

1. POVERTY REDUCTION AND THE PUBLIC SECTOR: CHALLENGES AND OPPORTUNITIES

A. Introduction

1.1 The Government has an important role in fighting poverty – indeed the public sector can act as a critical facilitator or fundamental blockage to poverty reduction. Besides having the capacity, standards of governance and willingness to prioritize poverty reduction, the public sector also must be prepared to proactively engage with many other actors in Zambia – civil society organizations, local communities, churches, the private sector, and not least the efforts of the poor themselves. The appropriate role of the donor community is to support local actors rather than replace them. As it prepares its next National Development Plan (5th NDP/PRSP 2006-2010), which will incorporate its PRSP, the Government of Zambia (GRZ) should seek to complement and enable the role of all these actors so that Zambia can harness all her resources towards the aim of reducing poverty and promoting greater security and well being.

1.2 Building an enabling environment in the public sector for effective poverty reduction requires efficient and focused management, overcoming the scourge of corruption at all levels and engaging in a meaningful and cooperative dialogue with elected and other representative and informed stakeholders. This shared agenda and common commitment is not created through blue-print or planning, nor does it result simply from stated aspiration, but rather it results from a determined national will, led by Government, to make the necessary decisions and act with purpose to achieve the goal of poverty reduction through economic growth and development.

1.3 Discussions between GRZ and other stakeholders on Zambia's 2002-2005 PRSP have focused on the volume of resources available for development purposes and concomitant levels of spending. Less in terms of significant, practical efforts have been paid to improving governance or increasing the quality of spending. While higher resource flows are no doubt needed, it is equally important to manage existing resources more effectively. There are indications of corruption and misuse of funds at all levels.

1.4 Even under the most optimistic scenario, external and domestic resources flows will fall short of what is needed to support higher rates of investment, achieve adequate levels of basic services, and provide for those who are unable to provide for themselves. Difficult choices must be made. In the past, Zambia has tended to avoid difficult budget choices and instead respond to populist pressures. For example, in 2004 the government faced hard budget constraints in the road sector and a demand for road construction and upgrading projects that far outstripped the supply of funds. Rather than prioritizing and fully funding a few projects, partial support was allocated to a large number of competing projects. As a result, few projects were completed, and many rehabilitation works have ground to a halt.

1.5 Zambia is just completing its 2002-2005 PRSP and Transitional National Development Plan (TNDP). The lessons from the PRSP and TNDP should help in shaping Zambia's future

development efforts. The forthcoming 5th National Development Plan provides an important opportunity to make important albeit difficult choices about poverty reduction priorities and public spending, to put in place credible systems to monitor progress, and to focus on results rather than inputs.

1.6 The first section of this chapter looks at the context in which the 5th NDP is being prepared, and discusses the underlying opportunities and constraints created by public sector management, corruption, governance, and democratic participation.

1.7 The second section then looks at the design of the 2002-2005 PRSP as the foundation of the 5th NDP. The section examines whether, notwithstanding deficits in implementation, the poverty reduction strategy proposed by the PRSP was appropriate to address the current poverty situation in Zambia.

1.8 The third section looks at the specific problems that hampered the implementation of the PRSP, which unfortunately may have limited its impact on poverty reduction.

1.9 Drawing on Zambia's experiences with the 2002-2005 PRSP and the PVA analysis, the final section of the chapter highlights some issues that should be addressed in preparing the Fifth National Development Plan.

B. The Public Sector Environment for Poverty Reduction

1.10 This section examines the broad public sector context in which the 5th NDP is being planned. It discusses the status, opportunities and constraints linked to governance in Zambia governance, defined as public sector management, corruption, and democratic participation.

1.11 In Zambia, the public sector poses a constraint to effective poverty reduction. Over past years, there has been a consistent record of gaps between the level of aspirations and policies, and that of performance and results. At all levels, a varying combination of political will, technical capacity, budgetary constraints, unrealistic expectations, corruption and poor management combine to undermine the successful implementation of the majority of plans and programs. The precise reasons amongst these for multiple failures in achieving pro-poor results vary; but nonetheless, most initiatives result in weak performance.

1.12 There has been some discussion in Zambia on the ways that poor governance creates fundamental barriers to the successful implementation of pro-poor and growth oriented initiatives. Significant among the factors identified are inefficiencies in public sector management, corruption, and democratic participation. Problems in these areas are often related (for example, public sector management is constrained by corruption), but for the purposes of discussion it is useful to distinguish them. In discussing each, we will examine the current context, strengths and weaknesses, and discuss how each presents constraints and opportunities for achieving poverty reduction objectives.

Public Sector Management

1.13 Even with the best of intentions, the Zambian public sector struggles to work in a manner that is effective, transparent, and accountable. Deficits in performance range from the quality of policy coordination and planning, through the management and control of the civil service, through the deficits in services intended to serve the people, especially those that target the poor.

1.14 Zambia public sector faces an array of problems, but recent dialogue between Government and the international community has agreed the following as the most serious areas of deficit::

- Budget and procurement systems - require greater transparency and effectiveness
- Accountability and transparency – needs considerable improvement with respect to the use of public funds;
- Ministries and agencies staffing – need effective rightsizing based on organizational functions and the national budget envelope;
- Pay reforms – to include incentives to attract and retain skilled and professional staff in key sectors;
- Decentralization strategy – to be implemented in step with the capacity of central government to support it, and of local government to undertake service delivery effectively.

1.15 The result of these deficits is public services that cannot operate in a timely or efficient manner, and delivery is further hampered by the demotivation of its under-paid staff. With a constant competition for scarce resources, priorities are *de facto* set by budget decisions made at the Ministry of Finance. Even where line agencies receive their allocated budget, these may not be sufficient to achieve the objectives or expected results, and in any case be reallocated to a more pressing or immediate demand. The Public Expenditure Management and Financial Accountability Review (PEMFAR) contains a tracking study of education allocations, illustrating that only between 14% and 34% of non-salary education spending reaches schools, whilst the rest is spent at district or provincial levels.

1.16 Moves to analyze and correct deficiencies in the public service were initiated more than ten years ago, with the Public Service Reform Program. Since that time, ministries and agencies have been subject to restructuring, initially accompanied by a redefinition of the purpose and core responsibilities of each. The original intention to *downsize* ministries was quite soon replaced by the aim of *rightsizing*. While the intention behind this change is clearly justifiable, it has diluted the original purpose of reducing the number of public sector employees. Furthermore, since the restructuring. While g exercise has addressed the needs of each ministry in turn, opportunities have not been created to look at some of the systemic inefficiencies, or to tackle some of the critical decisions concerning prioritization across Government functions.

1.17 Government is in the final stages of preparing the Public Service Management Program Support Project, which has allocated \$120 million of funding from domestic resources and the international community principally to Public Expenditure reform, administrative & civil service reform, and also to decentralization and strengthening of legal institutions of the market economy. Notably, this will support a substantial effort on the range of activities described in the Public Expenditure Management and Financial Accountability Reform (PEMFAR) package. This set of activities is intended to improve public sector financial management at all stages, from economic policy and planning, through budgeting, financial management, reporting and audit. Additionally, further efforts will be made to improve the staff profile of the public sector, with improved pay and conditions for priority staff, and reduced expenditure in areas of inefficiency, poor performance and low priority.

1.18 In implementing this program, Government faces substantial challenges. Not least, there are risks that the political will needed to sustain these reforms may falter, as difficult decisions and trade-offs have to be made. These may attract problems within the public service as restrictions on wage increases, the elimination of certain allowances, and retrenchment decisions

are made. The inefficiencies in the financial management practices of the past were not without beneficiaries, and reforming this sector will also require significant political will. Effective reform will require the buy-in of actors outside the political and civil service leadership, and would benefit significantly from the support of Trades Unions and the political opposition.

1.19 In improving financial management, Government and the international community have agreed on a network based IFMIS strategy. However, it remains to be seen whether the highly technological (and very expensive) solution agreed will be either technically achievable or effective in improving public financial management. In the past, major problems revolved around the fact that financial systems were often disregarded, making way for abuses and corruption. Audit reports were not acted upon and no actions taken against transgressors. It cannot be assumed (by either Government or donors) that the new IFMIS system can substitute for half-hearted political will to implement reforms – new technology and systems can be misused just as the old ones were.

1.20 Implementing public sector reform will have noticeable benefits for poverty reduction. In the place of inefficient and unproductive expenditures, more funds will be available for employing teachers, health staff and other public sector workers who directly benefit the poor. With them will come better resource allocations to support improved service delivery. Although engaging in serious reform is a test of determination for the Government, and will result in redundancies that inevitably hurt those involved, it is important to keep in mind the extent to which reforming the public service will support poverty reduction.

Corruption

1.21 Over the past five years, corruption has become a major focus of political debate in Zambia. Although much of the debate focuses on grand corruption and political corruption – the alleged wholesale extraction or misuse of state resources by people in high positions in the public sector – other forms corruption in Zambia affects many people, especially the poorest, on a daily basis. The National Governance Baseline Survey was commissioned by the Government of Zambia and conducted in 2003 by the Department of Political and Administrative Studies of the University of Zambia. The following discussion draws on its finding as well as other sources of information.

1.22 There are four distinct types of corruption in Zambia:

- Petty corruption
- Corruption in procurement and budget mismanagement
- Nepotism and corruption in personnel
- Grand corruption, state capture and political corruption

1.23 From the point of view of the majority of Zambians, petty corruption is the most common and visible form. In the Governance Baseline Survey, about 40 percent of the service user respondents report that bribes are necessary to secure public services. One in four households reported that a household member had been asked to pay a bribe in the previous year. Low-income citizens are disproportionately penalized by paying bribes that represent a greater share of their income than households in the middle- and high-income brackets. Among households that had been asked to pay a bribe, total bribes requested amounted to 4 percent of household income on average. The burden of bribes was larger for the poor. Among the poorest households that been asked to pay a bribe, requested bribes averaged 17 percent of household income. This

suggests that petty corruption increases inequality, reduces the quality of public services and impedes access to basic services.

1.24 Corruption in procurement and budget mismanagement are also common. Corruption provides a severe constraint to the growth of the private sector, particularly in making the transition from the informal economy to the emerging small business sector. 36 percent of managers reported being asked for a bribe to obtain licenses and permits. Unofficial payments to get government contracts are also quite widespread, and managers report forfeiting, on average, 6.4 per cent of the invoice value to public officials in order to expedite contract payments. Small firms have to forfeit an even higher percentage of the invoice – up to 7.7 percent. While laws, regulations and mechanisms exist to ensure markets work well and to support direct investment, implementation has been poor. Bribes are used to influence regulations and licensing, avoid tax, gain contracts, influence the police, and ensure favorable court decisions.

1.25 Public service officials also report that nepotism and the purchasing of public positions is a serious challenge, and affects opportunities for recruitment and subsequently access to training and promotion. This in turn affects the quality of services delivered, by having the wrong people in key positions, and reducing the morale of more competent but less successful officials. The levels of corruption that affect daily work and progress within the public sector institutions creates a lack of respect for leaders, and subsequently reduces the performance and effectiveness of these organizations.

1.26 Grand corruption and political corruption are also reported to be severe problems in Zambia. Political corruption is the abuse of public resources for political advantage, and grand corruption is the extraction of state resources by highly placed people. Several instances of political corruption were recorded during the 2001 elections, including the use of public funds to purchase campaign vehicles. (Foundation for Democratic Process, 2004, 2005) Subsequently, by-election results have also been dominated by the widespread misuse of Government resources (particularly transport, and also salaries and allowances for political leaders who were campaigning). Prior to the 2001 elections, a number of cases of grand corruption were cited as part of the anti-third-term movement; since the elections, others have also emerged. These allegations are currently being pursued through an appointed task force on corruption. However, the initiative has so far resulted in no convictions, and concerns have been raised that decisions on prosecutions are made on political grounds.

1.27 State capture describes how laws, regulations and government decisions can be influenced through corruption. It is widely believed that large scale businesses, multinational companies, and powerful economic groups use corruption to exercise undue influence over the state. It is possible that criminal syndicates, especially those dealing in drugs, stolen vehicles and money laundering, also influence government's operations through corruption. State capture involves using bribery to wield influence over shaping policies, licensing decisions and regulations, to avoid taxes and other requirements, to influence court authorities and to damage the businesses of competitors.

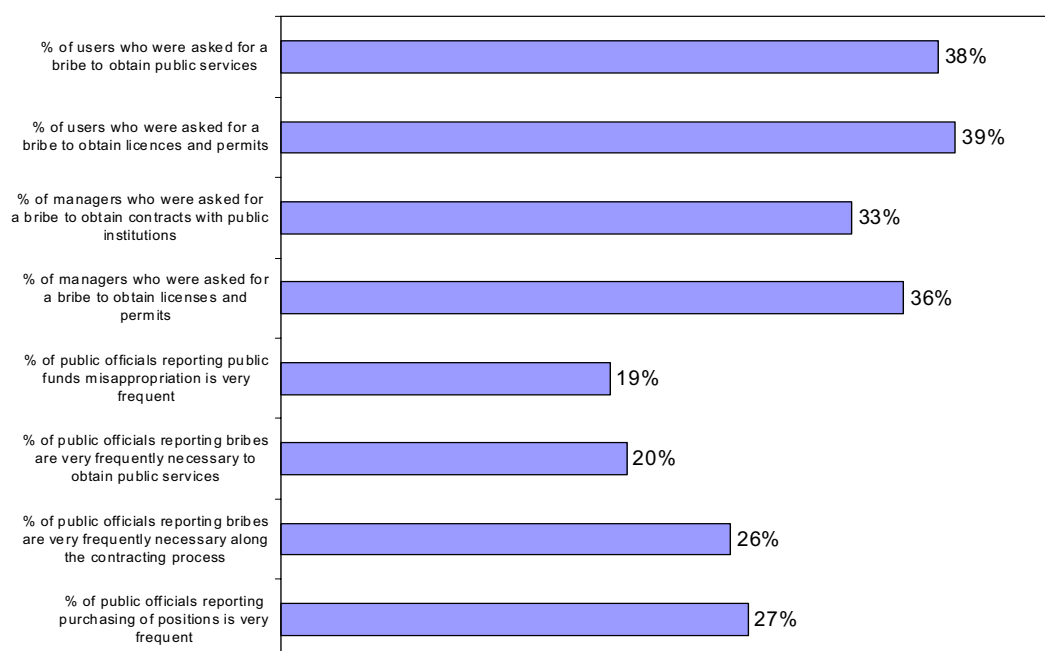
1.28 These forms of corruption may be having a substantial adverse impact on Zambia's economic and social development. In terms of large-scale economic development, it is now clear that irregularities plagued the privatization of state-owned enterprises. The divestiture of some of the largest and most economically significant assets appears to have been dominated by grand corruption and/or state capture. It is likely that corruption related to privatization in particular may have eroded public confidence in economic reforms (Chanda 2003). Even now, the need to engage with political corruption is said to be normal to maintain the operations of a large scale

business. Without maintaining such relationships, businesses may lose permits or contracts, or be subject to harassment from the tax or immigration departments.

1.29 Access to basic services is affected by corruption. Securing places in school, even at Universities or colleges, can result in demands for a bribe. Accessing good care in hospitals may require payments to nurses or doctors. Even courts are not perceived to be above the influence of corruption: about 40 per cent of households and 25 per cent of business managers report that bribes are paid to speed up legal proceedings. More than 50 per cent of managers believe that the judiciary is not independent of either the government or of economic pressures, and they do not believe that justice is administered in a fair, just, or transparent manner.

1.30 Citizens' voice is still ineffective in combating corruption. Citizens often do not know how or where to report corruption, and if they do they usually do not report it. Furthermore, although this is a common problem across the country, it is particularly true for the poorest and most vulnerable groups: only 14 percent of women and 20 percent of men belonging to the low-income group know where to report a corruption case. (UNZA, 2004). Lack of information about the reporting mechanisms, which is the main obstacle, is particularly pronounced in Northern, North-Western, and Eastern Provinces. Although public officials claim to know the corruption reporting process better than households do, they admit to not reporting all the cases of corruption they witnessed.

Figure 1.1: Key Statistics from the National Governance Baseline Survey for Zambia

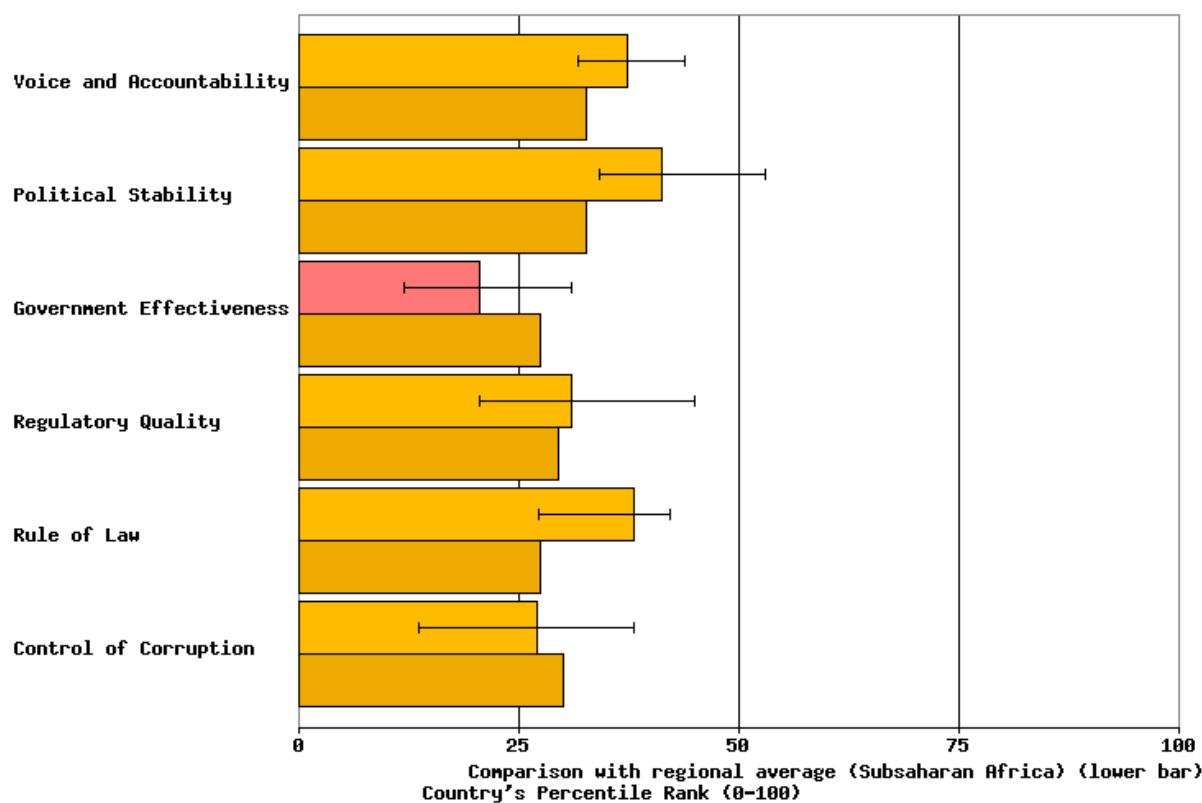


Source: National Governance Baseline Survey

1.31 By international standards, Zambia's levels of corruption are high but not extreme. In Transparency International's most recent Corruption Perception Index, which ranks countries based on the perceptions of business people and country analysts, Zambia is number 102 out of 146 in a ranking of countries from least corrupt to most corrupt. In sub-Saharan Africa a number of other countries are perceived as more corrupt: Nigeria, Chad, Cote d'Ivoire, the Democratic Republic of Congo, Angola, Kenya, Cameroon, Sudan, Niger, Zimbabwe, Sierra Leone, Ethiopia,

and the Republic of Congo-Brazzaville. (Transparency International, 2004). Similarly, along six governance indicators included in the World Bank’s Governance Research Indicator Country Snapshot (GRICS), Zambia’s ranks near the averages for sub-Saharan Africa (See).

Figure 1.2: Indicators of Governance in Zambia and Sub-Saharan Africa, 2004



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

Democratic participation

1.32 An elected government has a mandate to lead the country towards its development. However, the reasonable execution of that mandate requires that a constant dialogue is maintained with a range of stakeholders. Relevant stakeholders may be elected, representative or independently well informed – but wherever they are drawn from, their participation and support are necessary to ensure the best possible programming, and a unity of purpose that contributes to success.

1.33 In the days of the one-party state, dialogue outside the party and government was largely limited to dissemination of decisions that had already been taken. The Trades Union movement represented one of the few independent institutions that challenged Government, while the NGO sector was restricted by explicit regulations and in equal measure by the culture of self-regulation. Even electoral competition was restricted to managed ‘debates’, where each candidate was allowed to answer the same questions in turn.

1.34 Since the change in political dispensation in 1991, civil society has grown into a more dynamic movement. Churches, public pressure groups, professional associations and the independent media have combined to present a dynamic set of institutions that seek to interact with Government. The strongest evidence of this was in 2001, when moves to change the constitution to accommodate a third term of office for the incumbent president were halted through the force of response by civil society.

1.35 However, the dialogue between Government and civil society on development and poverty reduction varies over time, and between sectors. At times, partnerships are strong; at others, dialogue is replaced by tension, resentment and competition. Where partnerships have been successful, dialogue has generally been addressing concrete or practical matters. Government has seen civil society as a partner, recognizing their autonomy and (where relevant) their significant contribution in the communities where they work. A stronger and more consistent dialogue, with a more open and less patronizing tone from Government, and a more realistic and results-oriented approach from civil society, could result in a productive dialogue contributing to poverty reduction.

1.36 The specific contribution of civil society into the 2002-2005 PRSP is discussed below (paragraph 1.44). During the planning stage of the PRSP, the relationship was illustrative of how an engagement based on trust can help to achieve common purposes. However, recent experience suggests there is more to learn about on how to maintain effective cooperation.

1.37 Elected MPs are the representatives of people throughout the country, both rural and urban. Their constitutional role is performed through the activities of parliament, notably with regard to approving budgetary estimates, enacting legislation, and monitoring the executive through parliamentary committees. More discussion at the time of policy formulation, greater engagement with the budget process, and more awareness of implementation would all integrate MPs more closely into the development process, and establish stronger vertical linkages between the executive and communities throughout the country.

1.38 However, MPs are often treated with suspicion. Not entirely without justification, they are believed to want to annex benefits, dominate meetings or take credit for the actions of others. If MPs wish to overcome this image, they must work as a group to maintain appropriate standards in representing the people who elected them. Only then will they be able to make more effective demands on the Executive, to produce standards of implementation sufficient to have an impact on poverty.

Comment

1.39 Thus the public sector faces serious challenges in providing an appropriate environment for poverty reduction. Technical capacity, political will, corruption and a shifting relationship with other stakeholders combine to derail virtually every attempt to convert an aspiration or policy into results for the poor. However, whilst assistance can be provided to help improve capacity, fight corruption or facilitate dialogue, success is dependent on the existence of strong political will to put poverty reduction and good governance at the very *top* of the agenda, and to eliminate all actions and priorities that work against it.

C. Overview of Zambia's 2002-2005 PRSP

The Planning Process

1.40 The PRSP was published in May 2002, and officially launched two months later. The preparation of the PRSP was coordinated by the Ministry of Finance and National Planning (MoFNP), through a specially established unit headed by a consultant coordinator. The unit was subsequently absorbed into the Planning and Economic Management Department (PEMD) of MoFNP. The PEMD coordinates and monitors the implementation of the PRSP and is managing the preparation of the 5th NDP.

1.41 The zero-draft of the PRSP comprised the outputs of eight working groups, each addressing a specific sector. The membership of each working group comprised representatives from Government, NGOs, the private sector, churches, donors, academia and professional associations. These initial outputs were discussed amongst a broader group of stakeholders at the national level, and the revised documents discussed at provincial level consultation workshops. The three cross-cutting issues – environment, gender, and HIV/AIDS – did not have working groups, but were represented by specialist institutions which held discussions with all the working groups before preparing the draft components on each issue. The provincial meeting provided reflections on the national documents, and highlighted the local priorities for poverty reduction.

1.42 The provincial consultation was not a consultation with the poor – the participants were the provincial leadership, the District Administrators, ‘a few sector experts like agriculture, health and education’, and representatives of NGOs and Churches. The closest to the poor themselves were ‘representatives of traditional leaders’, although how many of these were invited was not specified.

1.43 The draft PRSP document was then produced, for consultation with the donor community. Substantial changes were made between the first and second drafts, and again with the final draft. The changes were made in order to reduce the initially over-ambitious budget, and to ensure that the final document would be well-received by the international community.

Engagement of Civil Society and the Research Community in Zambia

1.44 Civil society was closely engaged in both the working groups and the provincial consultations. Indeed, Zambia has been noted for the close cooperation between Government and civil society in developing the PRSP. One of the key reasons this was able to happen was that civil society organized and formalized their participation, through forming a coordinating body, Civil Society for Poverty Reduction (CSPR). The membership and board of CSPR is open to all registered NGOs working in poverty reduction, including international NGOs and trades unions. At inception, membership of CSPR was 15 organizations, which has now grown to around 100.

1.45 During the 2002 PRSP planning process, CSPR ensured that civil society was always represented, and that the various representatives were briefed and coordinated. Following the inception of the PRSP, CSPR updated its mandate so that it could continue to monitor implementation and advocate for improved performance. Leading thinkers and researchers in Zambia have worked closely with CSPR in monitoring and advocating for greater accountability in PRSP implementation (Seshamani, 2003). CSPR also printed and distributed a summarized version of the PRSP to communities throughout the country (CSPR/Harland, 2003). CSPR is now preparing to participate in the 5th NDP process, although at the outset (perhaps due to the late

start) the organization appears to be viewed as a stakeholder rather than a partner in its preparation.

1.46 Zambian civil society has been described as “vibrant”, and its participation in the PRSP taken as a model for other countries. However, there is a tendency to overstate the capacity, commitment and depth of these activities. Unlike the one-party state period, civil society is now legal, vocal and reported in the independent press. However, with the exception of CSPR itself, the Catholic organizations (e.g. Jesuit Center for Theological Research) and a few notable others, there is little said that is genuinely analytical or addressing policy. The numbers of individuals involved is small, and donor dependence is high. While Zambian civil society has moved forward, and is strong in comparison with *some* neighboring countries, it would be a mistake to overestimate the strength or impact that could be expected from its engagement with Government.

Participation of Line Ministries

1.47 The involvement of Government ministries in the development of the PRSP is usually taken for granted. However, there are valid concerns about how ministries were represented, and deficits in this regard that appear to have undermined ownership across Government. Membership of each PRSP working group was limited, and not every relevant ministry was included. For example, the Ministry of Community Development and Social Services was excluded from the working group on education, despite having 65,000 children on bursary support in cooperation with the Ministry of Education. Even for ministries that were included, it was not always the case that the official representing the Ministry was from an appropriate department, or that they reported back, consulted and genuinely represented their colleagues in the discussion. Thus when the PRSP was published, weaknesses in the participation of some line ministries meant that levels of awareness and commitment to the plan were uneven and in some cases limited.

1.48 The lack of ownership of the PRSP at the outset has been exacerbated where sectoral ministries have subsequently developed new policies and plans, which may be without reference to the PRSP objectives and action plan. This marginalizes PRSP achievements, as in practice the pursuit of sectoral goals tends to take precedence.

Participation of MPs

1.49 Integrating MPs into the PRSP planning process would have provided a chance to engage the voices of the electorate, and to encompass the views of all parts of Zambia. It would have also created awareness and “buy-in” to the plan, and provided an additional mechanism for monitoring implementation and gathering information. However, MPs were not included until the dissemination phase.

Donor Involvement

1.50 There is debate over the extent to which the PRSP process was “donor driven.” Certainly the inception of the PRSP process was – at the outset – largely in response to the World Bank. In line with other countries, the need had been identified for a comprehensive poverty reduction package, as part of the justification for agreeing to debt relief. Initially somewhat low key, the PRSP planning process in Zambia gained the active participation across parts of Government, and of civil society, NGOs and the international community. By the time the document was

published, in May 2002, the contents had been discussed and debated quite extensively. However, although levels of ownership were high at the time of publication, these subsequently dipped.

PRSP Sector Advisory Groups (SAGs)

1.51 The PRSP was broadly based on the outputs of the working groups mentioned above (Para 1.41). These groups were initially disbanded once the document was complete, but later re-established in 2004 as Sector Advisory Groups (SAGs), to oversee the implementation and monitoring in each sub-sector. The initial disbanding of the groups simply reflected the fact that the job was thought to be finished; the re-establishment was in response to the severe shortcomings in monitoring and reporting (raised as a critical problem in 2003). The interregnum in the life of the SAGs had a significant cost in terms of ownership and commitment; many of the SAGs remained very inactive through 2004, reflected in the quality of input into the quarterly “All-SAG” meetings. The inactive SAGs have remained the responsibility of the home Ministry, and only the more active groups have had a diverse and committed membership. However, with the planning of the new NDP in 2005, the membership has again broadened, and most SAGs have become active.

D. Overview of the Strategy

1.52 The PRSP begins with a short analysis of poverty in Zambia, followed by descriptions of the five pillars that were identified as the focus of the plan, together with a budget and table of indicators for each activity. An extensive list of monitoring indicators was included in an annex to the plan.

1.53 The plan was based on the premise that achieving sustained economic growth and job creation would lead to the main goal of poverty reduction. The PRSP attributes the country’s worsening levels of poverty to:

- the lack of economic growth, particularly in the rural economy, and the very limited availability of domestic resources;
- High and continuing levels of inequality, due in many cases to structural features of the economy;
- Weak integration of the poor into the market and limited access to assets due to unfavorable land ownership laws and unsupportive land tenure systems;
- Insufficient prioritization of spending, which is often biased against pro-poor programs and policies;
- Inadequate safety nets to protect the living conditions of the destitute and most vulnerable;
- A high burden of debt that crowds out essential social expenditures;
- And large and growing dependence on external support. In 2001, when the PRSP was being prepared, 53 percent of the Government budget was expected to be financed through external resources.

1.54 The poverty reduction strategy presented in the PRSP had five pillars:

- (1) Improved economic performance (in agriculture, industry, mining and tourism)
- (2) Improved provision of social services (education and training, health and nutrition)

- (3) Improved infrastructure (transport, communication, roads, energy, water and sanitation)
- (4) Action on cross cutting issues (environment, gender, HIV/AIDS)
- (5) Improved enabling environment (macro-economic management & governance)

1.55 The primary focus is on **measures to achieve strong and sustained economic growth** i.e. *“a growing economy that creates jobs and tax revenues for the State is a powerful tool for reducing poverty.”*⁸ The PRSP highlights the importance of increasing the level and quality of investment, expanding infrastructure throughout the country, and promoting commercialization and expansion of Zambia’s export sectors. Agriculture development would be given high priority, both on growth and equity grounds. The majority of the poor reside in rural areas and their livelihoods are based on agriculture. The plan was based on the premise that achieving sustained economic growth and job creation would lead to the main goal of poverty reduction.

1.56 The PRSP also looks at the enabling conditions for economic growth, including e.g. sound economic management, good governance, and investing in a range of infrastructure services. Improved health and education services are highlighted as well, both for their direct as well as indirect impacts.

1.57 The key priorities and budgets identified in the PRSP for each of these areas are summarized at the end of the chapter.

Was the PRSP Appropriately Designed?

1.58 It is important to consider whether the priorities and programs identified in the PRSP were appropriate for achieving the goal of poverty reduction, and what gaps existed in the planning.

1.59 *The first issue to consider is whether there was sufficient analysis of the nature of the growth process and the appropriate mix of policies to ensure growth was pro-poor growth. Also whether there was sufficient consideration of poverty reduction measures beyond growth.* The PRSP identified economic growth as the primary engine for national development, without which poverty reduction would be impossible – the plan says *“little can be achieved to reduce poverty unless measures are taken to revive Zambia’s economy.”* While evidence from around the world shows that economic growth is essential for poverty reduction, there remains debate about the mix of policies most likely to lead to inclusive (pro-poor) growth, and the relevant levels and composition of public spending. In the case of Zambia, it was assumed that growth would reach the poor through increased opportunity to earn or to farm, better infrastructure, and increased access to schools and health services.

1.60 Once economic growth was identified as a pre-requisite for poverty reduction, it became the central focus of the PRSP. The plan was based on a growth promotion analysis, with little focus on (1) how different policies and investment priorities would influence the composition of growth and hence the extent of poverty reduction or (2) key impediments to pro-poor growth.

1.61 Nor was attention given to risk factors. Zambia was hit by several large, covariate shocks in the 1990s (e.g. climate shocks, macro price shocks) and the economy suffered as a result.

⁸ PRSP, p. 12

Despite these experiences, and despite the fact that security was highlighted as one of the three pillars of poverty reduction in the 2000/1 World Development Report, the PRSP made no attempt to identify key production risks and assess potential impacts on growth, nor to assess consumption risks and links with the well-being of children, the elderly, and other vulnerable groups. More generally, the vulnerabilities and risk aversions of the poor were not considered (which in itself may threaten the potential success of the strategies identified). The barriers to participation and the poverty spirals that entrap the poor were not assessed. The absence of well-conceived livelihood strategies for the poor was noted in the PRSP but not addressed. Although the PRSP strategy and spending priorities did include health and education, short shrift was given to the needs of vulnerable groups (e.g. the elderly, female-headed households) and the most destitute.

1.62 This lack of a pro-poor focus provides food for thought at the end of the first PRSP period; many of the informants in both the Rural and Urban Participatory Studies, as well as other recent field studies claim that the benefits of the last few years of economic growth are primarily concentrated in the hands of the better-off, and largely by-passed the poor, especially in rural areas. Zambia's rural economy is still characterized by extreme dualism between commercial farmers and small-holders, and dualism within the small-holder sector itself. Inequality has fallen over the past few decades but remains well above that of many other low-income countries.

1.63 The lack of specifically pro-poor analysis and planning in the PRSP often has been overlooked by GRZ. Indeed, if an activity is consistent with the PRSP it is said to be pro-poor. The substantial broadening of what is taken to be a poverty reduction program in the 2005 national budget may further obscure a better focus on pro-poor activity, as even the most remote association with poverty is now classified as a Poverty Reducing Program (PRP).

1.64 It is likely (and indeed desirable) that the 5th NDP will also take economic growth as its major focus; however it is essential that the Plan goes further than the PRSP and also addresses the question of what policies for growth promotion are most likely to reach the poor in Zambia, how public resources should then be allocated to ensure a balanced and inclusive growth process, and what additional measures are needed to enhance security and equip the poor to take advantage of new opportunities.

1.65 ***The second issue to consider is the relationship between the PRSP and other established national commitments.*** When the PRSP was launched in 2002, Zambia had already committed itself to the Millennium Development Goals (MDGs) as a comprehensive set of targets to be achieved by 2015. The MDGs are focused on poverty reduction, from the level of the individual up to macroeconomic and global trade issues. The international community is committed to achieving progress under the MDGs and structuring its support to this effect. Integrating the MDGs into the PRSP would have helped to provide a more coherent results framework and promoted stronger initial commitment from the international community. However, the MDGs are not mentioned in the PRSP.

1.66 Besides the MDGs, Zambia has committed itself to a number of other conventions and goals that are implicitly focused on poverty reduction. For instance, the Convention on the Rights of the Child has specific goals in terms of children's access to health, education and security. Other international conventions that have been ratified offer the opportunity of useful

financial support for implementation of their commitments made⁹, these could have helped structure PRSP activities.

1.67 By not reflecting these existing commitments, the PRSP lost opportunities to improve its pro-poor focus and reduce fragmentation in donor-funded programs. Furthermore, the status of national commitments and goals is undermined by the repeated habit of abandoning or ignoring previous pledges.

1.68 ***The third issue to consider is whether, given its overarching rationale, the PRSP had gaps and omissions that might have compromised its effectiveness.***

1.69 Employment and labor policies were omitted from the last PRSP, which emphasized small-scale business development and farming rather than formal sector employment. At its peak in the early 1970s, nearly 25 percent of the Zambian labor force was employed in the formal sector, while today it constitutes less than 10 percent. However, obtaining secure, full-time permanent employment remains the goal for many people. At present, many employers and investors claim that legislation increases the cost of employment, through considerable statutory rights and benefits for employees, and high personal tax rates for the low paid.¹⁰ This deters employers from offering permanent employment, and promotes the casualisation of labor – with little or no security or rights for workers. Investment in in-service training activities is therefore reduced, and workers have little opportunity to access social security, or to save or invest.

1.70 The PRSP largely ignores the informal sector and its important current role in providing jobs and incomes for the poor. The Urban Participatory Study found that informal settlements in many Zambian towns and cities are diverse and dynamic, with enormous economic potential that can be used as a basis to create new jobs and reduce urban poverty. But the administrative and economic environment in Zambia's urban areas neither recognizes nor supports this potential. Neither the government nor most urban dwellers recognize the informal sector as a longer term source of livelihoods and even of wealth. Instead, many are still waiting for formal sector employment. The same is true for local authorities who continue to enforce outdated regulations that hinder rather than enable the growth of informal economic activities. As a result, many of the urban poor consider their current (informal) economic activities as temporary coping mechanisms, and they have little incentive to invest or build on them for the longer term.

1.71 Nonetheless, whilst greater engagement and consideration of the needs and opportunities found in the informal sector is needed, it is not necessarily the case that the informal sector offers the best opportunity for urban poverty reduction in the medium to long term. Issues of whether reliance on the informal sector can promote income security, safety at work and or necessary levels of economic growth can all be questioned. Since the informal sector provides a substantial contribution to current economic survival, and offers a flexible coping strategy for households in need, it deserves greater recognition. But in order to make a significant contribution to poverty reduction, means must be found to help the informal sector transform into a small and medium scale business sector. Efforts to do exactly this in the retail sector, through market upgrading, have conspicuously resulted in the displacement of informal traders to even less suitable

⁹ Particularly the environment-oriented conventions including Convention to Combat Desertification, RAMSAR (the wetlands convention), CITES and the World Heritage Convention.

¹⁰ Many public sector workers earn less than the official poverty line, and the minimum cut-off for taxable income is less than half the poverty line. Tax is payable at 30% on earnings over K320,000 (US\$66) per month.

environments for business, and the occupation of new markets by traders (many foreign) who were already engaged in business at a higher level.

1.72 The PRSP is largely based on the premise that poverty is maintained by a lack of infrastructure and other public goods and services. The condition of poverty is interpreted as a passive, pre-modern state, which requires investments in order to change. The PRSP places less weight on factors that actively maintain poverty, or prevent the poor from securing their livelihood. Had it taken this approach, the PRSP would have given greater emphasis to less tangible issues, including legal rights, attitudes of service providers, media independence, corruption and access to law enforcement and justice. In addition, little attention was given to assessing the long term prospects and sustainability of key programs. For example, despite supporting the development of new health and education infrastructure and focusing on improved delivery of basic services, there was little discussion of the deficits in human resources for either sector.

1.73 Social protection was omitted from the PRSP, both explicitly and implicitly. The implication was that social protection is a luxury to be afforded once the economy has grown, not an essential part of the development process. However, since 2002 this belief has modified somewhat – in Zambia as elsewhere – and social protection will be a full component in the 5th NDP (see chapter 6).

1.74 The key priority of HIV/AIDS, as well as gender and environment, were addressed in the PRSP as cross-cutting issues. The decision to address these issues differently is debatable, since other themes with unquestionable cross-cutting links remained sectoral. More importantly, the effect of being included as a cross-cutting issue was to bury these critical issues at the back of the PRSP, and to lose them as important priorities in planning, implementation, and monitoring.

E. Issues in PRSP Implementation 2002-2005

1.75 The PRSP 2002-2005 has achieved little in terms of measurable and reported poverty reduction. Experiences in implementation faced a number of constraints that were not due to the broader weaknesses of the public sector, or to issues in the design of the PRSP. This section discusses some of the issues that hampered implementation, and draws lessons for future implementation.

Funding the PRSP

1.76 PRSP implementation lagged through much of the period 2002 to 2004, and most component programs had low disbursements. Although simply spending money does not ensure reduction in poverty, a severe lack of funds will certainly compromise any prospect of achievement.

1.77 As the PRSP began, the budgets allocated from domestic resources were more or less in line with the levels laid out in the PRSP. However, the actual releases were well below the budget levels. In 2002, a total of K240 billion domestic financing was expected to be released to PRSP programs (identified as “PRPs” in the budget), but only K110 billion was achieved. In 2003, disbursements were also well below budget, especially in first half of the year, when disbursements totaled only 12.9 percent of the annual budgeted amount.

1.78 During this period, there was significant variation in the proportion of the budget released to each program. Some programs received nothing at all, while others received all of their allocation and more. There is no explanation on how these decisions were made, although the pattern was similar to cuts and supplementary funding decisions made in previous years. The ministries receiving the highest percentage of disbursements and over-budget allocations included the Ministry of Home Affairs (for police camps and prisons) and the Ministry of Legal Affairs (for local courts), whilst the social sector ministries received less

1.79 Zambia's budget management woes are linked to the problematic implementation of "cash budgeting" in late 1993. Under this system, monthly budget releases to ministries in principle cannot exceed the Treasury's actual cash on hand. Cash budgeting was intended to reduce the budget deficit and restore fiscal discipline, thus reducing inflation. In practice, cash budgeting has largely failed to tame the budget deficit or control inflation. At the same time, cash budgeting has had a deleterious impact on ministries that promote economic growth and social development. Monthly allocations are made largely on an ad hoc and emergency basis by a small group of executives, rather than along the lines of the national budget passed by Parliament. As a result, actual public expenditures are much more oriented towards short-term ad hoc requests rather than the long term investment expenditures called for by the PRSP. In the monthly battle for funds, projects like rehabilitation of rural access roads lose out to short-term needs like the travel costs of Zambian diplomats abroad. Additionally, cash budgeting has created extreme month-to-month volatility in disbursements, making it impossible for mid-level government managers to plan ahead on any reasonable time horizon. (Dinh, Adugna, and Myers 2002).

1.80 The prevailing belief in Government in 2002 and 2003 was that the US\$1.2 billion PRSP budget could not be funded domestically, and should largely be funded by donors. The PRSP document was quite explicit about this – it observed that "*most of the existing domestic revenue will remain committed to running government, with hardly any room left for spending on PRSP programs beyond those that are already running*". It was argued that international donors were already expected to release around US\$1 billion over the three year period of the plan, and therefore "*it is donor financial assistance... that should finance the PRSP*". It was observed that donor activities were not yet aligned with the PRSP, a matter that was identified as a topic for future discussion¹¹. Deeper analysis may have shown that significant levels of donor funding were already fully committed over the three year period, tied to non-PRSP programs, public sector reform, technical assistance contracts, or balance of payments support.

1.81 The prevailing belief that donors should pay for the implementation of PRSP may have been responsible for these low levels of disbursement in 2002 and 2003. Indeed, high level public statements were made to the effect that if the donors did not fund these activities, they could not expect the PRSP to be implemented. This caused confusion in the international community, as some interpreted the statements to suggest that poverty reduction was seen as their responsibility and a low priority for GRZ.

1.82 However, by 2004 many of the international donors active in Zambia had begun the process of aligning their financial assistance with the PRSP. The World Bank uses the same strategic priorities as the PRSP in developing their most recent Zambia Country Assistance Program (CAS). Representatives from the donor community are also involved in the reconstituted PRSP SAGs, and in the work-up to the 5th NDP.

¹¹ PRSP page 127

1.83 By late 2003 and throughout 2004, however, disbursements were on-budget and regular. GRZ attributed this significant improvement in performance to the introduction of the Medium Term Expenditure Framework (MTEF) and ABB systems. In addition, the improvements coincided with Zambia's loss of the PRGF program, and the subsequent provisions of the Staff Monitored Program (SMP) agreed with the International Monetary Fund (IMF). The full monthly disbursement of PRSP programs was a key component of the SMP, essential to re-gain the PRGF and subsequently qualify for the debt relief under HIPC. Under these circumstances, the Ministry of Finance was unable to alter disbursements, although the political commitment to domestic PRSP disbursement had changed significantly.

1.84 The only significant shift in budget allocations from the original PRSP has been in funding the agricultural sector, which have nearly doubled from the expected 14 percent to 27 percent of PRP allocations (see discussion on agriculture, below). Much more money is being provided for the agriculture sector, and being used in a manner that was not anticipated in the PRSP.

Monitoring and Evaluation

1.85 The monitoring and evaluation of the PRSP has been problematic, clearly demonstrating the need to integrate M&E into the design and implementation of poverty-reducing programs, rather than letting it become an ex-post or retrospective process. The first PRSP implementation report was prepared in mid-2003, and revised towards the end of the year. In the absence of a regular monitoring system, the report focused chiefly on disbursements, with few performance indicators or statements on outcomes or impact. Although these deficits were recognized by GRZ, and attempts were made to address the problem in the 2004 report and addendum, the absence of regular M&E as an integral part of each activity created problems that should be addressed in the preparation of the new NDP.

1.86 PRSP monitoring could be focused on each or all of three levels: inputs (budget disbursements, donor contributions); outputs (the achievement of targeted activities in selected projects and programs); and outcomes / impact (the result and effect on the poor of having implemented that program). The indicators originally presented in the PRSP focused on outputs, while financial reporting incorporated PRSP inputs. However, there was no discussion on outcome or impact monitoring until late 2003, by which time it was too late to be included in the PRSP reporting systems. In any case, despite several M&E initiatives and numerous workshops, the country still lacks a clear strategy for developing an integrated system for PRS monitoring. (Annex I describes the current situation)

1.87 Providing good M&E information is contingent on having clearly identified objectives and targets. While some of the objectives and targets in the PRSP were clearly specified, others were aspirations or normative injunctions that do not lend themselves easily to M&E. Examples include 'to reduce disparities in education; to create environments that support health; to prevent malnutrition; to enhance women's participation'. Integrating M&E from the beginning of the design process would have had the added advantage of focusing attention on exactly what outcomes and impacts are being sought at the planning stage, and ensuring that design at all levels of planning is robust and appropriate. This would have helped bridge the gap from vision to strategic plan; strategic plan to action plan, and action plan to individual components of implementation.

Timeliness of Information and Action

1.88 The quality of implementation of the PRSP has been hampered by a lack of timely information and dialogue between the Ministry of Finance and National Development, and the implementing agencies both in Government and outside. This deficit may be attributable to the initial low profile that was given to PRSP implementation in the initial period (2002-mid 2003), and the subsequent problems of always being behind schedule and trying to catch up.

1.89 Timeliness on the part of MoFNP is essential for effective implementation. The quality of GRZ performance can be compromised by a last-minute work culture. There are substantial responsibilities that fall on a small number of the professional staff in the Ministry; implementation capacity should be assessed carefully.

1.90 The lack of timeliness also reduces the time available for effective dialogue. The management and subsequent performance of the PRSP SAGs are a good example of this, as constant lateness may damage the opportunity to develop a shared vision and team spirit across the PRSPs. An example of this lack of timeliness is in the delays in starting the planning for the new NDP. A decision to delay the new plan from 2005 and 2006 was first stated several years ago, but only confirmed in late 2004. The subsequent lack of progress in starting the planning process meant that even with an extra year, the process is now so late that the SAGs are receiving last-minute instructions, and have had little opportunity to contribute to the process through dialogue.

Policy Consistency: the Agricultural Sector

1.91 In order to deliver a five year program effectively, consistency in policy direction is (to a large extent) necessary. This implies careful policy consideration at the planning stage, and subsequent commitment to implementation. The consequences of *not* doing this can result in subsequently haphazard and apparently arbitrary policy changes, which can result in uncertainty amongst implementing agencies, and (where relevant) create a reluctance to engage amongst potential private sector actors. Changes can also absorb extra funding, depriving other sectors of planned and expected resources. An example of shifting PRSP policy between 2002 and 2005 is shown in the agricultural sector, discussed in this section.

1.92 The activities proposed in the PRSP in 2002 for the agriculture sector have shifted significantly during the implementation period. The PRSP sought to strengthen the liberalization process, by implementing policy consistently, improving technology, expanding land availability, strengthening markets, improving access to credit and increasing food security. The target suggested that the sector would grow by 10 percent per year, with maize production doubling; the area cultivated increasing five-fold; and significantly increases in access to extension, vet services, irrigation and appropriate technology. The budget for activities that would achieve these goals was estimated at K178 billion for the three year program, with around 8 percent allocated to input distribution.

1.93 However, by 2004 the agricultural activities financed under the PRSP had changed radically. The program had shifted away from market oriented activities, and much of the resources were focused on Government controlled inputs and marketing. Rather than the planned 8 percent, up to 90 percent of the expenditures in the agricultural sector were directed towards Government subsidies and intervention in agricultural production and marketing. The activities originally planned were largely abandoned. This indicates a significant shift in policy and budget

allocation, which undermines the PRSP and creates uncertainty and lack of confidence amongst farmers, investors and the agricultural support industry.

1.94 Despite the resulting instabilities, changing policy could be justifiable if the new expenditures were (or could be) poverty reducing, and/or likely to contribute to economic growth. However, there is growing concern that these programs represent a reversion to the old system of pan-territorial subsidized maize production, regardless of the suitability of maize in a given area. Years of previous experience show no evidence that this system promotes self-sufficiency or boosts production, or even provides a secure standard of living for small scale farmers, but instead demands increasingly large amounts of money to support inefficient production and inappropriate cropping, and barely ensures national or household food security. Shifting policy in the maize sector has deterred many responsible private sector from engaging in the agricultural sector, or from trading in maize inputs, production or marketing. A lack of confidence that Government policy may not change over night means that any private sector engagement in maize presents a risk to this investment; a risk that is supported through passing the costs to the farmer. Alternatively, the private sector can engage in the maize sector if they are protected by powerful connections, or do not engage in honest business.

1.95 This example shows that planning needs to reflect genuine political consideration and commitment to the policy goals outlined. Radical policy shifts create uncertainty, and undermine future commitment to the planning process.

Political Commitment to the PRSP

1.96 Has poverty reduction suffered in Zambia because of a lack of political commitment? In examining this, it is important to distinguish between commitment to the PRSP, and commitment to poverty reduction; also the changes in political commitment over the period of the PRSP. GRZ has had a stated commitment to poverty reduction throughout, but it may not have had a clear commitment to the PRSP as a vehicle for achieving this until late in 2003.

1.97 The simple issue of the timing of the development of the PRSP undermined political commitment to its implementation in 2002-03. The Presidential elections in the last days of December 2001 heralded a change in political leadership. From the outset, the new administration had plans to revive some key planning functions that had been stopped in the early 1990s. In January 2002, the President instructed the Ministry of Finance to develop a Transitional National Development Plan (TNDP), as a temporary measure while a new five year plan was created¹². The TNDP was signed by the President in October 2002, and explicitly absorbed the PRSP into a broader framework, with some modifications:

The TNDP is linked to the PRSP in four significant ways: First, it shares the same theme with the PRSP. Second it draws heavily on the invaluable work of the PRSP working groups by converting the PRSP chapters into TNDP format. Third, it encompasses areas not adequately covered by the PRSP. Finally, it extends the horizon of the PRSP by a year¹³.

1.98 The TNDP included the thematic chapters from the PRSP. However, as noted above, the format had changed, and to some extent the contents had changed as well. The structure of the TNDP was, in comparison to the PRSP, difficult to follow. The changes in substance, even

¹² This is in fact the 2006-2010 5th NDP.

¹³ Foreword to the TNDP

where they were not very great, had the unfortunate effect of reducing levels of ownership amongst the stakeholders who had been involved in the PRSP Working Groups.

1.99 These events may help to explain the low priority given to the PRSP in 2002 and 2003. In itself this would not have mattered had the TNDP simply taken over the PRSP inside a broader framework. However, the problem was that the TNDP had been hastily prepared, had changed the PRSP chapters too far to preserve ownership amongst sectoral stakeholders, and was not given much credence by the international community. The original PRSP was suspect, and the TNDP never became the guide to planning and action that it was intended to be.

Government Responsibilities in Poverty Reduction

1.100 The Government of Zambia has critical responsibilities in reducing poverty and protecting the lives and livelihoods of the Zambian people. Regardless of other aspects of public sector performance, which could be efficient but not poverty reducing, these are specific functions that Governments have to perform if objectives of poverty reduction are to be realized. Examining the implementation of the PRSP provided insight into the effects of failures in specific areas of the public sector.

1.101 The public sector performs three functions that are critical for poverty reduction:

- Policy making, managing the budget and implementation;
- Delivering critical goods and services in areas such as infrastructure and social support;
- Advancing economic and social equity, either directly through grants, subsidies, transfer payments and public employment schemes, or indirectly through tax policy or positive discrimination

1.102 In each of the above, Zambia is making some degree of progress, but more consistent and concerted action is required to achieve a critical level that will yield effective results.

1.103 On a *policy front*, the lack of leadership by the Policy Coordination Unit in Cabinet Office results in a piecemeal approach, where sectoral policy is generated in response to technical issues or pressure from the international community, but is not part of an overarching vision or integrated framework. There is little high level oversight of the policy process, resulting in a patchwork coverage and multiplicity of implementation mechanisms. The budgetary or other practical implications of policy are not highlighted or made explicit, with the result that many policies are over-ambitious and therefore are only partially implemented. A good example of this is the Decentralization Policy, which has had various forms since the Decentralization Act of 1985, and in its most recent version proposes a radical de-concentration to district level. The budget and human resource implications of this policy are profound, but the trade-offs required in terms of movement of power and people from the centre to the districts have not been discussed. Lack of action on the part of the Policy Coordination Unit means that many decisions on what Government will do are actually made administratively i.e. at the Ministry of Finance. Decisions on what to fund, and where to over-spend or to cut tend to be made an *ad hoc* way, often without reference to policy objectives and outcomes.

1.104 In terms of *delivering goods and services*, and despite recent improvements, Government performance is still hampered by poor planning, weak financial management, burdensome bureaucracy, an inadequate human resource base, and corruption. The substantial over-commitment in policy terms means that officials may be daunted by unachievable expectations,

and discouraged by constant failure to deliver services to an expected level. These problems are mutually reinforcing and Government is struggling to provide basic services to a decent, consistent, accessible standard. A decade of public sector reform has not been sufficiently rigorous, perhaps as a result of avoiding some of the necessary but difficult decisions about which areas of activity should be prioritized, and which should be scrapped. There are encouraging signs that public sector reforms are beginning to bear fruit, but Zambia still has a long way to go.

1.105 Programs intended to promote *economic equity* largely favor the rural areas, and are usually manifested as subsidized or free maize inputs. However, the equity impact of these programs remains to be established, and, as noted above, the productivity of smallholder farmers remains persistently low. The continuing operation of these programs goes back to the social and political importance of the maize industry under the one-party state. For many years, the social contract between the Government and rural people was largely based on transfers through maize that secured minimum incomes. Programs to promote economic or social equity in the urban areas are largely absent. Low paid workers are taxed highly, and services that seek to support the most vulnerable attract little support¹⁴.

Staying the Course on Pro-poor Spending

1.106 As discussed in paragraph 1.83, there was an explicit link between the GRZ diligence in funding PRPs from late 2003 to date, and achieving the HIPC completion point. Indeed, the achievement of the debt relief under HIPC became sufficiently important that the 2003 wage agreement with the civil service was withdrawn, and other expenditures were also curtailed.

1.107 However, having regained the PRGF and reached the HIPC completion point, and with the prospect of further debt relief on the horizon, the many demands from powerful institutions on the treasury may resurge, and it may be more difficult to ensure rigorous implementation of Zambia's future poverty reduction program. Contingencies and other needs may divert money to other activities, particularly leading up to the 2006 election year. Already since the HIPC completion point, a fund to subsidize fuel prices has been announced, and the Government has announced the sale of houses in the Copperbelt at just over US\$100 each.

1.108 The possibility of core poverty reduction activities being relegated to lesser importance a continuing concern, particularly so in light of the reclassification of poverty reduction expenditures in the recent budget. In previous budgets (since 2001), there has been a specific budget code for poverty reduction expenditures, which clearly identified domestic and donor allocations to the program identified in the PRSP. However, it was argued that identifying a narrow set of PRPs as a HIPC condition ignored the fact that many different types of Government spending are necessary to reduce poverty. It has therefore been decided that all programs that may directly or indirectly contribute to poverty reduction would be classified as a PRP I or II respectively, including the wage bills of many civil servants, district administration costs, transport, drug costs, planning workshops, monitoring costs, research, training and higher education. Even voter registration has been reclassified as a poverty reduction program. A third category, PRP III provides for the administration of program and institutions that serve PRP I and II programs.

¹⁴ For example, Government grants to community schools went down from K3 billion in 2004 to K1.29 billion in 2005. This is 0.15 percent of the annual education budget. In contrast, the two universities received 100 times more, at 15 percent of the annual education budget. There are 1925 community schools, making up approximately one-third of primary education level facilities.

1.109 While there is merit in the general argument i.e. that many types of expenditure are important for poverty reduction, not just a narrow set of PRPs, the reclassification transforms the proportion of domestic budget that is allocated to PRPs to around 50 percent. However, it is not simply the classification of expenditure *per se* but rather how the funds are used that determines whether spending is or is not pro-poor. The reclassification could indicate the Government is willing to address poverty in a more integrated and holistic fashion (likewise the integration of the PRSP within the Fifth National Development Plan). On the other hand, it may indicate a growing lack of focus on core budget priorities that have the maximum impact for poverty reduction, and instead a focus on inputs, rather than a results-oriented approach. Further, prospects for monitoring outcomes and impact recede further as the task becomes too unwieldy and poorly defined.

1.110 As the budget becomes tighter, the Government may look to the donors for increased support for poverty reduction. This creates an unhappy situation. Donors' multi-year commitments, particularly in the light of the move towards greater predictability of aid flows, mean that they would continue to support poverty reduction spending (as currently defined) even if Government disbursements fall short of expectations. This skews the balance of resources further towards the donors, creating problems of even greater dependency on aid flows. And as the proportion of donor funding rises, the programs inevitably risk becoming donor driven.

F. Lessons for the 5th National Development Plan

1.111 What advice can this report and the analysis that underpins it offer to the Government of Zambia as it prepares for its 5th NDP/PRSP?

1.112 First and foremost, the Government and other stakeholders should grasp the opportunity provided by the 5th NDP to learn from and build on the good experiences and outcomes linked to the 2002-05 PRSP, while at the same time breaking with some of the less than optimal decisions of the past. And second, to use the process of preparing the new Plan to identify Zambia's priorities for poverty reduction and development, and to build a consensus for action around them.

1.113 The new Plan must above all things be clear at the outset on ***what it is trying to achieve and how it will measure success***. There should be explicit links between inputs and outputs, and expected outcomes and impact e.g. on the poor and other vulnerable groups. ***Monitoring and evaluation systems*** should be built into the design of the NDP, and thus become an integral part of M&E and accountability systems within line ministries and other implementing agencies.

1.114 The new Plan must be **realistic** in terms of what it can achieve over the five-year planning horizon, and programs included in the 5th NDP should have a realistic budget and realistic expectations of human resource capacity in implementing agencies and ministries. One of the key lessons from the 2002-05 PRSP is that the capacity of the civil service is limited, despite ongoing support from the international community; and progress at reducing poverty is contingent on better public sector performance. Staff performance has been hampered by a lack of resources and competing priorities. This has at times comprised the ***timeliness*** of planning and government action.

1.115 Much greater effort must be made to ***identify and act on core development priorities*** that necessary to improve the lives and livelihoods of the poor and vulnerable. It is not sufficient to just set priorities; these priorities must be reflected across all functions of Government i.e. in

budget allocations and actual spending, in staffing and human resource decisions, also in accountability systems and recognition of good performance. In order to focus on priorities, some other activities will have to be excluded, despite pressure from advocacy groups and powerful special interests to include them. Ensuring transparency in budgeting and reporting will help to strengthen Government's hand in making these hard decisions.

1.116 The *SAGs have an important role in preparation and planning for the next Plan*. It is important for line ministries and other representatives from Government to participate fully in SAG planning activities as well as M&E responsibilities. The SAGs provide an opportunity for cross-ministerial debate and coordination, but only if participation is authoritative and representative. If they are to work, the Government must take a leadership role in the SAGs, and not let discussions be driven by donors' priorities and external interests.

1.117 The design of the next National Development Plan must be informed by *good poverty analysis*, which takes account of existing commitments such as the MDGs as well as emerging issues and changes in the external environment. Good data are important as well. There is no problem with the *quantity* of data available in Zambia: the Central Statistics Office (CSO) has implemented a substantial number of national household surveys¹⁵ since 1991, as well as two Population Censuses (1990 and 2000). There is, however, a problem with the *quality of data* and also the *quality of statistics*. Resources may well be a constraint. But it is also important for Zambia's data collection systems to respond better to the needs of policy makers. For example, despite the many surveys done in the 1990s, there is no good data on access of the poor to poverty reduction programs, subsidies, and social assistance programs. Important statistics such as the poverty headcount and life expectancy (where questions have been raised about CSO's recent estimates) should be developed in a transparent fashion and under the supervision of Zambian experts. Many countries have set up Expert Advisory Groups e.g. in Ministries of Planning or Finance and Development, to advise on data priorities and methods for estimating key development statistics. These groups often work closely with national statistics offices, but have an independent review and advisory function. This approach would work well in Zambia and help e.g. in resolving the current debate about levels of poverty and recent progress.

¹⁵ Since 1991, three Living Condition Monitoring Surveys (LCMS), two Priority Surveys, three Demographic and Health Survey (DHS), at least four post-harvest enumeration surveys, two indicator monitoring (IM) surveys, a survey on HIV/AIDs and sexual behavior, and possible others.

PRSP Priorities and Budgets: 2002-2004

| Sector goal | Budget US\$ (2002-4) | Major programs |
|---|----------------------------|--|
| Promote self-sustaining export-led agricultural sector, increasing household incomes and food security | | |
| Generate income & employment through increased agricultural production | 43,375,000 | Establish Agricultural Development Fund |
| Enhance sector contribution to national balance of payments | 30,961,000 | Establish infrastructure support for export zones; strengthen rural business groups and outgrower schemes |
| Land & infrastructure development | 30,000,000 | Construct trunk and feeder roads |
| Technology development and dissemination | 65,436,000 | Animal production credit; animal disease control; livestock research; animal draft power extension |
| Targeted support for food security | 15,000,000 | Distribution of inputs |
| Growth of export-led industry | | |
| Increase investment in industry | 2,800,000 | Establish estates for MSMEs; produce resource endowment maps of Zambia; market investment opportunities abroad |
| Increase manufacturing exports | 3,500,000 | Establish modern testing & certification facilities |
| Develop capital markets | | Reduce government borrowing; strengthen stock exchange; re-capitalise DBZ |
| Improve industrial crafts | 100,000 | Study incentives to attract and retain qualified staff |
| | | |
| | | |

Annex I: PRSP Monitoring and Evaluation

1. Even though Zambia has had a National Poverty Reduction Strategy since July 2002, and made efforts to develop a system to monitor the implementation of the PRSP, the country still lacks a clear strategy for developing an integrated system for PRS monitoring. Donor supported plans have not received government endorsement, and little progress has been made in building the data collection and analytical capacity required to respond to increasing demands for PRSP monitoring from both donor community and civil society.
2. The institutional structure for M&E is ineffective, and while the indicators for monitoring the PRS have been developed and discussed at length, the administrative data systems and analytical capacity to inform policy discussions are weak.

Institutional framework

Planning and Economic Management Department (PEMD), Ministry of Finance and National Development

3. The Planning and Economic Management Department (PEMD) of Ministry of Finance and National Planning (MFNP) is the department in charge of national planning, PRSP implementation, and economic management. With it also lies the responsibility for PRSP monitoring and evaluation. M&E guidance is provided by the Interministerial Technical Committee, headed by the Director of PEMD. Several units under PEMD share responsibility for different and overlapping aspects of the M&E system:

SOPU is in charge of coordinating poverty monitoring and analysis, and makes substantive contributions to PRSP-related outputs.

The Poverty Reduction and Analysis section of the Macroeconomic Policy unit also has monitoring responsibilities, but the section only exist on paper.

The Monitoring & Evaluation Secretariat is responsible for monitoring projects and, specifically, for developing an IT-based monitoring system for input and output indicators, and an evaluation system for outcome and impact indicators. It is the contact point for all poverty reduction programs. It functions under the guidance of the Inter-ministerial Technical Committee, headed by the Director of PEMD. The M&E TS operationalizes the decisions of the Inter-ministerial Committee and has 16 specialists in key technical areas (e.g., IT, GIS). The Provincial M&E Technical Secretariats are integrated by four development program specialists appointed by the MoFNP PS. They receive 5 percent of project costs to meet their monitoring and evaluation responsibilities which include: i) desk appraisal for current fiscal year project, ii) monitoring for project under implementation, and iii) ex-post evaluation for completed or interrupted projects. Currently the unit counts with a rudimentary project MIS which will need to be operationalized to provide comparative project information across projects and across geographical areas.

The Poverty Monitoring and Analysis (PMA) unit is responsible for contracting analytical work on the PRSP. It was recently relocated from the ZAMSIF to the MoFNP. Its structure includes a manager, a study fund advisor, and administrative officer and

poverty information and documentation specialist (PIDS). PMA counts with a PMA Steering Committee over viewing the work of the Social Sector Technical Subcommittee and the User/Producer Subcommittee. Since 2002, PMA has counted with a \$1M budget to fund research proposals on a competitive basis (34 for \$15K and 10 for \$50K). By 2004 all funds have been committed. PMA has worked primarily with researchers in the University of Zambia (depts. of economics, education, social development studies, agriculture and mines), Copperbelt University, the Institute for Economic and Social Research (INESOR), and the Participatory Assessments Group.

4. Several factors constrain PEMD's ability to undertake M&E. Among them are scarce human and physical resources, and ineffective organizational structure and division of responsibilities. For example, the three units under PEMD that hold M&E responsibilities—SOPU, M&E and PMA—are currently understaffed or suffering from an inadequate skill mix, under-funded (e.g. PMA research funding has dried up and funding for staff is scheduled to end in June 2005), with overlapping responsibilities and unclear mandate. As a result PEMD has limited capacity to coordinate a national program of poverty reduction, or implementing a strategy to strengthen M&E across the government, a prerequisite for strong M&E of the government program.

Sector Advisory Groups (SAGs)

5. In October 2003, the government re-established the Sector Advisory Groups (SAGs) “to help coordinate the planning, implementation, monitoring and evaluation of the PRSP and the Transitional National Development Program (TNDP)”. Thirteen SAGs have been established under the leadership of the Permanent Secretary for each sector. Their composition counts with the participation of the government and representatives from civil society, NGO, private sector and donor communities. Civil society participation has been strengthened relative to that prevailing in the SAGs predecessors, the PRSP working groups. Each SAG meets periodically either monthly or quarterly.

6. The way SAGs might be envisioned to work is as coordinating bodies for the development of yearly sector strategies and financing plans, and for monitoring and follow-up of those strategies.

7. At present, however, several issues affect the ability of the SAGs to function at their potential. The first is the need to strengthen SAGs' terms of reference. TOR should recognize the relative strengths of different actors and assign clear and defined responsibilities to each. TOR should also align the work and deliverables of the SAG with the national government policy-making and budgeting cycles to ensure that SAGs have an opportunity for timely feedback of information into those cycles. , including adequate division of responsibilities among members, and a defined timing for delivering outputs and providing feedback into the policy-making and budgetary processes. Second is to shift the current practice of treating SAGs as consultative meetings and transform them into active supervisors to the implementation process. Third is establishing a clear and predictable schedule for SAG participants to ensure full participation from all concerned.

District Monitoring

8. In the medium-term, the government will need to think about the need to built capacity for M&E at the district level. Two initiatives are playing a role at this level. ZAMSIF has been

working with 9 of the 72 districts to provide them with greater autonomy in prioritizing activities and additional resources. Also a GTZ project is supporting decentralized rural development in the Southern Province, and helping districts collect data for poverty monitoring, using a refined PRSP indicator system.

Data collection

Administrative data

9. Administrative data systems are weak and in some cases non-existent even in sectors that are a priority for PRS monitoring. Strengthening capacity for administrative management information systems is of paramount importance for PRS monitoring, specifically to collect and organize relevant administrative data for policy planning and monitoring, at levels of disaggregation relevant for decentralized policy making.

10. While health and education have received donor assistance in the past, sectors like agriculture, water and sanitation, and tourism have been left unattended by government and donors alike. Significant resources will be required to finance capacity building efforts and strengthen these sectors' ability to deliver quality administrative data, at both the national and district levels.

Survey and national data

11. The legal framework for the Zambia National Statistical System (NSS) is laid out in the 1964 Statistical Law. The most important institution in the NSS is the Central Statistical Office (CSO) in the Ministry of Finance and National Development. The CSO has the responsibility for census and survey data collection, economic statistics (national accounts and trade), price indexes, and sector statistics. Other agencies in the National Statistical System include the Central Bank and sector ministries.

12. In practice, the institutions of the NSS are constrained by unreliable financing flows, and poor capacity to retain trained staff associated with low pay levels. Even though CSO has the capacity to carry out the data collection functions that would be expected from a national institute of statistics, its ability to plan and carry out its functions is weakened by the institutional environment.

13. Furthermore the lack of effective institutional mechanisms for coordinating the methods for the collection of information, harmonize codification and definitions, and approve survey collection plans, has resulted in inconsistent data collection methods being adopted by different institutions in the NSS and waste in the use of resources. Incomparable data from different sources as led to controversy in policy discussions.

14. In 2004, the CSO prepared a Strategic Plan for the Zambia National Statistical System (2003-2007). The Plan is mainly focused on the CSO, its medium term data collection strategy and capacity building needs. As such it fails to take a wider view at the institutional issues of the Zambia National Statistical System (NSS). Nonetheless, it is a good starting point for a National Strategy for the Development of Statistics.

ZamSED

15. The Zambia Socio-Economic Database (*ZamSED*) is an important source of statistical information. The database is maintained by the CSO, with support from key ministries and from UNICEF, and is available on CD-ROM. It counts with background information (metadata) for each indicator, including variable definition, unit of measurement; a discussion of the purpose of the indicator, source; time lag in availability of the data; and the data collection method.

Access to Public Information

16. On average, the general attitude towards public information provision is quite open in the country. The Ministry of Finance and its Central Statistical Office have been found to be very responsive to demands for information coming from civil society. Ministries are, reportedly, less forthcoming.

17. Several issues affect the government ability to deliver public information on demand in an efficient manner. The first is the issue of clarity in what constitutes public and confidential information. The second is the issue of capacity in delivering information to interested users. The third issue is the timeliness in the availability of data. (Freedom of Information Bill, Media Institute for Southern Africa (MISA))

Analysis

18. Policy making has been lacking a permanent focal unit or institution with the mandate to systematically channel poverty analysis to policy makers at different levels, and characterized by an inadequate utilization of poverty information by policy makers and others.

ZIPPA

19. A new non-governmental organization, the Zambia Institute for Public Policy Analysis (ZIPPA), was established in September 2004 to provide public policy support to MoFNP. Its mandate is to carry out research on economic and social issues, and provide a platform for public policy debate and discussion. ZIPPA has a semi-autonomous status which allows it to work with government institutions and private sector and civil society alike.

20. ZIPPA works under the guidance of a 7-member steering committee, including a representative from the Economics Association of Zambia, the Zambia Chamber of Commerce and Industry, the University of Zambia, and the Policy Analysis Coordinating Unit in the Cabinet Office. This committee is assisted by a 5-member technical committee. ZIPPA staff includes the Director, four researchers, and two research assistants, supported by an IT administrator, an accountant, two secretaries, a librarian and two drivers.

Civil Society

21. Civil society is quite active and resourceful. The umbrella organization, Civil Society for Poverty Reduction (CSPR) counts with a membership of about 300 civil society organizations. CSPR focus in supporting monitoring and evaluation of the PRSP is on participatory poverty assessments (PPAs) and expenditure tracking. Baseline and follow up PPAs have been undertaken in 15 sites in five provinces since 2002. The more recent initiative with expenditure

tracking started in March of 2004 with training from IDASA (RSA) and Uganda. The first expenditure tracking experience is ongoing in five sectors (agriculture, water, education, health and HIV/AIDS).

22. Several institutes support civil society monitoring and evaluation activities. They include the Institute of Economic Research, the University of Zambia, and the Participatory Assessments Group.