

# **The same old wine in the same old bottle? Content, process and donor conditionalities of the PRSP<sup>1</sup>**

**by**

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## **Introduction**

Zambia has completed the implementation of her first Poverty Reduction Strategy Paper, PRSP, for the period 2002 to 2004 and is currently in the process of formulating her second PRSP in sync with the First National Development Plan scheduled to commence in 2006. It is, therefore, time to take stock and see if the PRSP approach has made any significant change in addressing the most pressing issue of poverty and whether there are any visible signs of change in the condition of the poor since PRSP implementation began.

The formulation of the PRSP itself through a multi-stakeholder participatory process was a ‘conditionality’ imposed on several countries including Zambia for accessing concessional funds from the IMF and the World Bank. The purported idea was to create a home-grown poverty reduction and development strategy that would be country-owned and hence stand a better chance of success in its implementation and impact.

Several questions can be raised at this juncture:

- Has the advent of the PRSP begun to make a major difference to the objective of achieving sustained poverty reduction in Zambia?
- Is there now any semblance of national independence in implementing a truly national poverty reduction and development strategy without donor “interference” through conditionalities for their much-needed financial support?
- Has the role of the IMF and the World Bank as the gatekeepers of Zambia’s development programs been significantly reduced so that Zambia can avail of bilateral assistance without worrying too much about the “green signal” of the IFIs?

In short, does the PRSP represent new wine in a new bottle or the same old wine in the same old bottle or some mix of the old and the new?

## **Historical background**

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In order to appreciate the rationale and the operation of the PRSP, it is useful to have an understanding of the historical process of Zambia's development.

Since its independence in 1964, Zambia has been used as a playground for conducting a number of varied development experiments ranging from humanism and socialism, centralized planning and controls, nationalization and "parastatalization", to liberalization and privatization, capitalism and marketization, and structural adjustment programs (SAPs) and stabilization. Although some successes were achieved especially in the initial years after independence in terms of physical and social infrastructure building, human capital formation and indigenous entrepreneurial development, there was no notable improvement over time in the human condition. To the contrary, human development indicators suggested that the human condition in Zambia worsened since the mid nineteen seventies up until the advent of the new millennium. The deterioration was especially notable during the period of the SAPs.

During the nineteen eighties, Zambia was not alone but one among a large number of countries in the developing world that were implementing the World Bank-IMF prescribed SAPs. The precipitous deterioration in the overall well being and the rise in poverty levels in practically all of these countries provoked sharp and widespread criticism of SAPs. The Khartoum Declaration made at the end of a UNECA-sponsored conference in 1988 described the impact of SAPs as follows:

"Regrettably, over the past decade the human condition of most Africans has deteriorated calamitously. Real incomes of almost all households and families declined sharply. Malnutrition has risen massively, food production has fallen relative to population, the quality and quantity of health and education services have made tens of millions of human beings refugees and displaced persons. In many cases, the slow decline in infant mortality and of death from preventable, epidemic diseases has been reversed. Meanwhile, the unemployment and underemployment situation has worsened markedly" (Adedeji *et al* (eds), 1990, p ix).

As the last millennium was drawing to a close, it was clear that poverty was the most pressing issue the world over. Evaluations of SAPs done by the IMF and the World Bank's own consultants revealed that the programs had failed on account of their emphasis on short-term stabilization goals rather than long-term development and poverty reduction. Opposition to SAPs by the majority of the populations in most countries was also strong on account of their perception of SAPs as being programs implemented by the governments under the coercion of the Bank and the Fund. In other words, there was no national ownership or approval of SAPs in all these countries.

In view of the above, towards the end of 1999, the multilateral agencies came up with the concept of the Poverty Reduction Strategy Paper (PRSP) that purported to embody a "new" approach to development. The concept, content and process of the PRSP was expected to show a marked departure from those of the SAPs.

### **The PRSP and the PRGF: the IMF's claims of what is new**

In September 1999, the IMF declared that it had embraced a new anti-poverty focus for its work in low-income countries. As part of this move, the IMF terminated its Enhanced Structural Adjustment Facility (ESAF) and replaced it with a new lending facility for low-income countries, the Poverty Reduction and Growth Facility, PRGF. The core aim of the PRGF was to arrive at policies that are more clearly focused on economic growth and poverty reduction and, as a result of better national ownership, more consistently implemented. According to the IMF, this was more than just a change in name. The new facility, the Fund claimed, brought with it a number of innovations designed to ensure that lending programs are pro-poor and in line with each country's own strategy for reducing poverty. And these innovations were complemented by a stronger partnership with the World Bank to increase the effectiveness and sustained impact of combined efforts to reduce poverty.

The most important innovation was the PRSP process. Poverty Reduction Strategy Papers (PRSPs) were to be prepared in all low-income countries intending to borrow from the IMF or World Bank or access debt relief under the Highly Indebted Poor Countries (HIPC) Initiative. National authorities were to base PRSPs on extensive consultation with stakeholders, including civil society and donors, rather than on negotiations with IMF or World Bank staff. The aim was to integrate the authorities' macroeconomic framework with an assessment of the poverty situation and plans to reduce poverty. Because this could be time-consuming, countries were asked to first produce Interim PRSPs that covered existing policies and plans and explain how the more participatory full PRSP would be developed. PRGF programs could, therefore, incorporate some of the improvements of the new process even before full PRSPs were completed.

PRGF-supported programs were to be derived from the PRSPs, and hence would present a number of contrasts with the erstwhile ESAF-supported programs:

- The *objective* is different: The PRGF explicitly makes poverty reduction a central goal, whereas under the ESAF poverty reduction was an implicit by-product. Hence, policies now have to be weighed in terms of their contribution to poverty reduction.
- The *relationship with the country's strategy* is different: The specific measures supported by a PRGF loan arrangement have to derive from the poverty reduction strategy described in the country's PRSP, which is also the basis for all other official creditor support. The PRGF is therefore part of a more coherent and country-led approach to poverty-reduction policies, with the macroeconomic and poverty-reduction elements of the economic program better integrated than in the past.
- *The way programs are formulated* is different: The Economic and Financial Policy Framework Papers (PFs), the basis of ESAF loan arrangements, were prepared jointly by country officials and IMF and World Bank staff without broader consultation. PRSPs, and thus PRGF-supported policy programs, are country-led and incorporate contributions to policy design from across society. Because PRGF-related documents are published more extensively than under the

ESAF, programs are more transparent, enabling other donors to use PRSPs as the basis of their support as well.

- The *nature of conditionality* is different: The PRGF's emphasis on country leadership and enhanced collaboration with the Bank mean that IMF conditionality is less extensive and more focused on the Fund's core areas of responsibility than before.
- The *link with the World Bank* is different: the Bank and Fund jointly assess the PRSP, which then serves as the basis for concessional lending by both institutions. That way, the two institutions can tailor assistance to fit their respective areas of responsibility in supporting the PRSP strategy. Thus, there is both more collaboration and a clearer division of labor.

The upshot of the above is that a number of changes were expected in the manner of doing business: greater transparency; a pro-poor shift in public expenditures; more focus on governance and accountability for public resources; streamlined conditionality; and willingness by donors to use the PRSP as a basis for their aid. Other changes in terms of good governance and enhanced democratization of the decision-making process were also expected to become more evident over time, as participatory processes took hold and full PRSPs were completed and implemented.

As use of the PRGF evolved, a number of distinctive features of the new facility emerged. Foremost among them is broad *public participation* and increased national ownership. Basing a PRGF-supported program on the country's PRSP in principle ensures that civil society has been involved in formulation of the program, that the country authorities are the clear leaders of the process, and that the program is properly embedded in the overall strategy for growth and poverty reduction. Thus, IMF staff are required to explain to the Executive Board how these programs derive from the poverty reduction strategy and how they are complementary to the World Bank's activities and conditionality.

An important expected outcome of the new approach is that more attention would be given not only to the *economic aspects of governance* but also to the *social impact* of major reforms under the program. Where there were expected to be major reforms, analysis of the impact on the poor had to be conducted (normally by the World Bank through its Country Policy and Institutional Assessment, CPIA, where governments lack the capacity to do this work themselves), and, where necessary, countervailing measures incorporated in the PRGF-supported program.

While the PRSP process is "country-owned", it is clearly "government-led". The IMF can only support strategies that effectively address the needs of the poor and have a credible chance of implementation.

Under the new approach, more attention was expected to be devoted to public resource management and to the economic aspects of governance more generally. Government budgets under PRGF-supported programs needed to be more pro-poor and pro-growth. Government spending had to be shifted toward activities that demonstrably benefited the poor, especially where debt relief under the HIPC Initiatives was releasing funds previously used for debt service. At the same time, tax reforms should aim to improve both equity and efficiency. Equally important was ensuring appropriate flexibility in fiscal policy, including in targets for fiscal balances. There should be scope to react to commonly experienced shocks, such as deteriorating terms of trade or poor harvests. And, when it was clear that it could be used productively, there needed to be scope to spend new foreign aid that might become available in the course of the fiscal year.

Emphasis was also placed on measures to improve accountability in public resource management. Strengthening fiscal governance to improve public services and ensure proper use of HIPC debt relief and other government resources was to be a key objective of PRGF-supported programs.

### **What is new and what is old about the PRSP**

Going by the IMF's delineation of the PRSP approach provided in the foregoing section, it would, on the surface, seem to present a radically new approach to poverty reduction in countries such as Zambia. In other words, the PRSP is "new wine in a new bottle".

While there is no gainsaying that there indeed was a euphoric wave that swept all the stakeholders in Zambia's development, notably the civil society, when the idea of the PRSP was first brought in, the passage of time has greatly tempered that feeling. The implementation process of the PRSP, the impact of that implementation so far, the stranglehold of conditionality (that seems to have a strong bearing on the PRSP content, process and implementation) and the gate-keeping role of the IMF that seem to persist, have all given rise to the feeling that the PRSP after all does not seem to depart much from the business scenario of the SAP era.

We present here below the case for four different characterizations of the PRSP: new wine in a new bottle; old wine in a new bottle; new wine in an old bottle; and old wine in an old bottle.

#### **PRSP: new wine in a new bottle**

A number of features relating to the PRSP in terms of concept, content and process of formulation and execution of poverty reduction programs (PRPs) excited the feeling among the various stakeholders that the PRSP was new wine in a new bottle. The following are its notable novel features that contribute to this feeling:

- *The concept of poverty*: Poverty is no longer defined in a uni-dimensional way gauged by some money-metric measure such as the percentage of people falling below a poverty datum line. It is defined in terms of multiple modes of

deprivation of various material requisites of well-being (lack of access to health, education, safe water, hygienic sanitation, decent housing, etc.) as well as deprivation of human dignity in the form of 'voice' poverty and deprivation of human rights. Hence poverty needs to be assessed through a much broader index of deprivation. Democracy and good governance also become essential.

This is a major point of departure from the erstwhile SAP regimes in which autocratic governments which faithfully adhered to the narrow norms of SAP could be financially rewarded while more democratic regimes that failed to live up to SAP norms could be penalized.

- Redistribution and empowerment: Although the SAP and the PRSP both emphasize growth, in the latter, cognizance is also given to the important role of redistribution. It is recognized that in a situation of high inequality, neither will there be strong growth nor will the impact of growth on poverty reduction (the poverty elasticity of growth) be strong. Hence there is a prominent place assigned to the improvement of social service delivery and provision of social safety nets. In here it may be noted that empowerment is a word that was hardly present in the lexicon of SAP. It is in the PRSP.
- Long-term view: Although the PRSP is a medium-term document, it, however, takes a longer-term view of the poverty reduction process. The idea is not so much to see what has been achieved during any given PRSP time frame, but how far progress has been made towards longer term goals such as the attainment of the Millennium Development Goals (MDGs) (one formulation of a multi-dimensional concept of poverty) by 2015. This implies that one would look at not only whether the implementation of a given PRSP phase has produced positive results, one would look at the adequacy of the results with reference to the longer-term targets.
- Road map for poverty reduction: The Economic and Financial Policy Framework Papers (PFPs), the operational documents of SAPs had little or no bearing on poverty reduction. The various components of the PFPs were aimed mainly at getting the prices and structures right. When criticisms mounted that the social dimensions of the adjustment process were completely neglected, there were subsequently some add-ons made to ward off these criticisms. These add-ons were in terms of some targets relating to social sectors and social safety nets. But they were not significant. The significant components of the PFPs were identified by asterisks against them. They were no asterisks against any of the social targets. The result was that, as one writer graphically described, the social targets remained like "baubles hung on the Christmas tree of macroeconomic policy".

The PRSP, on the other hand, is aimed at providing a road map for achieving poverty reduction targets. Its management is therefore premised on results. As such, it does not rest content with inputs and activities but goes further to look at outputs and the outcomes for the poor.

The above point is significant in the light of the past experience with the evaluation of the PFPs. Once the PFP targets, confined largely to macroeconomic performance, were realized, the program was deemed to be successful, no matter what its outcomes on development. This had led to serious differences in perceptions regarding the success of SAP. In Zambia, for instance, we have the well-known instance in the 1990s of the World Bank judging that “Zambia was doing very well” and civil society groups retorting by asking: “When they say that Zambia is doing very well, who is Zambia?”

Such divergence of views is not expected in the case of the PRSP since all parties will now purportedly be interested with final poverty outcomes. This litmus test of performance is a novel feature of the PRSP.

- *Emphasis on process:* One of the most important features of the PRSP is in terms of the process of formulation, implementation, monitoring and evaluation of the PRSP. The PRSP is required to be developed through wide stakeholder consultation and participation. In the case of SAP, the PFPs were in principle formulated by country governments in collaboration with the Fund and the Bank and in practice by the Fund and the Bank with acquiescence by the country governments.

The nation-wide participation is to ensure ownership of the development strategy, lack of which was identified as one of the major factors contributing to the failure of SAP. Again, comprehensive stakeholder participation is not deemed to be a one-off episode confined only to the formulation of the PRSP but also to extend to its implementation and monitoring.

In here, transparency and accountability become vital so that there can be a broad consensus on what has been achieved and what needs to be done. It is in this context that new tools are being developed such as the Medium Term Expenditure Framework (MTEF), Activity Based Budgeting (ABB), Integrated Financial Management Information System (IFMIS) and Public Expenditure Management and Financial Accountability Reforms (PEMFAR). Once these tools become fully operational, there will be a much clearer visibility of the links between resource allocation, disbursement, utilization and outcomes.

- *Nature of external support:* The framework for external support is also undergoing changes. The IMF’s SAF (Structural Adjustment Facility) and ESAF (Enhanced SAF) have given way to the PRGF (Poverty Reduction and Growth Facility), the World Bank’s SAL (Structural Adjustment Lending) has been replaced by the PRSC (Poverty Reduction Support Credit) and bilateral donors are trying to adapt to SWAs (Sector Wide Approaches). Also, the PRSP emphasizes partnership between country governments and external funders. The relationship between these two parties would no longer be one of rich donors and poor recipients where the former would call the tune, but one of shared ideals and reciprocal accountability.

### **PRSP: new wine but in the old bottle?**

There are several things that are new about the PRSP. The conceptualization of poverty as a multi-dimensional phenomenon (people who are above the traditional money-metric poverty datum line could, nevertheless, be, for example, “health poor”, “education poor”, “voice poor”, etc.); the participation of stakeholders, in particular the civil society, in a significant way, in formulating the PRSP document; the more comprehensive coverage of sectors and cross-cutting themes (e.g. governance, gender, HIV/AIDS) in the document in comparison with the former PFPs; outcome-oriented expectations from resource allocations and spending – all these, no matter how inadequately met at the operational level, are things that are unprecedented.

However, how novel is the framework in which these novel features are to be implemented? Observers point out to the following features of SAP that still remain:

- The PRSP like SAP has come into being at the initiative of the International Financial Institutions (IFIs). It is true that even before the PRSP, Zambia had in fact already prepared its own draft National Poverty Reduction Action Plan (NPRAP) that was awaiting Cabinet approval. With the preparation of the PRSP stipulated as a condition for accessing concessional loans and obtaining debt relief, the NPRAP was shelved away.
- No matter how well the PRSP may be prepared with national consensus, it ultimately requires endorsement of the Fund and the Bank to provide the “green signal” to donors to give financial support. In this respect, the situation is the same as that with SAP.
- Endorsement by the Fund and the Bank would require that the PRSP sets out a macro-economic framework underpinned by neo-liberalism (market-determined prices, divestment and privatization, monetary and fiscal discipline) and places adequate emphasis on stabilization and growth that are in keeping with the IFI’s ideology. This was the case with SAP.
- A large number of specific benchmarks have to be fulfilled at every phase of the program for the country to access concessional funds. Many of these benchmarks are the same as under SAP. As Booth and Lucas (2002) state, it would be a mistake to assume that the shift from SAP to PRSP guarantees a reduction in the number and complexity of the benchmarks.

But if it is true that though the bottle is old, the wine is of a new and better quality (it implies a more holistic process towards development issues and a more democratic process of tackling them), it is still a source of some novelty.

### **PRSP: old wine but in a new bottle?**

A somewhat less encouraging view of the PRSP is that it the same old wine but provided in a new bottle or a bottle with a new label. This view implies that there has been no major paradigmatic shift at the level of implementation of the PRSP but that there have



been a number of institutional changes that may produce some positive impact on efficiency in handling programs.

This view suggests that in practice, it is still business as usual. There is no evidence of higher levels of commitment in terms of according higher priorities and higher resources to PRSP (in both 2002 and 2003, PRSP received only small fractions of their approved allocations); policies and resources are still guided more by political compulsions (e.g. the post of district administrators that was recommended for abolition in the PRSP document has only been changed to that of district commissioners); departments and ministries such as State House, Cabinet Office, Office of the President and Office of the Vice President end up receiving funds higher than their approved allocations while those like Health, Energy and Water Development receive lower than their approved allocations); serious misapplications and abuses of funds continue (as revealed by the report of the Independent HIPC Monitoring Team); and there is little evidence of any major outcomes for poverty reduction.

In the wake of the PRSP, however, planning units have been set up within the Ministry of Finance, the civil society has organized itself by forming the Civil Society for Poverty Reduction (CSPR) and donors are trying to coordinate their activities better through Harmonization in Practice (HIP) and Joint Assistance Strategy (JAS).

Thus there is a lot of prominence being given to poverty reduction and poverty reduction activities but actual poverty reduction itself seems to remain elusive!

### **PRSP: the same old wine in the same old bottle?**

This is the most pessimistic view that sees no novelty in either the bottle or its contents. According to the proponents of this view, the institutional changes are only cosmetic; the Government is only trying to keep the Fund, the Bank and the donors in good humor and using the PRSP as a tool of resource mobilization (hence their obsessive concern with reaching the HIPC Completion Point); the IFIs are only talking of PRSP to allay their “guilt conscience” over past SAP failures; and the civil society too is only aiming to be a “thorn” on the side of the Government and to coax the donors for funds to keep their own organizations running and their own staff out of unemployment and poverty!

And is the wine not old? Zambia today under the PRSP has failed to meet the conditionalities of the IFIs just as it failed so many times in the era of SAP and pre-SAP and hence has been stalled of expected assistance and debt relief. Reaching the Completion Point under the Enhanced Highly Indebted Poor Countries (HIPC) Initiative requires satisfying a whole array of benchmarks that include satisfactory progress on PRSP implementation and poverty reduction; progress in combating HIV/AIDS; progress in education sector reform; progress in health sector reform; *and above all*, progress in macroeconomic and structural reforms. The last category of reforms include the maintenance of a stable macroeconomic environment, implementation of an MTEF and an IFMIS on a pilot basis; restructuring of ZESCO and ZANACO.

This pessimistic characterization of the PRSP as holding nothing new for Zambia is greatly influenced by the perception of the role of the IMF, World Bank and other bilateral donors in influencing the pace and manner of implementation of the PRSP.

The PRSP currently constitutes the main corpus of development for Zambia as indeed for most countries of sub-Saharan Africa. But finance is the life-blood of the PRSP. Without adequate finance there can be no effective implementation of the PRSP. The sources of finance for the PRSP are domestic revenues, funding by the IMF and the World Bank, funding by bilateral donors and debt relief provided mainly through the Enhanced Highly Indebted Poor Countries (HIPC) Initiative. These sources, although technically separate, are not independent but linked through a conditionality chain. The lead sources of finance in this regard are the IMF and the World Bank. For if and only when they deem that a country qualifies for their assistance, is assistance also likely to come from the other sources. For example, the IMF's PRGF and the World Bank's Poverty Reduction Support Credit (PRSC) are linked to the satisfactory formulation and implementation of the PRSP. They also determine the attainment of the HIPC Decision and Completion Points through compliance of the various triggers specified by the two IFIs, attainment of which is necessary for a country to obtain debt relief. And they also send the signals to the bilateral donors who get an evaluation of the country's track record on performance. And in the absence of significant financial assistance and debt relief, a country like Zambia cannot easily get on to a trajectory of respectable growth required for it to generate its own adequate resources for development. Thus the financial gate-keeping role of the IMF and the World Bank continues to be critical.

The upshot of the above is that falling out with the IMF can very quickly and dramatically change a country's ability to pursue development. Zambia had already experienced this when in mid 1987, she severed links with the IMF. With a number of favorable external factors such as good weather leading to a good harvest, a surge in copper prices and a pronounced fall in the oil price, she managed to carry on for about two years. In the meanwhile, her debt stock piled up due to failure to service the Fund and the Bank and by late 1988, the country was already seeking a rapprochement with the IMF. Zambia's program of "Growth through own resources" failed to deliver.

More recently, 2002 was a year of great optimism of Zambia. The country had launched its PRSP formulated through wide stakeholder participation and earned high points in the Joint Assessment by the Fund and the Bank. The Consultative Group meeting held in July that year ended with the promise of high levels of pledges of assistance by the donors. And the donors released 83% of the pledged funds - a very high percentage compared to the actual disbursements in many preceding years. And it was taken for granted that the country would reach the HIPC Completion Point by end 2003 after successful implementation of the PRSP programs for a year and thereby qualify for a substantial reduction in her debt stock.

In May 2002, in its 4<sup>th</sup> Review of the PRGF arrangement, the Board approved for Zambia the transfer of \$64 million and the increase in the potential access to the facility with \$31 million to about \$160 million for the remaining period. The IMF Board also approved the

last tranche of nearly \$155 million as interim debt relief under the enhanced HIPC Initiative.

And Deputy Managing Director of the Fund Mr Shigemitsu Sugusaki had this to say of Zambia's performance: "The authorities are to be commended for their continued commitment to sound macro-economic policies and structural reforms, notwithstanding capacity constraints and an adverse external environment. Zambia's overall economic performance has strengthened since mid 2000 after two decades of high inflation and low economic growth, reflecting sharply improved fiscal and monetary policies and progress in structural reforms".

Within less than a year, however, the above scenario changed. Zambia disqualified for the PRGF having failed to fulfill one of its critical benchmarks relating to the ceiling on the wage bill (the well-known budget overrun on wages and related allowances). As the Minister of Finance and National Planning stated in July 2003, the IMF refused to endorse the Letter of Intent until the country explained how it will deal with the budget deficit of more than 3% of GDP from the forecast of 1.55% of GDP. In tandem, donors' support for poverty reduction and balance-of-payments dried up. And the HIPC Completion Point was floated over to 2004 on the premise that the country would show satisfactory performance under a new PRGF support arrangement. The main consequence of all this is that the implementation of the PRSP was adversely affected. Zambia was to have drawn 42% of its K6.5 trillion budget from the donors in 2003.<sup>2</sup>

It is only in June 2004 that the Government was put back on the IMF program after submission of a new Letter of Intent that reflected agreement to reduce the size of the budget overrun.

There is thus no gainsaying that Zambia's achievements in the area of poverty reduction and progress in human development are greatly contingent on the amount of resources it can mobilize. Frustrations with donor recalcitrance prompted the Zambian Government to state repeatedly that it would formulate a domestically funded budget for 2004, a hark-back to the theme of "Growth with own resources" of the Second Republic. Given the magnitude of the poverty situation in the country, in our view, this is at best a heroic statement. For even if the Government were to accord the highest priority to poverty reduction, do away completely with all profligate expenditures and put every precious kwacha from domestic revenues into poverty reduction, it would just not add up to what is required. (And as of now, there is no evidence that the provisos in this statement are being fulfilled!). Until the economy achieves a fairly high level of sustained growth, dependence on external funding cannot easily be dispensed with.

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<sup>2</sup> It may be noted here as an aside that the Zambian Government has tended to go overboard in either praising the IMF and the World Bank when relations are good or to lay blame at their door when relations turn sour. In 2002, Zambia's then Finance Minister was reported to have stated in Washington D.C. that the world was better off with the IMF and the World Bank than without them. But in a forum around mid 2003, the current Finance Minister remarked to the effect that the country's sovereignty in decision-making was partially surrendered to the two institutions on account of the country's dependence on their support.

Within the ambit of the above constraints, Zambia has little choice but to fall in line with IMF-World Bank conditionalities.

Now any set of conditionality per se is not bad if it is meant to act as an efficient and moral catalyst to the economic and political development process. For instance, the conditionality of formulating a nationally-owned PRSP was welcomed by civil society in Zambia and elsewhere as a positive contribution to good governance. But where the conditionality set comprises of a large number of specific targets and triggers that are assigned differential importance and where the importance of those targets and triggers are differentially perceived by different stakeholder groups, the question would be as to whose perceptions eventually prevail. The answer should be self-evident: he who pays the piper calls the tune!

In a recent document, Civil Society for Poverty Reduction (2004a) depicts the various levels of importance attached by the IMF and the World to different conditionalities on a scale called “turning up the heat”. The table is reproduced below.

**Table 1: Types of IMF and World Bank Policy Conditions**

	<b>IMF Policy Conditions</b>	<b>World Bank Policy Conditions</b>
<b>Very hot!</b>	<b>Prior Actions:</b> Conditions a Government must fulfill BEFORE becoming eligible for loans or debt relief.	<b>Prior Actions:</b> Conditions a Government must fulfill BEFORE becoming eligible for loans or debt relief.
<b>Hot!</b>	<b>Performance criteria:</b> Binding conditions that, if not fulfilled, can result in an “interruption” or suspension of an installment of a loan or termination of a loan.	<b>Country Assistance Strategy (CAS)</b> Triggers: Compliance with CAS trigger conditions determines the total number of and size of loan operations over 3 years.
<b>Warm</b>	<b>Structural Benchmarks:</b> Conditions that are monitored to assess compliance, but non-compliance is not a cause for an interruption in loans.	<b>Tranche release conditions:</b> Conditions attached to release of an “installment” or tranche of a single loan.
<b>Cool</b>		<b>Performance triggers:</b> Conditions that will be used to evaluate eligibility for a single loan.

*Source:* Civil Society for Poverty Reduction (2004a), p 13.

The moot question here is: which conditions are cool, warm, hot and very hot. Let us revert to the HIPC triggers in this regard and see how Zambia has performed on them.

### Poverty reduction

- The adoption of a PRSP to be prepared through a participatory process and satisfactory progress for at least one year based on an annual report.

*Assessment:* Zambia's PRSP was prepared through, what is now acknowledged to be, an exemplary (though not perfect) stakeholder participation and was approved by the Cabinet and subsequently endorsed by the Fund and the Bank.

The Zambian Government also prepared its first annual implementation progress report..

The government itself acknowledged that the implementation process was hampered by inadequate information flows and coordination problems. Owing to these problems, the progress report focused only on programs implemented from Government funds and not those undertaken by donors and civil society.

Be that as it may, the allocations and actual disbursements of funds through the public budget left much to be desired. They did not reflect any major shift in priority towards poverty reduction. In 2002, less than 25% of the K450 billion allocated to PRSP programs was disbursed. In 2003, the inflation in the previous year notwithstanding, even less was allocated in nominal terms (K420 billion) of which only 52% was disbursed. And in 2004, K521 billion was allocated. The addition of all these figures is a far cry from the K6.5 trillion (\$1.2 billion) that was to be spent on PRSP programs as per the approved PRSP document. Also, the share of poverty reduction program expenditures in the total budget has been 7.9%, 6.1% and 6.3% respectively in 2002, 2003 and 2004.

No doubt the above situation may partly be accounted for by the lack of materialization of the pledged funds from the donors who were expected to contribute 67% of the funds for the PRSP program.

But it is difficult for the Government to convince anyone that it has been sufficiently committed to poverty reduction. The information contained in two reports did not redound to the credit of the Government. *First*, a report on Budget Tracking commissioned by the Civil Society for Poverty Reduction, CSPR, showed that in both 2002 and 2003, the actual release of funds to ministries/departments that would have less to do with poverty reduction (e.g. Cabinet Office, Office of the President-Special Division, State House) exceeded their allocations while those having a more direct bearing on poverty reduction (e.g. Energy and Water Development, Health, Agriculture) received less than their allocations. *Second*, the report of the External HIPC Monitoring & Tracking Team revealed glaring misapplication and abuse of resources meant for poverty reduction programs.

If, therefore, one of the key features of the PRGF, as the IMF claims, is to assess policies in terms of their contribution to poverty reduction, it is difficult to see how the performance of the Zambian Government on this benchmark could be deemed to have been satisfactory in the light of the evinced expenditure patterns.

### Social sectors

- Progress in combating HIV/AIDS
  - full staffing of secretariat to National HIV/AIDS/STI/TB Council;
  - integration of HIV/AIDS awareness and prevention programs in the pre-service and in-service programs of at least 10 key ministries.
- Progress in education sector reform
  - increase the share of education in the domestic discretionary budget from 18.5% in 1999 to at least 20.5%;
  - raise the starting compensation of teachers in the rural areas above the poverty line for a household, as defined by the Central Statistical Office;
  - Formulate an action plan to increase student retention in Northern, Luapula, Eastern, Northwestern and Western Provinces.
- Progress in health sector reform
  - implementation and scaling up of an action plan for malaria;
  - procedures and mechanisms for the procurement of drugs re-organized to be fully transparent and efficient;
  - timely release of complete detailed health expenditure data;
  - actual cash releases to District Health Management Boards should be at least 80% of the amount budgeted.

*Assessment:* Most of the above conditions have been fulfilled. A notable exception is in respect of the percentage share of education in the domestic budget which increased only to 19.7%.

### Macroeconomic and structural reforms

- Maintenance of a stable macro-economic environment as evidenced by satisfactory performance under a program supported by PRGF arrangement;
- Implementation by the Ministry of Finance and National Planning of an Integrated financial Management Information System (IFMIS) on a pilot basis for at least three ministries and a mid-term review of the pilot program;
- Implementation by the Ministry of Finance of a Medium Term Expenditure Framework (MTEF) as approved by the Cabinet;
- Restructuring and issuance of international bidding documents for the sale of majority (controlling) interest in ZESCO;
- Issuance of international bidding documents for the sale of a majority (controlling) interest in ZNCB.

*Assessment:* Here is where, as often in previous economic regimes as well, that the Zambian Government has faced the most serious challenges. Significant fiscal slippages have typically proved to be the Achilles' heel of macroeconomic policy implementation..

The Zambian Government did not perform adequately in this category. The pilot implementation of IFMIS was scheduled to commence only in April 2004. The final MTEF is not yet ready (a Green Paper was recently circulated for comments). Negotiations in respect of ZNCB are still in progress with the preferred bidder.

The biggest weakness has been in terms of fiscal discipline caused by a huge expenditure overrun in 2003. Total expenditure amounted to K4,726.7 billion exceeding the target of K3,974.6 billion by K752.1 billion or 18.9%. The Government explained this mainly in terms of extra budgetary expenditures especially wage award to the civil service, retrenchment packages paid to RAMCOZ workers and increased general government operations. (see *Economic Report 2003*, p.17). However, wages and salaries and retrenchment packages to RAMCOZ workers exceeded the programmed budgets by K208.3 billion and K24 billion respectively, leaving a gap of K519.8 billion. The other areas of excess expenditures were in external debt servicing (by K229.9 billion due to shortfalls in releases of donor funds) and in domestic debt servicing (by K24.7 billion). This still leaves a gap of K265.2 billion. Given that other heads of expenditure such as Capital Expenditure (including poverty reduction), Public Service Reform Programme and Transfers and Pensions received less than their programmed amounts, the remaining un-programmed expenditures are mainly accounted for by Recurrent Departmental Charges (RDCs) caused by increase in Government operations especially in Cabinet Office and Defense and Security Wings. The question that arises here is how compulsive were these expenditures vis-à-vis say poverty reduction which received significantly less than its programmed levels?

The ordering of the benchmark categories (poverty reduction, social sectors and macroeconomic performance in that order) would give one the impression that it is the reverse of what one used to see in the PFPs under the SAP regimes. But this is de facto only an optical illusion! The failure of Zambia to reach the HIPC Completion Point was not due to her poor performance on the PRSP or some slippage on the social benchmarks but because of her failure to meet some of the macroeconomic criteria. It is these criteria that continue to be treated as hot or very hot.

The IMF, being a financial institution with no big change in its mandate despite the PRSP and the PRGF, continues to consider this to be the most important category of benchmarks. Although social benchmarks have been stipulated, they could be auxiliary to the macroeconomic benchmarks. Hence, non-fulfillment of some social triggers may not be viewed with the same seriousness as non-fulfillment of triggers relating to the specified fiscal and structural reforms. In this respect, the nature of conditionality may not turn out to be very different from the one that existed under the former SAP regime. For instance, consider two alternative outcomes: one, where the country performs well on the poverty reduction and social triggers but slips on some macroeconomic ones; and two, where the country fulfils all the macroeconomic conditions but fails to perform

adequately on poverty and social benchmarks. The IMF could give a clean chit to the country in the latter case but not in the former. If that happens, the old controversy in which the IMF and the World Bank say that Zambia has done well followed by civil society's retort as to "Who is Zambia?" that they are talking about will be revived. This is probably the strongest reason why the PRSP continues to be viewed by some as the same old wine in the same old bottle.

## **Conclusion**

In the beginning of this paper, we posed three main questions the answers to which could be the following:

- There is no substantial evidence yet that the PRSP has begun to make any major difference to poverty reduction.
- The country is heavily dependent on donor support and hence does not have much independence to decide on any course of action that does not meet with the approval of the donors. Change of nomenclature from "donor-recipient" to "cooperating partners" in development may lend some dignity to Zambia but does not fundamentally alter the nature of her relationship with the donors.
- The International Financial Institutions continue to be the financial gate-keepers of Zambia's poverty reduction and development programs.

The above is not to suggest, however, that the PRSP has no potential to achieve poverty reduction in the country. The implementation of the PRSP did not begin with adequate commitment by the Government. But as Folscher (2004) points out, even if the Government had shown full commitment to PRSP implementation, it would have been difficult for it to have made much progress because of several factors:

- When the PRSP was completed the GRZ budget was still planned incrementally for the cost of running existing institutions over a one year planning horizon. The budget showed allocations to institutions by economic items, obscuring the use of funds and limiting options for reallocation.
- In addition, the budget as allocated did not match the actual costs of running institutions. Years of running a cash budgeting system had entrenched the practice of re-making the budget frequently during the fiscal year – actual spending was not determined by ex ante plans, but rather by the ex post sum of allocations made in year from available funds, possibly on the basis of factors that did not necessarily include pro-poor policy priorities.
- Planning instruments were therefore weak.
- The existing cost structure of government severely constrained reallocation to PRSP activities: as it were very little discretionary funds were ever available to implement any activities, once debt costs, personnel costs and overheads were paid. The underlying cost structure of government (e.g. the number and distribution of staff and the cost of accommodating them in government buildings), which arguably was not entirely pro-poor, could not be adjusted easily over the short-term planning horizon.



- The in-year expenditure and financial management systems were weak. Poor commitment control over several years prior to the PRSP left a high arrear overhang which needed to be cleared from available cash. At best public officials and civil servants were accountable for inputs (and even there accountability was limited legally, since expenditures could be authorized long after the fact), never for whether the funds were used with efficacy towards policy priorities. Very little systems were therefore in place to track outputs and outcomes.
- All of these factors occurred within and contributed towards an environment with rent-seeking by elected officials and civil servants.

Many of the above factors have since been addressed and the Government has put in place several enabling institutions in respect of planning, budgeting, budget execution, monitoring and evaluation. These are bound to make a major difference to economic governance. The donors too have initiated the process for better coordination, although the process seems to be fairly slow.

The constant dialog and interaction of a dynamized civil society with government and donors is producing some positive impacts. In the last year of the just ended PRSP, namely 2004, the Government released 100% of the amounts allocated to poverty reduction programs as opposed to 24% and 50% in 2002 and 2003. In his 2005 Budget Address, the Minister of Finance has affirmed “the commitment of the New Deal Government to refocus public expenditure to poverty reducing programmes”. (pp 7-8).

In sum, despite a donor-driven and donor-dependent agenda, there is room for optimism yet.

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