entry points:

- PRS cycles-because the PRSP is envisaged as a three year rolling plan, civil society would do well to ready itself for participation in the formulation and implementation of each cycle, always preparing itself with quality analysis and hindsight knowledge gained from the preceding cycle.
- Budget cycles-annual national budget preparation is another important entry point which civil society can participate in to ensure that budget objectives and policies reflect priorities of poverty reduction and pro-poor programs
- Macro-economic policy planning-this is yet another crucial area for pro-poor planning.
- Sectoral development policies-as the shift is made from project planning to sector-wide approaches, civil society could contribute to upholding of the pro-poor agenda by participating in planning activities.
- Political processes at sub-national level- here the critical issue is the implementation of the decentralization policy.

The above proposed entry points should be seen as building on the already existing good work involving tracking and monitoring and monitoring and evaluation. There is also need for civil society to engage donors at the national level on an annual basis which coincide with Government financial cycles.

## 5.3 Summary

In considering entry points for civil society participation in decisions affecting allocation, implementation, monitoring and evaluation of poverty reduction programs, there are several important pre-conditions to be taken into account. These include legal and institutional frameworks, coordination and the capacities of civil society.

## 5.4 Recommendations

- Aim for strong institutionalized participation based on sound legal frameworks.
- Be guided by a dynamic common civil society perspective to avoid being used by Government to just validate its own programs.

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[45] Eberlei, W. (2001), Institutionalised Participation in Processes Beyond the PRSP, study commissioned by GTZ.

- CSPR coordinated civil society participation in Sector Advisory Groups.
- Fight for access to timely released information
- Build capacities of civil society constituencies in budget work, monitoring and tracking.
- In addition, actual entry points can take the suggestions put forward by Eberlei above (5.2.2).

## 6. STRATEGIES AND MECHANISMS FOR PROTECTING RESOURCES MEANT FOR POVERTY ERADICATION IN TERMS OF LEGAL PROVISION AND BUDGET EXECUTION

### 6.1 Issue

The fight against poverty requires measures to protect poverty eradication funds from abuse and misapplications.

### 6.2 Analysis

As we reach the end of this study it is important to reflect on concrete steps that civil society in Zambia needs to take as a way of protecting resources meant for poverty eradication. Some of the ideas which we present below are those already being discussed by civil society in Zambia. Others are borne out of reflections on the full breadth and content of this study. Yet others are ideas taken from the experiences of other countries which seem to have advanced the goals of poverty reduction in those societies.

#### 6.2.1 Pre-conditions

In making recommendations on strategies for protecting resources meant for poverty eradication, it must be made clear that this must not be seen as a purely technocratic process. Policies never exist in a vacuum. They are always enacted within a context in which political, institutional, economic, external and other factors bring their influence to bear on their success or failure. In view of this important caveat, we choose to begin this section by outlining factors which we consider absolutely important in the pursuit of a “poverty free Zambia” agenda.

(a) Political will-This is absolutely essential if poverty eradication is to become a priority on the agenda of government program. The top leadership of Government, beginning from the President and his Cabinet, must share a strong commitment to the goal of poverty eradication which goes beyond production of Government reports on poverty and public pronouncements. In other words, it is not enough to adopt a PRSP as the Zambian Government has done. Much more, words must be matched by consistent actions that reflect commitment to address the plight of the poor as a matter of urgency. President Mwanawasa has repeatedly spoken of the anger he feels to see how a country so richly endowed in natural resources can exist in the grip of poverty. Civil Society should engage the President on this public profession of desire to reduce poverty to get him to act in a manner that will cause him to put Government money where his mouth is. Political will, however, must encompass the entire political sector, including the National Assembly and leaders of opposition political parties.

(b) Institutional capacity- no matter how good the development plans might be, if there is no capacity in the public service to deliver the goods and services people need, the goal of poverty eradication will remain unattainable. In this vein, civil society must take a keen interest in the pace of structural reforms aimed at ensuring efficient, equitable and transparent management of public resources. In particular, the reform of the budget process, the shift to activity based budgeting, introduction of an integrated financial and information management systems and development of medium term expenditure frameworks should be matters of concern to civil society. Measures that promise to improve fiscal discipline and accountability are good for improved poverty targeting. This interest should go along with civil society's own work to build economic literacy among their constituencies to effectively participate in, and monitor, government poverty reduction programs.

(c) Fiscal constraints-realization that Government faces serious fiscal constraints which limits the public expenditure resource envelope, should spur civil society to participate actively in the budget process to ensure that poverty eradication receives the necessary prioritization.

(d) External factors- particularly dependence on external financing is bound to continue for a longtime. Civil society's challenge in this respect is to engage donors in policy dialogue on prioritization of poverty eradication in their lending and assistance programs to Zambia.

### 6.2.2 Debt Mechanism

The idea to secure some form of protection of poverty reduction funds from misapplication and arbitrary cuts has been under discussion for sometime. As early as 2000, Jubilee 2000-Zambia had proposed the establishment of a "Debt Fund Managing Committee" and a "Debt Relief Social Fund."[46]

The Debt Fund Managing Committee is envisioned as a tripartite steering committee, consisting of representatives from Civil Society, Parliament and various government ministries. The proposed responsibility of this committee once established would be to oversee the spending of any resources freed up from debt cancellation. The Debt Relief Social Fund, on the other hand, would be the instrument for spending debt relief in line with national poverty reduction priorities. This "Debt Mechanism" would meet the requirements of :

(a) Transparency and accountability

(b) Wide participation, and

(c) Poverty orientation

The principle behind the "Debt Mechanism" has resonance in the Government's proposed "Poverty Action Fund" which is contained in the Transition National Development Plan (TNDP). The name and modalities of how this might work is something that Civil Society should seek to influence by engaging Government in discussions to bring the principle to fruition. This is a matter that should be tackled with a sense of urgency in view of the imminent substantial debt relief that is likely to come with reaching the HIPC Completion Point.

[46] Jubilee 2000-Zambia (2000), What is the Way Forward?

### 6.2.3 Direct Funding to the Poorest

Poverty reduction is not about programs aimed at reaching the poor as passive recipients of alms. Empirical evidence from around the world has demonstrated that, it is only when people are considered as active participants in finding solutions to their problems that in-roads are made into poverty. Again, this is an idea that Government has also mooted and implemented in some cases, like in the provision of the Food security pack under the Program Against Malnutrition (PAM) and the Government's Fertilizer Support Program. It should therefore not be difficult to devise ways of funding the poor directly in a manner that promotes the building of their assets. Here, one approach would be to consider starting with improving the design, targeting and coverage of already existing social safety nets.

### 6.2.4 Lessons from other Countries

***Uganda's Poverty Action Fund***[47]

The Government of Uganda has pioneered an innovative approach to protecting funds meant for poverty reduction. Through such determined efforts of Government, the proportion of the population living in absolute income poverty in Uganda is said to have fallen from 56 percent in 1992 to 35 percent in 2000.[48] Commentators are agreed that the Poverty Action Fund which the Government of Uganda introduced in 1998/99 has played a significant role in achieving this remarkable feat. It needs to be said, however, that progress against poverty has been uneven across the country, with the war insecure north still gripped in the vice of poverty.[49] Similarly, success has been uneven across the various sectors of the economy. Commentators, however, are agreed that the Government of Uganda has demonstrated a rare commitment to combating poverty and results are beginning to show.

In the mid 1990s, the Government of Uganda experienced serious budgetary constraints as resources ran low. The Government took an important step by identifying priority areas within the budget and safe-guarded them from cuts. The priority areas included primary education, which was already identified as a key poverty priority. In 1998/99, the Government introduced the Poverty Action Fund (PAF) as the mechanism for protecting poverty relevant expenditures. Since then, PAF has proved to be an important tool for prioritizing poverty reduction in the national budget and increasing expenditure on poverty programs.

The PAF is not a separate fund. It serves as a mechanism by which poverty relevant expenditure within the national budget is identified and ring-fenced to protect it against cuts. This is not done in arbitrary manner. It is guided by the Government's poverty reduction objectives contained in the national poverty eradication action plan which was drawn up in 1997 and accepted by the international financial institutions as Uganda's poverty reduction strategy plan in 2001.

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[47] Material for this case study has been drawn from the following: (1) Mick Foster and Peter Mijumbi (2002) How, When and Why Does Poverty get Budget Priority-Poverty Reduction Strategy and Public Expenditure in Uganda-Case Study 1 Overseas Development Institute Working Paper 163, (2) Government of Uganda, Poverty Action Fund-General Guidelines, 2003-2004, Ministry of Finance, Planning and Economic Development, Kampala, (3) Government of Uganda (2002), The Poverty Eradication Plan- A Summary version,Ministry of Finance, Planning and Economic Development, Kampala.

[48] Government of Uganda (2002), The poverty Eradication Action Plan ibid p4

[49] Mick Foster and Peter Mijumbi op.cit

> The PAF expenditure categories are drawn from the analysis in the PEAP, and include primary education, primary health services, access to water and sanitation, agricultural services for poor farmers, and rural feeder roads as the major programmes, together with spending on PAF monitoring[50].

It is reported that Government has demonstrated serious commitment to protecting and releasing PAF expenditures within the budget. This arrangement is said to work to protect PAF funds even when non-PAF funds are undergoing cuts. This applies equally to both the donor and Government funded share of the total expenditure. In the event that funds allocated to a PAF priority area are not fully exhausted within the financial year, they are either transferred to other PAF eligible expenditures or saved.

It has been observed that, not only has the PAF approach demonstrated to Government's cooperating partners the resolve of Government to reduce poverty, it has also worked to encourage line ministries to prioritise poverty in their sector budgets. The Ministry of Finance and Economic Planning which houses the PAF has worked out clear criteria for an intervention to qualify as a PAF program:

- It is in the Poverty Eradication Action Plan
- It is directly poverty reducing (raising incomes or improving the quality of life of the poor).
- It is delivering a service to the poor (it addresses the needs of the poorest 20 percent, and is accessible to them recognizing barriers of cost)
- There is a well developed plan for the program ( a costed strategy with clear monitorable targets).[51]

Since it was introduced, PAF expenditure has increased from 17 percent in 1997/98 to 32 percent in the 2000/2001 budget, a share that Government plans on sustaining. The sources of the increase are Government's own funding, HIPC debt relief savings and designated donor budget support commitments.

It is reported that 5% of the total PAF resources is allocated to Government agencies that are involved in ensuring that public resources are put to their intended use.[52] The 5% go to strengthening the capacities of these agencies to improve effectiveness, transparency and accountability of use of these resources. The agencies that benefit from the 5% are:

- The Inspectorate of Government
- The Auditor General
- The Public Accounts Committee
- The Inspectorate Department under the Ministry of Local Government
- The Directorate of Accounts under Ministry of Finance, Planning and Economic Development.

[50] Ibid p viii
[51] Ibid
[52] Uganda Debt Network, Monitoring of the Poverty Action Fund Annual Report May 2001-April 2002 p.3

Civil Society plays an important role in the monitoring of the Poverty Action Fund resources. Civil Society's involvement in this process is coordinated by the Uganda Debt Network (UDN). UDN is an advocacy and lobbying coalition of NGOs, institutions and individuals formed in 1996. Its mission is to advocate for reduced sustainable debt levels, accountability and effective use of national resources for the benefit of all the people of Uganda. With specific respect to PAF, UDN's role is to ensure that resources from debt relief are spent on poverty reducing programmes and also that services reach the intended beneficiaries. Since May 2000, UDN embarked on establishment of grassroots structures, the Poverty Action Fund Monitoring Committees (PAFMCs).

The apparent success of the PAF in Uganda can be attributed to several factors but commitment from the top leadership, beginning with President Yoweri Museveni himself, is clearly one of them. It is reported that President Museveni participated in the meeting that agreed on the final objectives and format of the PEAP. This underscores the importance of political will that we referred to above.

### 6.3 Summary

The single most important strategy for protecting poverty reduction funds is to get Government to commit itself to disbursing poverty reduction allocations in full and on time, regardless of the prevailing fiscal situation. This can not happen unless there's strong political will from key decision makers, such as the President and Parliament. The Debt mechanism proposed by Jubilee-Zambia is a good starting point for initiating this process. Uganda's experience with its Poverty Action Fund is a clear demonstration that such arrangements can work.

### 6.4 Recommendations

- Cultivate political will from the President, Cabinet, National Assembly and opposition political parties.
- Advocate for strengthening of institutional capacities at the Ministry of Finance and National Planning, Provinces and Districts to effectively prioritize and implement poverty reduction programs.
- Advocate for timely and full disbursement of poverty reduction funds.
- Establish a Debt Mechanism as proposed by Jubilee-Zambia.
- Advocate for increased funding to Ministry of Community Development and Social Services to design better, well targeted and adequately funded Public Welfare Assistance Scheme.
- Widely publicize release of poverty funds in the receiving communities to promote transparency and dissemination. This should be coupled with promotion of social auditing (i.e. empowering community members to take special interest and demand information from authorities on the utilization of public funds.
- Learn from the case of Uganda's Poverty Action Fund.

## 7. CONCLUSION

This study has demonstrated that in adopting the PRSP, Zambia has just crossed the first hurdle in the process of prioritizing poverty reduction on the national agenda. Some progress has also been made in developing institutional arrangements necessary for implementing poverty reduction programs. The greater challenge which Zambia faces is developing a clear commitment to poverty reduction. This entails several things. First, poverty reduction must be made an integral part of Government's macroeconomic objectives. Second, there must be a re-orientation of the budget in a manner that increases allocations to the poverty priority areas. Third, there must be greater participation in all aspects of economic policy making by all key stakeholders. Fourth, donors should de-link funding to poverty reduction programs from the usual conditionalities. Fifth there must be deliberate steps to create an atmosphere conducive to making poverty reduction a national priority, a process that presents serious challenges to Civil Society's advocacy role.

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## OUTPUT II: ADVOCACY MESSAGES ON THE THEME OF "RANK POVERTY ERADICATION FIRST FOR ZAMBIA."

| Objective/Message | Primary Target Audience | Secondary Target Audience |
|---|---|---|
| a. <u>Priority Setting of Poverty Eradication</u><br><br>1.Ministry of Finance should make poverty reduction an explicit objective of macroeconomic policy with quantifiable and monitorable indicators in the annual budget.<br><br>For as long as the incongruence between the national budget and the PRSP remain, Government pronouncements about poverty reduction will be regarded as only mere lip-service. The national budget as the main tool for allocating public resources, ought to reflect government development priorities. Against this background, the macroeconomic policy framework outlined in the annual national budget is an important pointer to the real priorities of government. It is disappointing therefore that poverty reduction is yet to become an explicit objective of macroeconomic policy framework in the annual budget. Macroeconomic stabilization, important as it may be, should not take precedence over poverty reduction. It is important therefore that, alongside targets for economic growth rate, reduction in inflation rate and other economic indicators, Government states quantifiable and measurable targets for poverty reduction in the annual budget. This should be complimented by specific Poverty Reduction Programs (PRPs) that will reflect movement towards the overall goal of poverty eradication. Such action will become the true test of Government's commitment to both, the PRSP and the Millennium Development Goals. | • Minister of Finance and National Planning | • Cabinet<br>• Parliament<br>• Multilateral Financial Institutions<br>• Civil Society |
| 2. Formulation of macroeconomic policy objectives should not be restricted to Government and the multilateral financial institutions. There is need for national debate on key macroeconomic objectives.<br><br>The restrictive circle that formulates and agrees on Government macroeconomic policy objectives, is a contravention of the spirit of participation in national development which the adoption of the PRSP introduced in the country. It is also a serious negation of the principles of transparency and accountability which are essential for the good functioning of democratic governance. Moreover, as Zambia moves towards implementation of Government's policy of decentralization, it will be expected that participation will extend to all spheres of management of public finances. Besides, it is obvious that unless important stakeholders who have to live with the consequences of different macroeconomic policy objectives are involved from the start in setting them, these objectives stand little chance of success. It is for these reasons that, CSPR is calling upon Government to openly discuss its macroeconomic policy objectives | • Ministry of Finance and National Planning | • President<br>• Cabinet<br>• Parliament<br>• Ministry of Labour<br>• Labour Movement<br>• Civil Society<br>• IMF and World Bank |

| **Objective/Message** | **Primary Target Audience** | **Secondary Target Audience** |
|---|---|---|
| with as many stakeholders as possible. | | |
| 3. Government must conduct a Poverty and Social Impact Assessment of its macroeconomic objectives and suggest compensatory measures to losers.<br><br>It is now common knowledge that Government efforts to resuscitate the economy are not neutral in their impact on the population. There are always winners and losers in any reform effort. It is important, therefore, that Government undertakes a Poverty and Social Impact Assessment (PSIA) of all its macroeconomic policies to ascertain the distributive impact on the different segments of the population. The objective of such an exercise is to put in place ameliorative measures to lessen the suffering of the adversely affected groups in society. Mitigating measures should be designed in a participatory manner involving the affected groups and other interested stakeholders. Safety nets should be developed that ensure that macroeconomic policies do not undermine poverty eradication efforts. | • Ministry of Finance and National Planning.<br>• Ministry of Community Development and Social Services.<br>• Zambia Congress of Trade Unions.<br>• Farmers' groups | • Cabinet<br>• Parliament<br>• Civil society<br>• Donors |
| b. <u>Protection of Public Resources meant for Poverty Eradication</u><br><br>1. Cultivate political will from the President, Cabinet, National Assembly and Opposition political parties<br><br>The issue of protection of public resources meant for poverty eradication can not be predicated on donor conditionality for debt cancellation and relief. Whereas CSPR recognizes the efforts of Zambia's cooperating partners to contribute to poverty reduction through such mechanisms as the PRGF and the enhanced HIPC initiative, CSPR is of the firm belief that political will from the top leadership of the nation is what should drive this process. Lack of political will in the past has resulted in poor fiscal management and low level targeting leading to diversion of resources meant for poverty reduction as well as non-prioritization of poverty eradication agenda. Moreover, without genuine political will to sustain the fight against poverty, there is danger that Government's expressed commitment to poverty eradication may wane after the attainment of the PRGF and reaching the enhanced HIPC completion point. It is for these reasons that CSPR is calling upon Government and the entire national leadership at different levels to demonstrate honest political will to combat poverty. | • President<br>• Cabinet<br>• Parliament | • Opposition political parties |
| 2. Advocate for timely and full disbursement of poverty reduction funds.<br><br>CSPR is concerned that if current trends in allocation and disbursements of poverty reduction funds persist, the expected positive impact of poverty reduction programs on the overall poverty levels will not be felt and Zambia will fail to achieve the millennium development goals by 2015. It was observed, for | • President<br>• Minister of Finance and National Planning | • Cabinet<br>• Parliament<br>• Donors<br>• Civil Society |

| **Objective/Message** | **Primary Target Audience** | **Secondary Target Audience** |
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| instance, that in 2002, K450 billion was allocated to PRPs in the national budget of which K110.7 billion was released, representing 24.5 percent of the total allocation. Moreover, the K450 billion allocated to PRPs only represented 8 percent of the total national budget. In the 2003 National Budget, Government allocated K420.7 billion to PRPs, indicating a decline of K29.3 billion in nominal terms over the 2002 allocation and much more in real terms. Due to the anticipated budget over-run, this allocation was reduced further, resulting in a total disbursement of K212.9 billion at the close of the year. This disbursement represented 50.4 percent of the allocated amount and is higher than the 24.5 percent spent in 2003. The apparent increase in the amount does not mean much because had Government maintained the allocation for 2003 at the same nominal level of K450 billion, the actual expenditure of K212. 9 billion would have stood at 47.3 percent of that allocation.In 2004, PRP activities have been allocated K521.7 billion which represents 15.9 percent increase over the K450 billion. This percentage, however, is offset by the 17.2 percent 2003 end year inflation. CSPR is therefore calling for full and timely disbursement of poverty reduction funds. In practice this means that, Government should not move budget lines allocated to poverty reduction to other concerns-no matter the pressure on Government to look for funds to meet a non-poverty reduction concern. Government should in this respect emulate the example of the Poverty Action Fund (PAF) in Uganda which has done considerably well in protecting poverty reduction funds. | | |
| c. <u>Improvements in Budget Execution e.g. - establishment of a poverty fund; or direct disbursement of poverty eradication resources to implementing agencies.</u><br><br>1. Advocate for strengthening of institutional capacities at the Ministry of Finance and National Planning, Provinces and Districts, to effectively prioritize and implement poverty reduction programs.<br><br>CSPR is calling on Government to expedite the implementation of public expenditure management and financial accountability reforms (PEMFAR) in order to improve the capacity of the public service to deliver the goods and services people need. Structural reforms aimed at ensuring efficient, equitable and transparent management of public resources are important preconditions for prioritizing poverty reduction on the development agenda. In particular, the reform of the budget process, commitment control in spending agencies, the shift to activity-based budgeting, introduction of an integrated financial and information management systems and development of medium term expenditure frameworks, are matters of serious | • Ministry of Finance and National Planning | • Donors<br>• Local Authorities<br>• Provincial administration<br>• Parliament |

| Objective/Message | Primary Target Audience | Secondary Target Audience |
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| concern to CSPR. These are all important prerequisites for developing a criteria for determining poverty reduction priority programs and monitoring their implementation. | | |
| 2. Establish a Poverty Fund to protect poverty reduction funds along the lines of the Uganda Poverty Action Fund.<br><br>CSPR is calling upon Government to take concrete steps to establish a Poverty Fund as was proposed in the Transitional National Development Plan (TNDP). Given the fiscal constraints which limit the public expenditure resource envelope, a Poverty Fund is an imperative if poverty reduction is to be realized. Lessons can be learnt from Uganda where such a mechanism has proved to be relatively successful. The Poverty Fund need not be a separate fund. It should serve as a mechanism by which poverty relevant expenditure within the national budget is identified and ring-fenced to protect it against cuts. This should not be done in an arbitrary manner. It should be guided by the Government's poverty reduction objectives contained in the PRSP. The Poverty Fund expenditure categories should be drawn from the analysis in the PRSP. This arrangement should work to protect Poverty Fund allocations even when non-poverty funds are undergoing cuts. This should apply equally to both the donor and Government funded share of the total expenditure. In the event that funds allocated to a Poverty Fund priority area are not fully exhausted within the financial year, they are to be either transferred to other Poverty Fund eligible expenditures or saved. | • Ministry of Finance and National Planning | • Parliament |
| 3. Establish a debt Mechanism as proposed by Jubilee-Zambia<br><br>The idea advocated by CSPR to secure some form of protection of poverty reduction funds from misapplication and arbitrary cuts is not a new one. As early as 2000, Jubilee 2000-Zambia had proposed the establishment of a "Debt Fund Managing Committee" and a "Debt Relief Social Fund.The Debt Fund Managing Committee is envisioned as a tripartite steering committee, consisting of representatives from Civil Society, Parliament and various government ministries. The proposed responsibility of this committee once established would be to oversee the spending of any resources freed up from debt cancellation. The Debt Relief Social Fund, on the other hand, would be the instrument for spending debt relief in line with national poverty reduction priorities. This "Debt Mechanism" would meet the requirements of :<br>(d) Transparency and accountability<br>(e) Wide participation, and<br>(f) Poverty orientation.<br><br>This matter should be tackled with a sense of urgency in view of the imminent substantial debt relief that is | • President<br>• Minister of Finance and National Planning | • Parliament<br>• Donors<br>• Civil Society |

| Objective/Message | Primary Target Audience | Secondary Target Audience |
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| likely to come with reaching the HIPC Completion Point. | | |
| 4. Advocate for increased funding to Ministry of Community Development and Social Services to design better, well targeted and adequately funded Public Welfare Scheme (PWAS).<br><br>Poverty reduction is not about programs aimed at reaching the poor as passive recipients of alms. Empirical evidence from around the world has demonstrated that, it is only when people are considered as active participants in finding solutions to their problems that in-roads are made into poverty. Again, this is an idea that Government has also mooted and implemented in some cases, like in the provision of the Food security pack under the Program Against Malnutrition (PAM) and the Government's Fertilizer Support Program. It should therefore not be difficult to devise ways of funding the poor directly in a manner that promotes the building of their assets. Here, one approach would be to consider starting with improving the design, targeting and coverage of already existing social safety nets.<br><br>d. <u>Increased civil society participation in decision-making during budget preparation and execution.</u><br><br>1. Establish strong institutionalized civil society participation based on sound legal frameworks.<br><br>The climate in Zambia is conducive to making civil society a real partner in the planning and implementation of PRPs. Government has pointed the way by transforming the thematic working groups in which civil society were represented into Sector Advisory Groups (SAGs). The SAGs are expected to meet on a quarterly basis. SAGs have so far come up with reports on the implementation of PRPs for 2003 in the different sectors covered by the PRSP. There is need to extend civil society participation from the central government level to other levels of administration such as, the Provincial, District and sub-district levels. The obvious choices of institutional frameworks for institutionalizing participation at these levels are the Provincial Development Coordination Committees (PDC Cs), the District Development Coordinating Committees (DDCCs), the Area Development Committees (ADCs) and Resident Development Committees (RDCs).<br><br>The problem with these institutional frameworks, however, is the controversy which surrounds their legal status. These institutions are a creation of Cabinet decisions which are perceived by many actors as | • Minister of Finance and National Planning<br>• Minister of Community Development and Social Services | • Cabinet<br>• Parliament<br>• Donors |

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| lacking the full legal backing which is conveyed only by Statutory Acts and Acts of Parliament.<br><br>The concern expressed over the above structures is justified in light of the fate that befell the Highly Indebted Poor Countries (HIPC) tracking and monitoring team. The operations of the HIPC tracking and monitoring team which included the Jesuit Centre for Theological Reflection (JCTR) and the Civil Society for Poverty Reduction (CSPR) were suspended in April 2004. The HIPC monitoring team was governed by a Memorandum of Understanding (MoU) entered into with Government on May 9, 2003 to track and monitor the utilization of HIPC resources in order to promote a spirit of transparency and accountability. | • Minister of Finance and National Planning<br>• Ministry of Local Government and Housing<br>• Local Authorities | • Parliament<br>• Civil Society |