(1) AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT
(4) Assessing the impact of the PRGF on social services: the case of Zambia

Assessing the Impact of the PRGF on Social Services

The Case of Zambia

AFRODAD

African Forum and Network on Debt and Development

Assessing the Impact of the Poverty Reduction and Growth Facility on Social Services

The Case of Zambia

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About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

1 To enhance efficient and effective management and use of resources by African governments;

2 To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.

3 To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

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AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

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Preface

In order to achieve significant poverty reduction in poor and indebted countries, the International Monetary Fund (IMF) in 1999 introduced a new policy framework called the Poverty Reduction and Growth Facility (PGRF). The PRGF was introduced, among other things, to replace the Enhanced Structural Adjustment Facility (ESAF) of the IMF as a lending window for poor countries. The PRGF was supposed to usher in a new era of reduced International Financial Institution (IFI) conditionalities, but in reality this has not been the case. In countries that were implementing ESAF policies, these were simply renamed PRGF and continued with their restrictive conditionalities, which in many cases included the privatisation of public utilities in the various sectors of the economies. Some of the conditions attached to PRGF financing such as user fees for education and health services as well as privatisation of water and energy services have proved to be detrimental to social service delivery.

When signing up to the Millennium Development Goals (MDGs) in 2000 the International Monetary Fund (IMF) made poverty reduction the main objective of its activities in poor countries across the world. The Poverty Reduction and Growth Facility (PRGF) has been portrayed as a key part of this commitment, promising broad participation in the formulation of poverty reduction strategies, more pro-poor growth, greater flexibility in fiscal targets and social impact analysis of major macroeconomic adjustments and structural reforms.

While the PRGF can potentially represent an improvement from the structural adjustment policies of the past, a number of studies, including those of the Independent Evaluation Office (IEO), make us question the merit of the new approach. Although broader participation in the formulation of macroeconomic policies is explicitly stated as one of the key pillars of the PRGF, it is crystal clear that discussions still remain an almost exclusive preserve between the IMF and a few selected government officials. The lacking participation and the limited alignment between PRSPs and PRGFs represent severe limitations to the potential ownership and poverty reduction impact of Fund policies. This is a major reason for concern since the PRGF was supposed to be informed by the Poverty Reduction Strategy Papers (PRSPs), but the opposite is true.

Furthermore, the role of the IMF as a gatekeeper is becoming more problematic as aid flows from the World Bank and the bilateral donors increasingly depend on countries being on-track with Fund programmes such as the PRGF. Zambia experienced a considerable drop in aid flows when it went off-track with the PRGF, with major implications for the poor. It is striking that, while the IMF is committed to creating an enabling environment for poor countries to reach the MDGs, its gate keeping role is undermining these efforts by limiting the resources available for poverty reduction.

The advent of the PRGF promised a new IMF culture, which can largely be seen as an attempt to improve the program formulation process beyond the levels attained by the PRSP, but in practice things have not turned out better than the PRSP in many respects. The PRSP was technically expected to be the sourcebook for PRGF programs but in Zambia, there is no evidence that the PRSP fed into the PRGF realistically, neither was it a copy-cat of the PRSP.

Finally, research findings in Zambia suggest that IMF policies are still based on rather arbitrary macroeconomic targets, failing to move from short-term stabilization programmes to long-term poverty reduction strategies. While findings suggest that expenditures for education and health have increased relatively within the budgets, stringent inflationary targets, lacking policy space and fiscal flexibility restrict governments from making real progress towards the MDGs. The control of wage ceilings has eroded meaningful wages and in some cases added to the rates of unemployment.

This case study on Zambia raises a number of concerns. The overall picture suggests that the above areas require attention from the architects of the PRGF as well as to the implementing governments. Allowing for meaningful public dialogue in the PRGF process and integrating poverty indicators in the assessment of PRGF performance is key.

Charles Mutasa

Executive Director

AFRODAD

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List of Abbreviations

ABB	Activity Based Budgeting
ACP	African-Caribbean Pacific countries
AfDf	African Development Fund
AFRODAD	African Forum and Network on Debt and Development
AIDS	Acquired Immune Deficiency Syndrome
ART	Anti-Retroviral Therapy
BoP	Balance of Payment
BoZ	Bank of Zambia
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
CSPR	Civil Society for Poverty Reduction
EPAs	Economic Partnership Agreements
ESAF	Enhanced Structural Adjustment Facility
EC	European Commission
EURODAD	European Network on Debt and Development
FY	Fiscal Year
GDP	Gross Domestic Product
GIR	Gross International Reserves
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
HIV	Human Immuno-deficiency Virus
IDA	International Development Association
IEO	Independent Evaluation Office
IFI	International Financial Institution
IFIMIS	Integrated Financial Management and Information System
IMF	International Monetary Fund
I-PRSP	Interim-Poverty Reduction Strategy Paper
JCTR	Jesuit Centre for Theological Reflection
LOI	Letter of Intent
MDGs	Millennium Development Goals
MEFP	Memorandum of Economic and Financial Policies
MFNP	Ministry of Finance and National Planning
MMD	Movement for Multi-Party Democracy
MTEF	Medium Term Expenditure Framework

NDA	Net Domestic Assets
NDF	Net Domestic Financing
NBFIs	Non-Bank Financial Intermediaries
NPV	Net Present Value
NTEs	Non traditional Exports
ODA	Official Development Assistance
OECD	Organisation of Economic Cooperation and Development
OVCs	Orphaned and Vulnerable Children
PEMFA	Public Expenditure Management Accountability
PMCT	Prevention of Mother to Child Transmission
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSDP	Private Sector Development Plan
PSI	Policy Support Instrument
PSIA	Poverty Social Impact Analysis
SADC	Southern African Development Community
SAGs	Sector Advisory Groups
SAPs	Structural Adjustment Programmes
SDR	Special Drawing Rights
SMP	Staff Monitored Programme
SWAp	Sector Wide Approach
TA	Technical Assistance
TOT	Terms of Trade
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VCT	Voluntary, Counselling and Testing
ZCCM	Zambia Consolidated Copper Mines
ZNCB	Zambia National Commercial Bank
ZNOC	Zambia National Oil Company

1.0 Background and Rationale

In order to achieve significant poverty reduction in poor and indebted countries, the International Monetary Fund (IMF) in 1999 introduced a new policy framework called the Poverty Reduction and Growth Facility (PGRF). The PRGF was introduced, among other things, to replace the Enhanced Structural Adjustment Facility (ESAF) of the IMF as a lending window for poor countries. The PRGF was supposed to usher in a new era of reduced International Financial Institution (IFI) conditionalities, but in reality this has not been the case. In countries that were implementing ESAF policies, these were simply renamed PRGF and continued with their restrictive conditionalities, which in many cases included the privatisation of public utilities in the various sectors of the economies. Some of the conditions attached to PRGF financing such as user fees for education and health services as well as privatisation of water and energy services have proved to be detrimental to social service delivery.

Under the PRGF, the IMF had committed itself to providing external assistance consistent with the goals of growth and poverty reduction. The notable features of the PRGF among many others were the embedding of this lending instrument in the overall strategy for growth and poverty reduction. The instrument went further to encourage member countries to develop budgets that are more pro-poor and pro-growth, and place emphasis on the measures to improve public resource management/accountability .

On paper, the PRGF was meant to be drawn up through broad stakeholder participation but this has not been the case in many countries. This has been particularly so in the drawing up of the macro-economic framework which is crucial for giving direction to the economy. Part of the reason why participation by broader civil society was low is that this area deals with complex issues that some civil society organisations (CSOs) may not easily relate to. But more critically, this is an area that the IFIs do not want to tamper with, as it is the centrepiece of their policy interventions in poor countries' economies.[1]

1.1 Objectives of the Study

The broad objective of the study was to carry out an analysis of the PRGF in Zambia paying special attention to its impact on the social service delivery system.

Specific Objectives were:

- To establish the extent to which the main elements of the PRGF have been drawn from a country's PRSP
- To quantify financial flows disbursed through the PRGF window compared to other sources of official finance. Does the PRGF provide guidance on how best to re-orient government spending towards activities that benefit the poor and to what extent did it seek commitments of higher aid flows and build these into the programme?
- To what extent has IMF's signalling role affected aid disbursements in the country, in particular resources targeted for social services and the MDGs?
- What has been the sector allocation of resources disbursed under the PRGF, paying attention to the amounts allocated to social services and to finance the MDGs. The extent to which the PRGF programmes in the country reflect the Fund's appreciation of the different circumstances facing them and that structural conditionalities are applied selectively. Have PRGF-related staff reports highlighted flexibility in country choices?
- What are the conditionalities attached to the PRGF and which of them are detrimental to poverty reduction and to meeting the targets for the MDGs?
- To what extent do the PRGFs in practice differ from the ESAF programmes in the country? To what extent have efforts been made to ensure that PRGF fiscal policies and objectives are open to public debate?
- What are the poverty impacts of the PRGF in the country? To what extent does the PRGF demonstrate that distributional effects of substantial macro-adjustments or structural reforms have been considered?

[1](http://www.eldis.org/poverty/prsp_new.htm

1.2 Justification for Study

PRGF-related conditions are the single most important to secure debt relief. Although the PRGF is supposed to be guided by the PRSP, in many countries the reverse seems to be the case with the PRSP drawing key elements of its macro-economic framework from negotiations on a PRGF-supported programme. The study therefore tries to establish how this lack of policy flexibility affects the achievement of the Millennium Development Goals (MDGs) and in particular the social service delivery system in Zambia.

1.3 Methodology

The study is based on the PRGF experience in Zambia. It is restricted to the reading of documentary evidence supplemented by discussions with key stakeholders - staff from the Government of Zambia ministries responsible for education, health and social services. Interviews were also carried out with members of civil society groups working in the areas of poverty reduction, the UNDP and other members of the donor community. The researcher could not secure interviews with officials from the IMF and the World Bank local office, but was instead referred to their websites for information on the topic under review. No field studies were undertaken, and given the importance attached by the PRGF facility to issues of ownership and participation; this is a major weakness of the study.

1.4 Economic and Social Background

At independence in 1964 Zambia inherited a fairly strong mining-based economy with a heavy focus on copper as the chief foreign exchange earner for the country. There was very little effort made by Government to diversify the economy away from the mineral base to agriculture and other economic sectors. As fate would have it, the fortunes of the mineral exports did not last long as the country suffered from a double tragedy during the 1973-4 period. The copper prices plummeted to an all-time-low while at the same time oil prices at the international markets more than trebled. There was another similar oil shock in 1979 while copper prices had not fully recovered. This necessitated government to begin to source foreign financing from both bilateral and multilateral creditors in order to sustain industrial needs, particularly for the mining and manufacturing sectors. These financial dealings marked the beginning of formal contacts with the International Financial Institutional (IFIs) such as the International Monetary Fund (IMF) and the World Bank.

The two IFIs used this opportunity to introduce structural adjustment programmes (SAPs) as policy tools to rejuvenate sluggish economies of many poor countries, including Zambia. Thus the 1980s marked the first phases of implementing SAPs amidst a stagnating economy. The implementation was, however, often piecemeal and failed to fundamentally alter the economic structure. In particular, the design and implementation of SAPs often failed to sufficiently address the poverty challenges that increasingly became evident as the structural changes took hold. The pace of reform accelerated in the 1990s under the new government of President Frederick Chiluba of the Movement for Multi-party Democracy (MMD). Public enterprises that constituted a fiscal drain on the state revenue were either closed down and/or privatised (Zambian PRSP 2002-2004). However, what is never mentioned in Government official papers is the fact that these reforms of SAPs, trade liberalisation and privatisation were actually imposed upon Government by the International Monetary Fund and the World Bank as preconditions for official lending. The privatisation process moved faster while price controls were unilaterally lifted and agricultural input and output markets opened up to private sector entry (Zambian PRSP, 2002-2004).

On the positive front, Zambia has been registering real economic growth[2] since 1999 averaging 4.6 percent per annum which translated into positive per capita growth. Unlike in the past, this economic growth has been quite broad going beyond the traditional economic area of mining to sectors such as tourism, agriculture, manufacturing and construction, among others. However, the average growth rate has been too low to make a significant dent on the high poverty levels in the country.

[2] "This important progress reflects improved economic management, which had enabled Zambia to attain the HIPC Completion Point in April", Takatoshi Kato, Deputy Managing Director, International Monetary Fund in a Commentary article "Post-debt relief opportunities and challenges for Zambia" posted on the IMF Website on 3 August, 2005 (http://www.imf.org/external/np/vc/2005/080305.htm)

Figure 1 Real GDP Growth for Zambia (1994-2009)

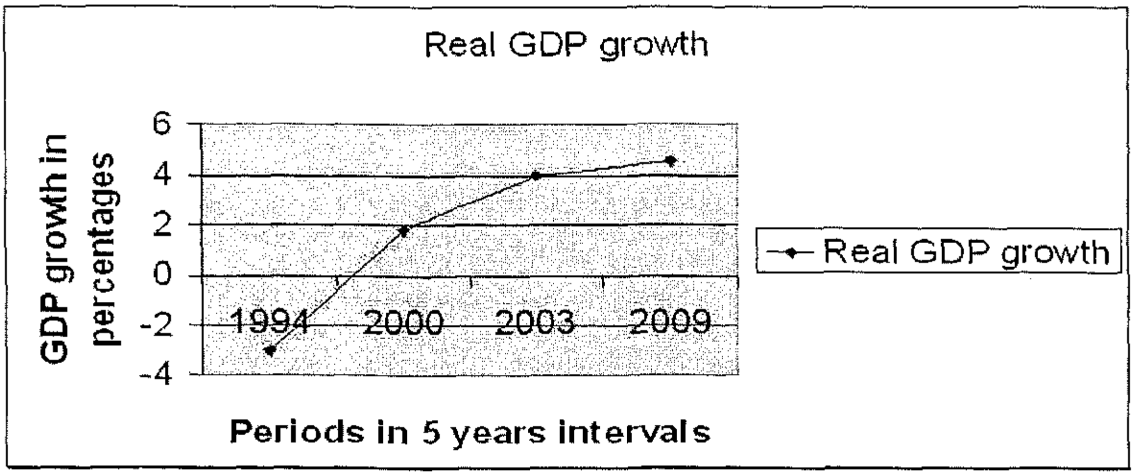
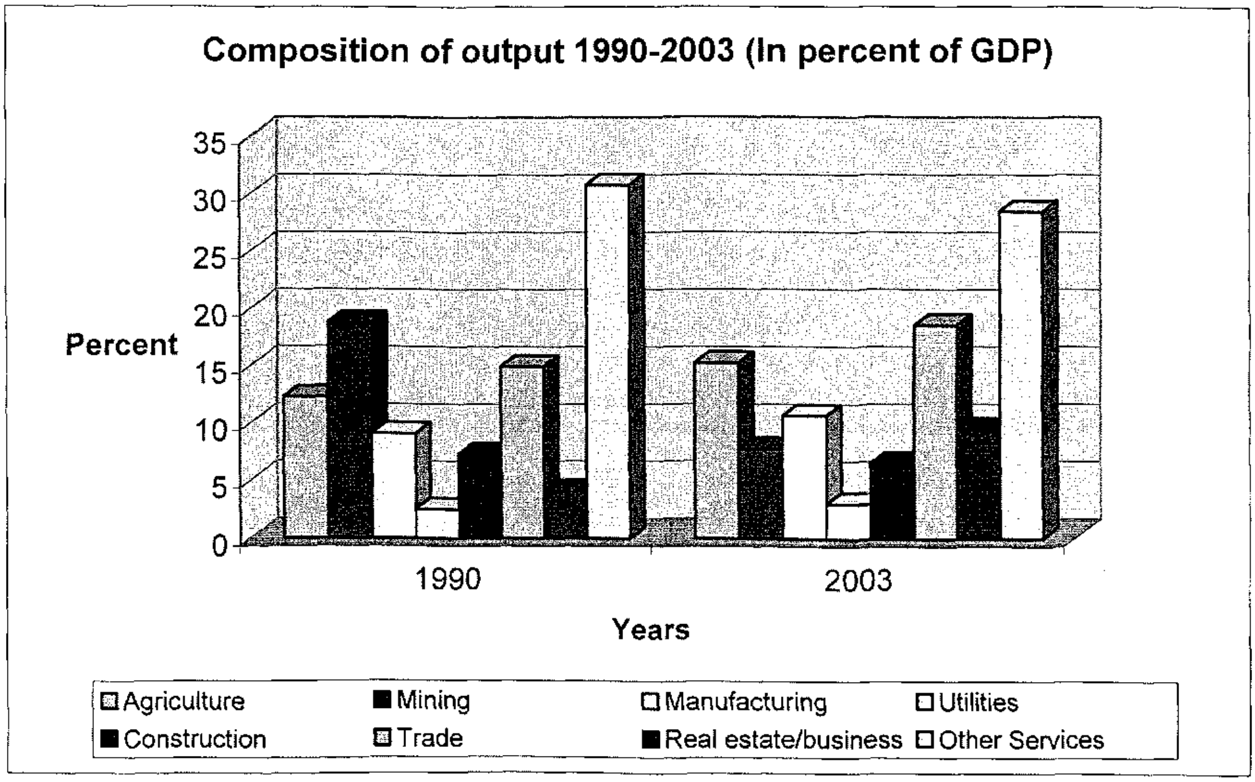


Table 1 (Contributions to real GDP growth, in percentage points)

	1991-94	1995-2000	2001-03	2004-09
GDP growth %	-3.0	1.8	4.0	4.6
Agriculture	-0.1	0.9	0.0	0.6
Mining	-1.0	-1.5	0.8	0.7
Manufacturing	-0.1	0.3	0.5	0.6
Construction	-0.7	0.1	0.8	0.8
Trade	-0.5	0.9	0.9	0.9
Other	-0.6	1.1	1.0	1.0

Source: Zambian Authorities

Figure 2 Composition of Output 1990-2003 (in % of GDP)



From Figure 2 above, it can be noted that in the 1990s the mining sector used to contribute nearly 20 percent of Zambia's GDP while after 2000, the agriculture sector has now overtaken the mining sector and increased its own contributions to the GDP. However, agricultural productivity is often affected by droughts and late delivery of inputs to the farmers. With the opening up of new mines in the North-Western Province of Zambia and the corresponding increased investments in the sector, we anticipate more contributions to the GDP from this particular sector in the near future.

At national level, almost two-thirds (67 percent) of Zambia's population now lives below the poverty datum line, and of these 46 percent are extremely poor. The objective of reducing extreme poverty from 58 percent in 1998 to 29 percent in 2015 still constitutes a major challenge for Zambia (MDG Progress Report, 2003). Extreme poverty is much higher in rural areas (74 percent) compared to urban areas (52 percent) (CSO, 2004). Nearly one in every two persons in rural areas is still living in extreme poverty compared to one in every three persons in urban areas. Relative to 1991, these represent an increase for urban areas from 32 percent but a decrease for rural areas from 81 percent (CSO, 2004). Over 80 percent of the population has no access to electricity for their energy use while half of the population has no access to safe drinking water (MDG Progress Report, 2003). Life expectancy is now at 37 years while infant mortality rate stands at 115 per 1000 live births. The country has also continued to slide on the Human Development Index (HDI) ranking - having moved from 164th position in 2004 to 166th in 2005 out of 177 sampled countries.[3]

1.5 External Debt

Zambia's external debt as at the close of 2004 stood at a staggering US$7.1 billion while debt service payments have been fluctuating from US$137 million in 2002 to US$112.8 million in 2003 and gravitating to US$373.2 million in 2004. On a positive note, Zambia reached the HIPC Completion Point in April 2005 - a move that will result in the reduction of Zambia's external debt stock by US$3.8 billion in nominal terms or US$2.5 billion in net present value (NPV) terms over time. This will further be bolstered by the efforts of the G8 countries that pledged to grant 100 percent multilateral debt cancellation for 18 poor countries (14 which are in Africa) in July 2005 at Gleneagles, Scotland. Zambia stands to benefit from this progressive move that is long overdue. It is worth noting that the Paris Club[4] group of creditors have already written off US$1.403 billion of Zambia's bilateral debts leaving a balance of US$124 million and whose repayment has been rescheduled. This debt relief, if properly utilised, might be able to facilitate increased expenditure to the social sectors and also allow for investments in rural and urban infrastructure.

Table 2 Zambia's repayments to the IMF (2005-2009)

Projected Payments to Fund (without HIPC Assistance)						
(SDR Million; based on existing use of resources and present holdings of SDRs**1**)						
		Forthcoming				
		2005	2006	2007	2008	2009
Principal		85.34	10.49	26.95	47.50	54.76
Charges/Interest		1.78	3.12	3.04	2.88	2.63
Total		**87.13**	**13.62**	**29.99**	**50.38**	**57.39**
Projected Payments to Fund; (with Board-approved HIPC Assistance)						
(SDR Million; based on existing use of resources and present holdings of SDRs)[5]						
		Forthcoming				
		2005	2006	2007	2008	2009
Principal		13.71	9.29	26.45	47.50	54.76
Charges/Interest		1.78	3.12	3.04	2.88	2.63
Total		**15.49**	**12.42**	**29.49**	**50.38**	**57.39**

Source: **http://www.imf.org/external/np/tre/tad/exfin2.cfm?memberKey1=1080** (part VI) as of 31st July 2005.

[3]See http://www.undp.org.zm/index.php

[4]The members of the Paris Club, which participated in the reorganisation of Zambia's bilateral debts, were representatives of the Governments of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, the Russian Federation, the United Kingdom and the United States of America. Observers at the meeting were representatives of the Government of Spain as well as the International Monetary Fund (IMF), the International Development Association (IDA), the Secretariat of UNCTAD and the OECD

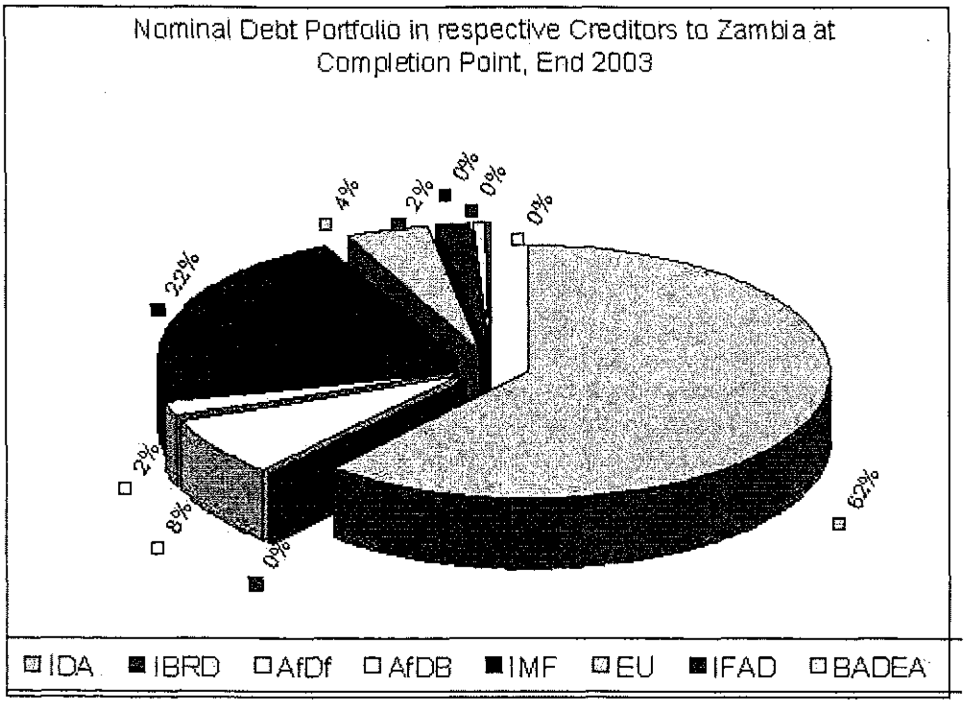
[5]The SDR is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies. 1SDR is equivalent to US$1.46041 while 1US$ is equivalent to SDR0.684737 as of 2nd August 2005.

From Table 3 above, Zambia's debt service payments to the IMF have significantly reduced as a result of the debt relief being delivered under the enhanced HIPC Initiative. However, the real challenge for Zambia is to consolidate the HIPC gains and translate them into sustainable development through appropriate investments in the various sectors of the economy.

Debt Structure

Allocations of finances derived from Zambia's debt structure to multilateral donors

Figure 3



Zambia's Nominal Debt Portfolio to Creditors at Completion Point, End 2003

From the graph above, the larger share of Zambia's debt portfolio is owed to the International Development Association (IDA) of the World Bank at 62 percent, IMF at 22 percent and the African Development Fund (AfDf) at 8 percent respectively. This shows that most of Zambia's debt is owed to the multilateral creditor institutions. This is the type of debt that qualifies for relief under the Highly Indebted Poor Country (HIPC) Initiative arrangement.

2. 0 The PRGF and Key Principles

What is the Poverty Reduction and Growth Facility?

In September 1999, the IMF established the Poverty Reduction and Growth Facility (PRGF)[6] to make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries. Reviews of the PRGF IMF staff in 2002 and by the Independent Evaluation Office (IEO) of the IMF in 2004 confirmed that the design of the programs supported by PRGF lending has become more accommodating to higher public expenditure, in particular pro-poor spending. A review of PRGF program design was expected to be discussed by the Executive Board in mid-2005.

According to the IMF, PRGF-supported programs are framed around comprehensive, country-owned Poverty Reduction Strategy Papers (PRSPs). Governments with the active participation of civil society and other development partners prepare PRSPs. PRSPs are then considered by the Executive Boards of the IMF and World Bank as the basis for concessional lending from each institution and debt relief under the joint Heavily Indebted Poor Countries (HIPC) Initiative. The targets and policy conditions in a PRGF-supported program are drawn from the country's PRSP. But in practice it is the PRGF that drives the PRSP macroeconomic framework. This is also evident by the fact that being off track with the PRGF in essence means that the PRSP funding and implementation are thrown off track!

2.1 Terms of the PRGF

- As of March 2005, 78 low-income countries were eligible for PRGF assistance.
- Eligibility is based principally on the IMF's assessment of a country's per capita income, drawing on the cut-off point for eligibility to World Bank concessional lending (currently 2003 per capita gross national income of US$895).
- Loans under the PRGF carry an annual interest rate of 0.5 percent, with repayments made semi-annually, beginning 5½ years and ending 10 years after the disbursement.
- An eligible country may normally borrow up to a maximum of 140 percent of its IMF quota[7] under a three-year arrangement, although this may be increased to 185 percent of quota in exceptional circumstances. In each case, the amount will depend on the country's balance of payments need, the strength of its adjustment program, and its previous and outstanding use of IMF credit. The expected average access under the initial three-year arrangement is 90 percent of quota, and 65, 55, 45, 35, and 25 percent of quota for second through sixth-time users of the facility, respectively. "Low-access" PRGF arrangements with a standard level of 10 percent of quota may be used for members with little or no immediate balance of payments need. PRGF-eligible members with per-capita income above 75 percent of the cut-off for World Bank concessional lending, or members borrowing on commercial terms, may combine PRGF arrangements with lending from the IMF's non-concessional Extended Fund Facility.

2.2 Key Features of the PRGF

The PRGF has a number of distinctive features. First, the principle of broad public participation and greater country ownership is central to the PRGF. In this regard, discussions on the policies underlying PRGF-supported programs are more open, since they are based on the nationally owned PRSP. With increased national ownership, PRGF conditionality has become more parsimonious, focused on the Fund's core areas of expertise, and limited to measures that have a direct and critical impact on the program's macroeconomic objectives.

However, this is more of a theoretical scenario than actual practice on the ground especially in Zambia where discussions on the PRGF targets and macroeconomic policy issues are an exclusive preserve of the IMF and the Government officials. Civil society organisations are not 'consulted' on the PRGF macroeconomic frameworks and this was also true with the PRSP macroeconomic framework where it was taken as given and civil society could not influence or institute changes to policy issues especially issues of privatisation and liberalisation.

[6] http://www.imf.org/external/np/sec/pn/2002/pn0230.htm

[7] http://www.imf.org/external/np/exr/facts/quotas.htm

Some very cosmetic consultations take place under the IMF Article IV consultations between the IMF Visiting Mission Teams and various stakeholders in the country including civil society organisations (CSOs).

It should be noted that these consultations with CSOs take place when the IMF Team has already met government officials and probably concluded their official business. In short, PRGF macroeconomic issues are not open to public debates[8] in the true sense of the word. However, there is some effort being made to open up the process on macroeconomic issues through government appointed Sector Advisory Groups (SAGs) though civil society representation is still low. At the same time civil society is yet to build its own technical capacities to be able to influence the discussions effectively. This paper strongly contends that it is not the quantity of engagement that will make a difference in the PRGF discussions but rather the quality of engagement hence the need to build capacity among civil society organisations.

Secondly, PRGF-supported programs reflect more closely each country's poverty reduction and growth priorities. Key policy measures and structural reforms aimed at poverty reduction and growth are identified and prioritised during the PRSP process, and if feasible, their budgetary costs are assessed. Countries' budgets under PRGF-supported programs reflect this analysis. Moreover, the IMF argues that fiscal targets in PRGF-supported programs respond 'flexibly' to changes in country circumstances and pro-poor policy priorities, while ensuring that the strategy can be financed in a sustainable, non-inflationary manner. But fiscal austerity in the name of arresting inflation has meant restriction in public expenditure particularly in the health and education sectors. For instance, in 2004 the Zambian Government failed to hire 9000 trained teachers because of IMF expenditure thresholds and observing fiscal prudence! Is it realistic to expect to reduce poverty without increasing expenditure on key social sectors? Clearly, it seems that the IMF would want to have an omelette without breaking eggs!

Thirdly, according to the IMF, PRGF-supported programs focus on strengthening governance[9], in order to assist countries' efforts to design targeted and well-prioritised spending. Of particular importance are measures to improve public resource management, transparency, and accountability. In line with this Zambia has introduced policy reforms such as the Public Expenditure Management And Financial Accountability (PEMFA) and the Integrated Financial Management And Information Systems (IFIMIS). The idea basically is to introduce efficiency in the application of public funds. PRGF-supported programs also give more attention to the poverty and social impacts of key macroeconomic policy measures - an issue discussed in detail later in the paper.

2.3 IMF-World Bank Cooperation

PRGF-supported programs are designed to cover only areas within the primary responsibility of the IMF, unless a particular measure is judged to have a direct, critical macroeconomic impact. Areas typically covered by the IMF include advising on prudent macroeconomic policies and related structural reforms such as exchange rate and tax policy, fiscal management, budget execution, fiscal transparency, and tax and customs administration.

When appropriate, the IMF draws on World Bank expertise in designing PRGF-supported programs, and the staff of the Fund and Bank cooperate closely on conditionality. The Bank staff takes the lead in advising the authorities in the design of poverty reduction strategies in areas such as poverty assessments, monitoring, structural and sectoral issues, social issues, and costing priority poverty-reducing spending.

2.4 How is the PRGF Financed?

Concessional lending under the PRGF is administered by the IMF through the PRGF and PRGF-HIPC Trusts. The PRGF Trust borrows resources from central banks, governments, and official institutions generally at market-related interest rates, and lends them on a pass-through basis to PRGF-eligible countries. The difference between the market-related interest rate paid to PRGF Trust lenders and the rate of interest of 0.5 percent per year paid by the borrowing members is financed by contributions from bilateral donors and the IMF's own resources.

[8] No, the discussions are at a technical level in the MFNP.However, if the discussions involve the education or health sectors then a representative from these ministries is usually invited to attend the meetings. These are the views of one senior economist in an interview held on 12/09/05 at the MFNP and preferred to remain anonymous for fear of victimisation by his superiors

[9] http://www.imf.org/external/np/exr/facts/gov.htm

Box 1 Key Features of the PRGF-supported programs

1. Broad Participation and greater ownership
2. Embedding the PRGF in the overall strategy for growth and poverty reduction.
3. Budgets that are more pro-poor and pro-growth.
4. Ensuring appropriate flexibility in fiscal targets.
5. More selective structural conditionality.
6. Emphasis on measures to improve public resources management/accountability.
7. Social impact analysis of major macroeconomic adjustments and structural reforms.

Source: Key Features of PRGF-supported programs (SM/00/193.08/17/2000)

Box 1 above itemizes the main principles that inform the shape and content of the PRGF programme. These principles, in theory, are supposed to be informed by the PRSP principles yet in practice the PRGF tends to override the PRSP. A detailed discussion on these issues is provided later in the paper. Generally, many of the countries that have a running PRGF with the IMF have at one time or another been off track - probably an indication that some of the policy prescriptions (particularly fiscal austerity) in the PRGF are inflexible and hence many skeptics of the IMF policies have argued that although countries have been allowed flexibility in terms of PRGF programs, the fundamentals are the same as those of the ESAF. Many have argued that the philosophy behind all IMF lending has not changed over the years. In fact what may appear as flexibility may be a change of strategy demaned by either the IMF or World Bank.

Box 2 Underlying Principles of the PRSP Process

1. Country-driven involving broad-based participation
2. Results - oriented and focussed on outcomes that benefit the poor.
3. Comprehensive in recognising the multidimensional nature of poverty and in the proposed policy response
4. Partnership-oriented involving coordinated participation of development partners.
5. Based on a long-term perspective for poverty reduction.

Source: Evaluation of the IMF's role and the Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility, 2004

The PRSP principles above are supposed to inform the PRGF process, but in practice the latter influences the former, especially on macroeconomic issues. The PRGF merely states that there should be 'better coordination between the PRSP and PRGF so that the conditionalities in the latter do not conflict with objectives in the former'. While one can acknowledge that there has been limited participation on the part of the PRSP, there has virtually been no participation on the part of the PRGF.

As earlier stated, the PRGF is the primary vehicle for the interaction between the Fund and its low-income countries. The PRGF for Zambia, which was approved in May 1999, expired at the end of March 2003 without the conclusion of the final review. It is worth noting that Zambia has been under the enhanced Heavily Indebted Poor Country (HIPC) Initiative since 1999. The country reached the Decision Point in December 2000 and the Completion Point in April 2005. This was against a background of failure to attain the Completion Point due to financial slippages in the budget in 2003 mainly occasioned by a high public sector wage bill and weak policy implementation in the early part of 2004. The large public sector wage bill or budget overrun, as it was commonly called, culminated in the country being suspended from the conventional Poverty Reduction and Growth Facility (PRGF) in 2003.

As a result, Zambia was put under the Staff Monitored Programme (SMP), which was meant to help the country re-establish a good track record of macroeconomic management and performance. Under the SMP the government was expected to justify all its expenditures to avoid financial slippages. In order to graduate from the SMP the Government had to meet certain conditions and the main ones were to reduce the budget deficit to the agreed target of not more than 3 percent of the Gross Domestic Product (GDP) and maintaining a public sector wage bill-to-GDP ratio of not more than 8 percent. Additionally, Zambia was expected to privatise the remaining public entities in the energy and telecommunication sectors.

In line with the agenda established in the Zambian PRSP, the strategy in the SMP was aimed at accelerating economic growth and reducing poverty by, inter alia, implementing sustainable fiscal and monetary policies and structural reforms to support fiscal adjustment and a reorientation of spending towards poverty reduction, improve the environment for private sector development and strengthen governance. The SMP ran until June 2004 when the IMF Executive Board met and decided to review Zambia's performance towards reaching the Completion Point. After meeting and satisfying the IMF Board with good policy performance[10], the Zambian government was granted a new PRGF to run from 2004 to 2007. The Executive Board of the IMF approved a three-year arrangement under the new PRGF for Zambia in an amount equivalent to SDR 220.095 million (about US$320.41 million) to support the government's economic programme into June 2007[11] .

Based on Box 1, let us now explore how the main elements of the PRGF have been drawn from Zambia's PRSP.

a) Broad Participation and Greater Ownership

The central feature underpinning this heading is the preparation of the PRSP by country authorities via a transparent process involving broad participation with the main elements of the PRGF then being drawn from the PRSP. Zambia, under the auspices of the IMF and the World Bank embarked on the preparation of the PRSP in the year 2000 and completed the exercise in 2001.The process involved wide consultation and participation of various stakeholders in order to arrive at what would be termed a "country-owned" paper. While the discussions and consultations were broad, they were however not deep enough in some instances especially on macroeconomic issues. It is also important to note that before this, the government prepared an Interim Poverty Reduction Strategy Paper (I-PRSP) with no notable stakeholder involvement. It was thus a challenge to civil society to not merely rubberstamp what was already formulated in the I-PRSP but to provide its independent input to the process - hence a parallel civil society process was initiated by the Civil Society for Poverty Reduction (CSPR)[12] to mobilise its own ideas for submission to the government process.

On the question of ownership, this paper insists that ownership is about originality of policies, domestic empowerment as well as independent political choices. With this in mind it is hard to say that the PRSP was entirely owned by the local government given that the framework came from the IMF and the World Bank. The fact that the PRSP had to be approved by the Boards of the IMF and the World Bank further compromised the ownership of the document. Zambia's experience with the PRSP shows that some of the policies, particularly the macroeconomic and structural issues, were not entirely domestically generated and from that perspective cannot be "owned" by local people.

b) Embedding the PRGF in the Overall Strategy for Growth and Poverty Reduction

This heading is somehow ambiguous. In part, it relates back to the previous heading of ownership; in part, it relates forward to the headings covering conditionality and social analysis. However, the central proposition is that the PRGF "should be based on fully integrated macroeconomic, structural and social policies" and that staff reports will "need to evidence this integrated framework". These relationships, while not wholly lacking, are very far from being integrated at least in the Zambian context. While the PRGF may provide (1) a consistent macroeconomic framework, (2) a context for the country's structural and social policies and (3) be rooted in the PRSP, it is likely to be difficult enough (Adam, C.S., and Bevan, D.L., 2001).

[10] It should be noted that PRGF conditions evolve around monetary policy, fiscal policy and structural issues. These are clearly laid down in the Letter of Intent (LOI) which forms the basis for negotiations between the Zambian Government and the IMF

[11] http://www.imf.org/external/np/sec/pr/2004/pr04117.htm

[12] This is an amalgam of civil society organisations in Zambia that came together in 2000 under the leadership of the Jesuit Centre for Theological Reflection (JCTR) to spearhead the civil society process around the formulation of the PRSP

The main difficulty is that in most cases the Zambian PRSP tended to provide detailed structural and social policies but was often very weak in providing a consistent macroeconomic framework. This left a potentially serious problem of articulation with the Fund stepping in and providing a social programme and the relation between the two being restricted to simple aggregation.

c) Budgets that are Pro-poor and Pro-growth

The pro-poor aspect was seen involving a reorientation of government spending towards the social sectors and basic infrastructure coupled with improved tracking to ensure these expenditures actually take place. But does this really help or benefit the poor? While it is true that a reduction in inflation enhances growth and benefits many people including the poor, this should not be seen as an end in itself. The Zambian PRSP placed a high premium on economic growth[13] as a strong platform for reducing poverty. Without economic growth, it is almost impossible to reduce poverty, and even advances against other aspects of human poverty such as illiteracy or child mortality which cannot be sustained without it (Zambian PRSP, 2002-2004). Other points of emphasis within the macroeconomic framework were the development of financial policies aimed at reducing inflation and sustaining financial stability. There was also a deliberate effort to strengthen the external sector through a series of trade reforms such as lowering of trade taxes, narrowing their dispersion, collapsing the trade tax bands to a minimum level.

At least after an interval, stabilising an economy is likely to be both pro-poor and pro-growth. Beyond that, it is difficult to be clear about what budget permutations are likely to be pro-growth. The IMF has been very active in pushing for major shifts in the composition of spending and for the creation of institutions to deliver these. The Fund has also been very active in pushing for the improvements in the institutions governing property rights and market functioning[14]. In the Zambian case, the budget in the last few years has been pro-poor and pro-growth but yet it is difficult to say that poor people's welfare has been enhanced.

d) Ensuring appropriate flexibility in fiscal targets

Following the large expenditure overrun and heavy recourse to domestic borrowing in 2003, a sharp fiscal adjustment was needed in 2004 to address the growing threat to fiscal sustainability. In line with that and in the context of the PRGF that had been restored, the Government undertook the following measures: it raised the ratio of revenue-to-GDP to 18.96 percent, curtailed domestic borrowing to 2 percent of GDP supported by initial reforms of the tax system and government expenditures, and allocated 2 percent of GDP to poverty reducing programmes (PRPs). Other fiscal reforms were to limit domestic financing of Government Budget deficit to 2 percent of GDP by the end of the year and wages and salaries had to be limited to no more than 8 percent of GDP.

It should be noted that if a government takes it upon itself to explore its fiscal options, the key features document implicitly restricts the agenda to foreign financing dimension. Given the limited technical capacity of the Zambian government in this aspect, this seems unsatisfactory. Of course, it is right that the government of Zambia, and not the Fund, should exercise political choice over its fiscal options within the space of prudent policies. Now that Zambia has attained the HIPC Completion Point, will the IMF and the World Bank allow the country to set its own fiscal targets and benchmarks on say inflation, interest rates, wage bills or domestic borrowing? It does not seem like this is feasible at the moment given the heavy degree of IMF involvement in the Zambian economy.

e) Selective Structural Conditionality

There has been an effort to streamline conditionality, but this is very dependent on the context. There has also been a reduction in the scope of conditionality with a much tighter focus on quantitative performance criteria such as international reserves, net domestic assets, reserve money at the central bank, etc. However, some of the structural reforms in the current PRGF are aimed at encouraging government to disengage from running the remaining state-owned enterprises that in the past proved to be a fiscal drain on the national treasury. It is being argued that Government should not subsidise loss-making entities at the expense of investments in education, health and infrastructure development. However, what does not seem to come out strongly from both the Fund and the Government is the impact of some structural conditionality such as user fees in schools and hospitals on the poor people.

[13] While growth is certainly necessary for poverty reduction, it is not sufficient on its own unless it is accompanied by the right policy environment, stable political environment and efficient government and private sector institutions that can respond to the needs of the citizens in all the facets of life particularly social service delivery systems

[14] http://www.economics.ox.ac.uk/Members/david.bevan/Reports/PRGF Stocktake02.pdf

f) Emphasis on measures to improve public resource mobilisation management/accountability

This is one area in which both the Fund and the Bank have a shared role and the Bank has in recent years taken a lead in organising public expenditure reviews and helping Zambia move to forward budgeting and preparation of the Medium Term Expenditure Framework (MTEF). The development and publication of the MTEF in Zambia has been a major step in improving budget preparation.

The MTEF tries to improve the budgeting process at three levels:

- Aggregate fiscal discipline by making a hard budget constraint at both the aggregate level and spending ministries
- Allocation of resources in accordance with strategic priorities between and among sectors
- Efficient and effective use of resources in order to optimise value for money in achieving set objectives and targets

Addressing the above levels is important to ensure fiscal discipline and hence avoid overspending and ultimately macroeconomic instability. Other expenditure reforms introduced at the Public Expenditure Management and Financial Accountability (PEMFA) reforms in order to ensure prudent management of public resources.

g) Social impact analysis of major macroeconomic adjustment and structural reforms

This attempts to assess the distributional consequences of policies, it makes rather specific assertions about the desirable scope of these assessments, and it stipulates that the lead agency for supporting country governments in their conduct should be the World Bank. The World Bank has been the primary agent for promoting and carrying out Poverty Social Impact Analyses (PSIAs)[15] in member countries including Zambia. The Bank provides guidelines on how the PSIA should be conducted through collecting micro data sets for analysis of social impacts. This is quite a difficult exercise given the unreliability of some data set especially from rural areas and so far the World Bank in consultation with civil society organizations has already conducted a PSIA in agriculture (see Table 5 on the PSIA). So far Zambia has had one PSIA conducted on three reform measures in the agriculture sector though the findings were not widely distributed. (see Box 3 below).

Box 3 Poverty and Social Impact Analysis (PSIA)

The World Bank that is taking the lead in this area has jointly with Zambian researchers conducted a PSIA of three key reforms in the agricultural sector, which is seen as the engine of growth and poverty reduction in the PRSP. The Bank's PSIA looks at: (i) improved delivery of rural infrastructure (ii) reduction/restructuring of fertilizer subsidy, and (iii) rural land reform.

The PSIA finds that improvements in infrastructure have a significant impact on poverty reduction by providing the poor with access to markets for outputs and inputs, opening up new land for cultivation, and increasing the value of and use of land. The improvement of infrastructure also minimises the need for smallholders to produce food for home consumption, and thus reduces the cost of making cropping decisions based on a "food security first" principle.

In the case of fertiliser, the PSIA found that the subsidies were not well targeted, and that the poor had limited access, while those with access did not always use the fertiliser efficiently. Consistent with this view of the limited effectiveness of the fertiliser subsidy for poverty reduction, the subsidy was reduced from 75 percent to 50 percent in the 2004 budget.

The PSIA found inequalities and inefficiencies in the current land distribution system. Although most rural lands are held under traditional tenure, the analysis showed that property rights do exist, to the extent that land is rented out and inherited without formal title. Scrapping the traditional system would eliminate access to justice for most rural dwellers since the traditional chiefs powers are linked to the land. Measures to improve accountability of the traditional chiefs should be explored, since the main problems of the existing land tenure system relate to exclusion and gender discrimination.

The PSIA concludes that a coordinated approach to rural development, involving land reform, provision of fertiliser and an improved road network, would raise agricultural productivity and reduce poverty in the rural areas.

In regard to the macroeconomic program and its poverty and social impact, another Bank study on Zambia examines the income distribution and growth consequences of macroeconomic policies. It concludes that any positive impact on poverty reduction from

[15]The Poverty Social Impact Analysis is an analysis of the distributional impacts of a pro-poor reform agenda that addresses issues of sustainability and risks and helps in monitoring poverty and social outcomes and impacts of policy change (See also www.worldbank.org and Vitus Adaboo Azeem and Charles Ayamdoo (2005), Ghana: Experimenting with Poverty and Social Impact Assessments, Paper Commissioned by EURODAD

This study wishes to urge the World Bank and the Zambian Government in particular to ensure that the findings of the PSIA on agriculture are widely disseminated to various stakeholders in order to inform future debates on policy interventions in the concerned sector.

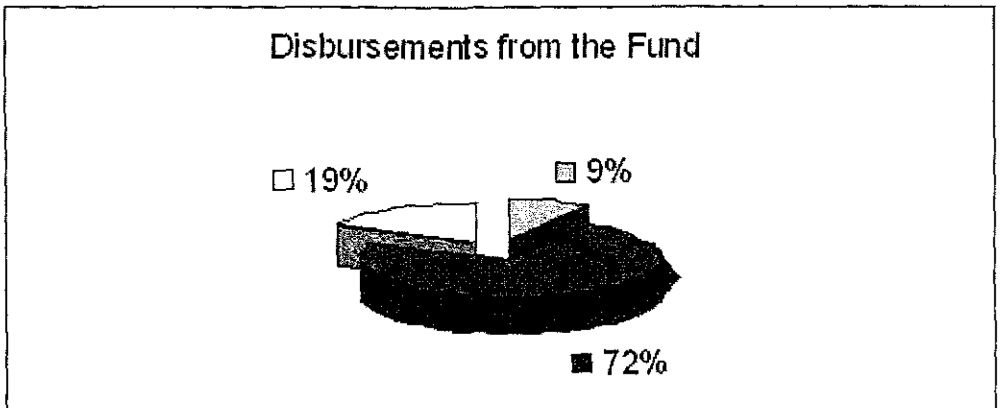
3.0 Financial Flows Under the PRGF

Zambia has several financial channels through which it receives donor funding. Different donors use different ways and terms of delivering their financial assistance depending on the circumstances. However, financial flows to Zambia under the IMF as shown by the pie chart below were more under the ESAF (72%) period particularly from 1995-1999 (because before 1995 Zambia received no assistance from the IMF as a consequence of the 1987 moratorium) as compared to the PRGF (19%) after 1999-2005. The figure below shows the allocations in the various periods as a total of the assistance received from the IMF. In essence the 72% aid from IMF under ESAF was in a period of four years (1995-1999) while 19% contribution from the PRGF is in a period of six years 1999-2005 while that before the introduction of ESAF is 9% covering a three-year period stretching from 1984-1987.

Table 3 Zambia's Transactions with the IMF up to 2005

Year	General Resources Account			Poverty Reduction and Growth Facility/ Enhanced Structural Adjustment Facility Structural Adjustment Facility/Trust Fund			Total		
	Purchases		Charges Paid	Loans		Interest Paid	Purchases and Loans		Charges and Interest Paid
	Disbursements	Repurchases		Disbursements	Repayments		Disbursements	Repayments	
2005	0	0	0	5,502,000	2,000,000	0	5,502,000	2,000,000	0
2004	0	0	0	165,072,000	169,686,308	2,874,733	165,072,000	169,686,308	2,874,733
2003	0	0	0	0	168,686,308	3,206,451	0	168,686,308	3,206,451
2002	0	0	0	132,700,000	167,686,308	3,816,293	132,700,000	167,686,308	3,816,293
2001	0	0	0	74,820,000	166,686,308	4,233,744	74,820,000	166,686,308	4,233,744
2000	0	0	0	20,000,000	0	4,286,284	20,000,000	0	4,286,284
1999	0	0	0	10,000,000	0	4,254,974	10,000,000	0	4,254,974

Figure 4 Disbursements from the IMF Per Specific Facility



As earlier noted, financial flows under the ESAF arrangement between 1995-1999 were more than the preceding years perhaps a sign of IMF confidence in the Zambian economy.

Table 4. Zambia: Relations with the Fund (As of April 30, 2004)

1 **Membership Status:** Joined 09/23/1965; Article VII

2	**General Resources Account:**	**SDR Million**	**%Quota**
	Quota	489.10	100.0
	Fund Holdings of Currency	489.10	100.0
	Reserve position in Fund	.02	.0

3	**SDR Department:**	**SDR Million**	**%Allocation**
	Net Cummulative Allocation	68.30	100.0
	Holdings	2.09	3.06

4	**Outstanding Purchases and Loans:**	**SDR Million**	**%Quota**
	PRGF arrangements	504.19	103.09
	SAF loans	72.70	14.86

5 **Latest Financial Arrangements:**

	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Type	03/25/1999	03/28/2003	278.90	237.52
PRGF	12/06/1995	12/05/1998	701.68	661.68
SAF	12/06/1995	12/05/1996	181.75	181.75

6 **Projected Obligations to Fund: (Without HIPC Assistance)**

(SDR Millions; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	2005	2006	2007	2008
Principal	168.69	170.69	10.49	26.9	47.50
Charges/Interest	3.43	2.84	2.22	2.14	1.97
Total	172.11	173.52	12.72	29.09	49.47

4.0 IMF's Signalling Role in Zambia

External aid is one of the main pillars of Zambia's development and most of this aid is contingent upon Zambia having a running programme with the IMF. The external support, as noted by the CSPR in their 2005 Evaluation Report, has not always been smooth over the years. It has been characterised by massive cutbacks or its suspension altogether, depending on donors' perceptions of whether Zambia had met certain economic conditions and/or political conditionality imposed by the donors. For instance, the Report notes that in 2002 Zambia received US$746.1 million as external support while in 2003 only US$404.5 million was received. This marked reduction in external support is attributed to, inter alia, the absence of the PRGF in the second quarter of 2003, failure by Government to release counterpart funds to donor-aided projects and lack of progress in the implementation of PEMFAR (CSPR Evaluation Report, 2005).

4.1 PRGF and Aid Financial Flows

The Zambian PRGF reveals that if a country does not need the Fund's resources because of the availability of other more concessional sources they still cannot dodge the required seal of the Fund. The case of the PRGF programs being suspended in Malawi, Zambia, Tanzania and Ethiopia demonstrated to a large extent that those countries that are listed as bad performers by the fund are unlikely to get funding from other sources.

Not withstanding the fluctuations in aid flows to Zambia, the 1980s and 1990s showed a remarkable increase in ODA to Zambia, rising from US$56 million in 1973 to an average of US$312 million over the period 1977-1989 during which time the country embarked on the IMF/World Bank-supported structural adjustment programmes. Between 1990 and 1994, aid jumped to an average of US$951 million. It reached a record high of US$2,093 million in 1995, a growth rate of 172 percent over the previous year. This was largely because of the donor countries' satisfaction with the country's transition to multi-party democracy in 1991 and a more intensive implementation of SAP thereafter (Zambia, Aid Policy and Strategy, 2005). However, total external aid has been declining in recent years. It fell from US$746.0 million in 2002, to US$404.4 million and US$298 million in 2003 and 2004, respectively. With the credit worthiness having been "restored" through the attainment of the HIPC Completion Point earlier in the year, it is expected, other things being equal, that donor inflows are likely to increase to support development programmes.

What should be noted in Table 6 is that Zambia's principal repayments to the IMF in 2004 and 2005 were projected to be in excess of US$160 million per year while in 2006 and subsequent years the repayments are significantly reduced. This can be attributed to the fact that in 2004 Zambia had not yet reached the HIPC Completion Point - a point that entails substantial reductions in both the debt stock and debt service amounts. But after reaching the completion in April 2005, there is a significant reduction in debt service amounts to the IMF - a sign that debt relief is being delivered to Zambia.

In another related study by Oxfam (2003), the study contends that the IMF has a crucial role to play in setting the finance framework to optimise the resources available to Zambia and other poor countries in reaching the MDGs. The IMF is the final authority in defining how much governments can spend, based on their view of what constitutes the optimum set of macroeconomic policies for a poor country. All donors rely on this view[16] , and link a lot of the aid they give to a country's meeting the conditions set by the IMF (Oxfam, 2003). For instance, when Zambia managed to get back on the new PRGF of the IMF in June 2004, there was a lot of goodwill from a number of donors, key among them being the European Commission, bilateral governments (the UK, France, Japan, Netherlands, USA, etc) and multilateral institutions (IMF). These countries began to release their financial pledges to Zambia after the PRGF programme had been restored.

The IMF and many other donor agencies need to radically change the way they work in low-income countries. The Oxfam paper (2003) argues that the Fund must finally move on from an outdated focus on exclusively short-term macro-economic stability and pessimism about aid to one based on long-term poverty needs and the MDGs. If it does this, it can play a vital, proactive and dynamic role as a key partner in poverty reduction. If it does not, the much-hailed new poverty focus of the IMF in low-income countries risks being largely discredited (Oxfam, 2003).

[16]OECD donors should end the practice of taking an automatic signal for aid disbursements on the basis of IMF recipient countries having a current programme agreement with the IMF (See A CIDSE-Caritas Internationalis Position paper: More than a Numbers Game? Ensuring that the Millennium Development Goals address Structural Injustice (April, 2005), pp 6

Table 5: Official Projected AID Disbursements 2005

	Agriculture	Energy	Infrastructure	Health	Education	Water and Sanitation	Gender and HIV/AIDS	Total	As a % of Total
Canada				3.93	1.62			5.55	1%
DCI				5.4	7.37	3.76	4	20.53	5%
Denmark	0.51		11.73	5.95	11.73	2.21	1.7	33.83	8%
Finland	0.65				5.4			6.05	1%
Germany					0.03	21.4	0.7	22.13	5%
Japan								0	0%
Netherlands	3.12			18	14.07	0.63	1.77	37.59	8%
Norway	3.89		2.55		14.58		4.73	25.75	6%
Sweden	6.4	1.7		12.9				21	5%
UK	0.1			10.7	10.6		9.2	30.6	7%
USAID	5.36			12.7	5.89		59.58	83.53	19%
									0%
EC	0.6		40.3	3.78	3.78			48.46	11%
IMF									0%
World Bank	13	18.17	27.81	6	18.82	0.81	8.81	93.42	21%
									0%
FAO	1.35						0.15	1.5	0%
ILO									0%
UNDP							1.6	1.6	0%
UNFPA				1			0.3	1.3	0%
UNHCR	0.41		0.93	0.93	0.5	0.24	0.1	3.11	1%
UNICEF				3	2	2	0.46	7.46	2%
WHO				4.5			0.28	4.78	1%
									0%
TOTAL	35.39	19.87	83.32	88.79	96.39	31.05	93.38	448.2	100%
As % of Total	8%	4%	19%	20%	22%	7%	21%	100%	

Source: Joint Assistance Strategy (JASZ) Summary Report, 2005. P. 12. Table adapted from Mphuka C., (2004), The Cost of Meeting MDGs in Zambia

As noted further by the paper, there are three main areas where the IMF is failing to play this crucial role, and where a radically new approach is needed:

- The Fund needs to show greater flexibility in its economic targets, demonstrating a longer-term focus on poverty reduction and analysing the trade-offs this entails for short-term economic policy;
- The Fund needs to end its pessimism towards increasing aid flows to poor countries and stop designing economic policy around this view. Instead it should play a dynamic role, working with others to measure the financing needs to achieve the MDGs, and proactively mobilising higher aid flows. It should use its technical expertise working with Governments to design macroeconomic frameworks that can accommodate these increased resources;

- The influence of the Fund as 'gatekeeper' for poverty focused aid needs to be decreased. The IMF has a key role in achieving the MDGs, but as one partner in a broad alliance for poverty reduction, and not as the all powerful on/off switch for aid and debt relief.

Other groups such as the Jubilee-USA[17] note that the tremendous power of the IMF comes from its role as the arbiter of a country's credit worthiness to receive foreign aid. Most bilateral foreign aid programmes such as the USAID in the United States, or multilateral donors and creditors such as the World Bank or the European Commission will not give foreign aid or development loans to a low-income country unless the IMF first determines that the country is achieving "macroeconomic stability" through the economic reforms that the IMF considers sound "macroeconomic policies". The IMF's approval of countries' macroeconomic policies functions as a type of international credit rating agency, and serves as an important signalling effect, or "green light" that opens the doors to millions of dollars in foreign aid from other bilateral and multilateral donors and creditors around the world, as well as to private foreign direct investment.

Jubilee-USA goes on to say that when the IMF gives a "red light", aid from all these other donors, creditors and foreign investors can be cut off. It is the tremendous power of this signaling effect that literally gives the IMF much influence over the world's poorest countries and compels them to undertake the PRGF loans with attached conditionality. In another turn of events, the IMF has introduced another new policy tool called the Policy Support Instrument (PSI) . The PSI[18] will basically function as a signaling instrument to its members. It will be available to those member countries that do not need, or want, IMF financial assistance, but voluntarily request IMF endorsement and continued assessment for their policies as meeting the standard of upper credit tranche conditionality (IMF, World Bank Papers, 2005).

Zambia's fundamental development challenge is to reduce poverty, which is chronic and affects about 67 percent of the population with 46 percent living in extreme poverty. The main strategies for poverty reduction are defined in an overarching development plan prepared by the Government of the Republic of Zambia. Currently, Zambia is preparing a National Development Plan that will embrace the eight Millennium Development Goals[19]. The Zambian Government has on several occasions stated the close linkages between the PRSP and the MDGs. In fact in one sense it is said that by implementing the PRSP the Government was essentially implementing the MDGs.

[17] Jubilee USA, an anti-debt campaign movement notes in a Discussion Paper: Diminish or Close the IMF's PRGF To Partially Finance Debt Cancellation, Posted on www.jubileeusa.org on 15th April 2005

[18] This new Policy Support Instrument is available for those countries for whom support for high quality macroeconomic policies, rather than Fund credit per se, is most important

[19] " In Zambia, we see the next decade as a breakthrough. We are encouraged by the promise of debt relief arising from our reaching the HIPC Completion Point in April (President Levy Patrick Mwanawasa of Zambia addressing the 60th General Assembly of the United Nations in New York on 15/09/05). President Mwanawasa went on to say "although records indicated that Zambia had not yet made much progress on all the MDG targets, it has done enough to believe that the targets were achievable". (Times of Zambia article "Levy asks for collaborative efforts in attaining MDGs", Friday, September 16,2005

5.0 The IMF and Conditionalities

Although the PRGF differs from the earlier ESAF, most notably in the extent to which conditionality has been streamlined in countries such as Zambia this statement is not obviously true. Zambia has experience enormous problems with "Ensuring appropriate flexibility in fiscal policies" forcing the Fund to maintain a tight fiscal control. In Zambia long struggles with expenditure control and structural problems, especially privatization issues, led the Fund to revert back to ESAF fiscal controls. In such cases social spending remains a challenge. In cases where problems of expenditure control plague macroeconomic policy, the Fund finds it easy to crack the old whip of conditionality. Furthermore, the devil is in the details.

Apart from the fact that in the early 1990s to mid 1990s Zambia undertook far reaching market-oriented reforms: prices were liberalized, interest rates were decontrolled, the currency was allowed to float, and exchange controls on current and capital accounts transactions were removed. Even under the PRGF, further calls have been made to privatise Zambia's state electricity company (ZESCO) and state bank (ZNCB), but government has since backtracked after large-scale public resistance. It has been observed that although countries have been allowed flexibility in terms of PRGF programs, the fundamentals are the same. The philosophy behind all IMF lending has not changed over the years. In fact what may appear, as flexibility may be a change of strategy whereby if IMF does not demand for it, the World Bank does.

The IMF's harsh conditions continue to curtail efforts to improve the quality of school education. While government initiatives to get more children into school by introducing free basic education were paying off, IMF policies, which severely restricted the recruitment of teachers, threatened to undo many of the gains achieved in recent years. In 1999 and 2001 the IMF under the ESAF and PRGF arrangements, prescribed for the Zambian Government the privatisation of state enterprises, liberalisation of the strategic grain reserves and liberalisation and privatisation of the energy sector particularly the Zambia National Oil Company (ZNOC). These reforms have come with huge economic and social and costs to the Zambian people, reflected in high levels of unemployment and poverty due to collapsed companies occasioned by trade liberalisation, privatisation and stiff competition from foreign firms. Many foreign firms enjoy export subsidies from their governments and thus have been able to dump or sell their products cheaply in Zambia thus wiping out the Zambian competitors. This is a recipe for local de-industrialisation and ultimately frustrates MDG efforts to reduce poverty in Zambia.

"Zambia probably has the most liberalised economy in the world. But 30 years into our liberation, we don't have the variety of industries to penetrate other markets, and we were ill equipped for such a competitive mode. Maybe the government should have done more to care for the people and develop industries other than mining, rather than devoting so much of its resources and energy to free trade".[20]

These reforms along with a series of stabilisation programs were supported by two three-year arrangements with the IMF aimed at reversing the sharp decline in GDP per capita and controlling inflation that topped more than one hundred percent. An ESAF[21]-supported program was approved in December 1995 and a PRGF-supported program was approved in March 1999. According to the IMF Technical Assistance report 'program implementation under the ESAF was poor but generally improved under the PRGF[22]. The IMF used and continues to use concessional financing as a juicy "carrot" to induce Zambia and other poor countries to implement PRGF policies and programmes.

The IMF and World Bank made a sweeping assumption in the PRSP Review that there are no fundamental disagreements about inflation, privatization or trade liberalization when in fact these are hotly contested in many countries. In Zambia, the unpopular PRGF belt-tightening measures included a six-month freeze of state employee wages, introduced in February 2005. Additionally, about 495,000 workers had to shoulder the burden of an income tax hike of up to 40 percent.

[20]Lebogang Motlana, UNDP Deputy Representative in Zambia see Zulu J.J., and Lishala S., (2004)

[21]For detailed discussions on the evolution of SAPs to the enhanced Structural Adjustment Facility (ESAF) and eventually to the Poverty Reduction and Growth Facility (PRGF) see AFRODAD Paper "Understanding The Poverty Reduction Growth Facility and its Implications for Development" (2004). In the Zambian case, there is no fundamental difference between the ESAF and the PRGF, in principle they are basically the same (MFNP official's views in an interview)

[22]Technical Assistance provided to Zambia FY 1999-2003 Based on interviews conducted by Independent Evaluation Office (IEO) with government officials and multilateral and bilateral Technical Assistance (TA) providers in Lusaka, Zambia between April 27 and May 7, 2004 and interviews with Bank and IMF staff in Washington, DC as well as internal IMF memoranda and communications and World Bank IMF staff reports. (www.imf.org)

A major strike against the higher taxes and wage cap organized by the Zambia Congress of Trade Unions saw almost 90 percent of public sector workers participating in the strike. The PRGF appears to be failing to recognize the endemic, pervasive and multidimensional nature of poverty and the interplay of economic linkages in African society that the PRSP did.

5.1 Conditionality in the PRGF

Box 5 Structural Conditionality

Coverage of Structural Conditionality in the PRGF-Supported Program for 2005

The prior action, structural performance criteria, and benchmarks in the program for 2005 focus on areas critical for achieving the program's macroeconomic objectives and also include measures that were not implemented in 2004.The conditions cover:

- **Public expenditure management**: development of an assessment framework for the PEMFA program and review of the implementation; budget preparation (MTEF), execution, and reporting (publication of quarterly reports); piloting of an IFMIS and conducting a preliminary review of this pilot.

1 **Debt Management:** quarterly validation of external debt data and updating of the debt-service schedule

2 Financial Sector: cabinet approval of proposals to strengthen the BOZ's supervision of NBFIs; progress on the resolution of three NDFIs; issuance of a new invitation for bids for purchase of 49 percent equity in ZNCB, with management control.

3 **Governance and Transparency**: unbudgeted expenditures funded only to the limits of the budget contingency or after cabinet approval, with offsetting savings identified.

World Bank's conditionality under an Economic Management and Growth Credit covers the following areas

- Measures to prevent public sector arrears to public utilities
- Initial reforms of public sector pension schemes
- Resolution of non bank financial institutions
- Public expenditure management: revision of the Finance Act and strengthening budget preparation and auditing.
- Control of the government payroll and consolidation of allowances into basic salaries

The European Union's conditionality includes funding targets for the Ministry of health, the Ministry of Education, the Auditor General Office, and poverty-reducing programs; reporting of budget execution; and progress in primary education, HIV/AIDS prevention, children and women's health, and female empowerment.

The African Development Bank's conditionality focuses on strengthening the autonomy and effectiveness of the Auditor General's Office.

Bilateral donor's conditionality is concentrated – in a joint initiative – on the PEMFA program. In addition, some donors are providing budget support conditioned on progress in macroeconomic stability, public financial management, core structural reforms, health, education, and HIVAIDS.

Source: Memorandum of Economic and Financial Policies (MEFP) of the Government of Zambia for 2005 contained in 23rd March 2005 Letter Of Intent (LOI).

The quantitative benchmarks in the current PRGF (see Tables for 2004 and 2005 on Benchmarks in the Appendix section), place a ceiling on the central government wage bill. Implicitly this means that government is constrained in terms of its expenditures. This, if not checked has the potential to curtail necessary expenditures in the social sectors - education and health sectors respectively. Currently the civil service wages are very low relative to the private sector and this situation is fuelling a brain drain in the public service to the well-paying private sector. Reaching the MDGs in Zambia, as in any poor country, will require an appropriately sized and well financed public sector; this is especially urgent in the context of AIDS, as the health and education services so vitally necessary to fight the epidemic start to break down under its strain (Global Campaign for Education, 2004). The immediate outcome of this situation is that government has difficulties to run certain programmes on account of shortage of qualified personnel.

5.1.2 Contrasts between ESAF and the PRGF

Table 6 Documentation Requirements

Document	Periodicity	Ownership	Audience
A. Documents needed for ESAF Arrangement			
Policy Framework Paper	Annual	Prepared jointly with Fund and Bank; country's document	Fund and Bank Boards; most countries now publish
Letter of Intent (may include Memorandum of Economic Policies)	With every request for arrangement or review	Country prepares jointly with Fund; country's document	Fund Board; most countries now publish
Staff Report	With every request for arrangement or review	Fund staff prepares	Fund Board
B. Proposed documentation for PRGF Arrangement			
Poverty Reduction Strategy Paper (PRSP)	PRSP every 3 years; with annual progress report in intervening years	Country prepares and owns, in consultation with civil society and donors, with assistance from Fund and Bank	Public document; Fund and Bank endorsement needed to underpin their operations; donors may use to organize support
Staff Assessment of PRSP	With every PRSP, progress report, and interim PRSP	Fund and Bank staff prepare jointly	Fund and Bank Boards; to be published
Letter of Intent (may include Memorandum of Economic Policies)	With every request for arrangement or review	Country prepares jointly with Fund; country's document	Fund Board; most countries now publish
Staff Report	With every request for arrangement or review	Fund staff prepares	Fund Board
Memorandum: HIPC documents			
HIPC Initiative documents (for countries requesting assistance under the Initiative)	Before decision point (preliminary document), at decision point, and at completion point	Fund and Bank prepare on basis of DSA prepared jointly by country, Fund, and Bank	Fund and Bank Boards; other creditors affected by HIPC Initiative; most countries have so far agreed to publish decision and completion point documents

6.0 Poverty Impacts of the PRGF

It is striking that while the IMF and World Bank have been able to impose swift and sweeping reforms on countries across the South for over two decades, analyzing the social and environmental impacts of these policies poses such methodological problems to them. Independent monitoring of quality and independency of World Bank and IMF analysis is required. The involvement of external and national institutes (such as the World Health Organization) is essential.

Although PRGF implementation can be done to the letter, the trickle-down effects of growth have not really translated into poverty reduction. It must be pointed out that structural policies are not like macroeconomic policies and as such indicators of policy compliance have to reflect those differences. Performance benchmarks for structural policies have to be qualitative and a measure of discretion is needed to evaluate the results.

It should however, be mentioned that it is not easy to measure in exact terms the direct impacts of the PRGF on the poverty situation in Zambia[23]. This is so because some policies take long before they can produce effects or impacts. At the moment it is difficult to say with certainty whether or not the PRGF implementation in Zambia has been able to reduce poverty. It will take a while and some good Poverty Impact Assessment studies before we can begin to ascribe certain positive changes in the well being of the poor in Zambia to the PRSP interventions. These observations are consistent with the findings of a recent CSPR Evaluation Report (2005) on Zambia's PRSP implementation where it was noted that people's livelihoods had not improved despite PRSP interventions. This was mainly attributed to a number of factors, among them lack of employment, lack and late delivery of agricultural inputs, chaotic marketing system for agriculture produce, lack of extension staff, lack of credit facilities for income generation, and poor road infrastructure, among other issues.

There is therefore need to improve monitoring and evaluation exercises through appropriate usage of output, outcome and impact indicators of the PRSP and other poverty reducing interventions. However, for purposes of this paper we shall look at two broad areas (1) budgetary and policy impacts on the education and health sectors and, (2) policy impacts of privatisation on social utilities such as water services.

6.1 Education

6.1.1 Budgetary Impacts on Education

In education, total releases in 2003 amounted to K691[24]billion representing 142 percent of the original budget allocation of K486 billion. In 2004, the allocation was scaled up to K784 billion, representing 20.8 percent of the discretionary budget from 20.6 percent in 2003. By end June 2004, disbursement against this budget already amounted to K385 billion (49.2 percent). The sector also attracted significant support from cooperating partners through the sector wide approach (SWAp), benefiting in particular basic education at district levels. The major programmes implemented in the sector were the expansion of the school infrastructure, curriculum development, provision of education materials, provision of bursaries to vulnerable children and orphans, equity and gender and HIV/AIDS.

These interventions, it is often argued, led to the overall improvement in terms of access to education at all levels (Zambia Progress Report, 2004). For example, there was a clear outturn in terms of basic enrolment that increased to 75.5 percent for girls and 77.2 percent for boys. In 2003, completion rates also increased to 66.7 percent for girls and 80.3 percent for boys from 63 percent and 77 percent respectively in 2002 (Zambia Progress Report, 2004).

It is worth noting that there was improvement in funding to priority Poverty Reducing Programmes (PRPs) from K140 billion in the period January 2002-June 2003 to K430 billion in the period July 2003 to June 2004. Generally speaking, major improvements in public finance management were achieved in the first half of the 2004 budget mainly due to the introduction of the Medium Term Expenditure Framework (MTEF) and Activity Based Budgeting (ABB). Disbursements to key social sectors including the respective releases to district levels were all in excess of 40 percent of the annual budget[25].

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[23]According to the Ministry official who was interviewed on 12/09/05, he thinks that it is hard to measure PRGF impact on poverty because IMF money does not come to Zambia it remains in Washington DC and hence what we have is a mere book keeping exercise! However, to the extent that the IMF through the PRGF and the Letter of Intent are able to influence the budgetary allocations, we can then use the national budget to assess the impact of the PRGF on poverty reduction

[24]The Kwacha (K) is the official currency in Zambia. Please note that Zambia uses a floating exchange rate (US$1= K4, 610 as at 12th September 2005)

[25]http://www.sarpn.org.za/documents/d0001196/index.php

6.1.2. Policy Impacts on Education

In spite of this, the sector continued to experience problems as the sector could not engage new teachers (about 9000 trained teachers in 2004 were left jobless on the street) to fill the vacant positions due to the employment freeze in the public service.

The freeze was occasioned by fiscal austerity in the national budget mainly imposed by the IMF as a pre-condition for attaining the HIPC Completion Point! The impact of this move was felt more in the rural areas where there was a critical shortage of teachers. While primary education was made relatively free in 2001, fees were however introduced at other levels of education under the IMF-dictated policy of "cost-sharing" schemes.

According to a JCTR study on Cost Sharing "Will the Poor Go to School" (2001) findings show that more and more students are dropping out of school, as fees are prohibitively high for the ordinary people. These fees were introduced as a pre-condition for a debt relief package. It has also been noted in other studies that user fees in schools tend to restrict pupil accessibility[26]. While enrolment rates were generally high, no one seems to be concerned about the quality of education being delivered - the quality of education in many government schools is on the wane and this is compounded by a high pupil-teacher ratio!

"We have only three teachers, including myself, to teach 526 pupils. The average class size is 70 pupils and each teacher has to teach two classes. To work effectively we need at least 12 teachers".[27]

6.2 Health

6.2.1 Budgetary Impacts

In the health sector, government allocated K58.8 billion out of which K34.8 billion was released in 2003. In 2004, a total of K36 billion was released by June against the total allocation of K74.5 billion. Major programmes implemented in the health sector included the Integrated Malaria Control (Roll-back Malaria), acquisition and distribution of essential drugs, child health survival, reproductive health and rehabilitation of health facilities. ARVs were procured and distributed to 12,000 patients (Zambia Progress Report, 2004). These interventions have contributed to improvements in the health sector. Favourable outcomes in terms of utilisation of services in the sector included the increase in the utilisation rate of the health centres for the under-five year olds (2.5 as against 2.0 in 2002) and the percentage of supervised deliveries by skilled personnel which increased to 39 percent in 2003 from 35 percent in 2002. Impacts attributable to the improved services delivery included the reduced malaria incidence, which in the first half of 2004 was estimated at 114/1000 compared to 122/1000 in the first quarter of 2003.

6.2.2 Policy Impacts on Healthcare

Economic crises for developing countries led to many healthcare policy changes in the 1980s and early 1990s. SAPs favoured by the IMF and World Bank limited government funded care and emphasised individual financial responsibility for healthcare while increasing healthcare privatisation[28] . Thus the World Bank and the IMF favour policies that impose healthcare user fees. It is often argued that user fees offer the benefits in terms of revenue collections for governments and may decrease inappropriate care. However, user fees in Zambia and indeed many other poor countries have been deterring needed care especially in the vulnerable populations. In one of the studies done in Zambia to assess the impact of user fees on accessibility, it was found that user fees impact negatively on access to healthcare for female children in rural Zambia (Gretchen, et al 2001).

"I'm opposed to user fees in clinics and hospitals because they have a negative impact on the poor". "To be honest with you, I'm personally against people paying user fees in clinics and hospitals because the poor are disadvantaged". "I'm trying to find a way to move out of that but I don't want to move fast"[29] .

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[26]Professor Elizabeth C. Mumba in a Discussion Paper: Education For All: Increasing Access to Education for Girls in Zambia, Paper Presented at the 2nd Pan-Commonwealth Forum On Open Learning, 29th July -2nd August, 2002, Durban, South Africa

[27]Mr. Silas Silewu, Headmaster of Maano Basic School in Lusaka in 2003

[28]See http://www.eprints.ucl.ac.uk/archive/00000634/01/UserFeesZambia.pdf

[29]Honourable Sylvia Masebo, Minister of Health in Zambia in Post Newspaper article "Masebo opposes user fees in clinics" October 1,2005

Privatization has led to an increase in the costs of health services, and trade liberalization has led to lower incomes through job losses in particular sectors of the economy, reducing household budgets for health care.

The privatisation of Zambia Consolidated Copper Mines meant up to 45 percent of people in the Copperbelt Province could no longer afford to take their children to the doctor because of user fees. One of the major concerns was that government-spending cuts were affecting the ability of the state to provide resources for tackling the AIDS pandemic.

Zambian NGOs questioned the wisdom of privatising at a time when copper prices were so low. The mines had earlier been valued at $350 million but were eventually sold off for $90 million. Moreover, the deal only went through because the government agreed to take on the mines' debts. Ironically to get debt relief the government had to get further into debt. Local people are watching to see whether this massive subsidy to the mining multinational will really provide them with more jobs. They have had past experience of South African companies coming in, stripping assets, and then leaving, or of firms failing to make the necessary investment and then moving on.

6.3 Policy Impact On Water Privatisation

Experience world over, has shown that transnational corporations[30] as well as private utility companies, regardless of how responsibly they try to carry out their business, are simply not designed to provide public services to all people on equitable basis. Indeed, the delivery of water services is based on the 'ability-to-pay'[31] principle, which means that poor communities frequently end up without adequate services. If access to water is a fundamental human right, how safe is it then to put the supply of water in the hands of the private sector (as demanded by the IMF) whose sole motive is profit maximization? It is also true to say that since these private corporations are motivated by profit maximization, then they might not be interested to promote water conservation. While this paper is not against water service privatization per se, it is however concerned about the current arrangement where the private sector is made to reign in the water market sector. African governments might need to privatise their water supply through setting up parastatal bodies[32] . That way, the government gets to regulate the price of the commodity; while the company becomes autonomous and operates more efficiently to ensure customers get the commodity.

Conclusion and Recommendations

6.4 Conclusion

Certainly Zambia's experience with the PRGF highlights the fact that more needs to be done to make it respond more favourably to the local policy needs/demands and social service delivery system. While it can be noted that in the last two to three years there has been a corresponding increase in budgetary allocations to the social sectors, it is difficult to state with certainty that there has been a corresponding reduction in poverty levels.

Given the adverse impacts that privatisation of utility services continues to have on the poor and vulnerable communities, there is need for government to urgently step in and regulate the sector for the benefit of the poor. This paper argues strongly that the Government has a paternalistic role to play in ensuring that none of its citizens is alienated from enjoying social and economic rights such as access to clean and portable water, education and health services on account of one's poor economic status.

The paper also urges both Government and its cooperating partners to continue to address institutional and policy failures by way of building the necessary capacities so that development programmes are self-sustaining.

This paper further notes that rather than working with the Zambian government to help it formulate a realistic poverty-focussed budget and to lobby the donor community to finance it, the IMF tends to work narrowly within the given financial envelope to constrain government from "overspending". In other words, the macro-economic stability is put before poverty reduction and human needs.

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[30]Global Water Grab: How Corporations Are Planning to Take Control of Local Water Services, Polaris Institute, January 2003. See also http://www.polarisinstitute.org/pubs/pubs_pdfs/gwg_english.pdf

[31]The Water and Sewerage Companies among other things are motivated by the profit drive and hence water which is so essential to life has been made like a "commodity" to be sold and enjoyed by only those who can pay for it! Disconnections are now the order of the day for many people who cannot afford to pay for it. This paper is not in any way saying that people should not pay for the water services, but merely saying that a lot of people are poor due to various factors and so many of them may not be able to afford pay for the water services!

[32]Here in Zambia, the Zambia National Commercial Bank (ZNCB) has just demonstrated that parastatal bodies can also run efficiently and viably if there is no political interference. The ZNCB has been posting huge profits in the last three years

The IMF needs to reverse this tendency and put the overall goals of the MDGs first. It needs to find ways to work with the government and donors to loosen the macroeconomic constraints as much as is possible.

Thus, rather than poverty reduction goals being constrained by the macroeconomic situation, the IMF needs to help the Zambian government to demonstrate to the donor community and its citizens where the opportunities lie for making poverty reducing expenditures if more finance is made available.

Zambia on its part needs clear policy targeting on the poor people with measurable indicators. Hence, this study asserts that development is about improvement in people's livelihoods. But it is also about ownership of ideas/programmes and empowerment of local people. Currently the PRGF does not free up enough policy space to the Zambian government, civil society and other stakeholders to be able to exercise flexibility in terms of setting their own benchmarks and targets. This means that the PRGF in its current form cannot effectively be used to deliver social services and ultimately promote the MDGs. In light of this, the report proceeds to offer the following recommendations:

6.5 Recommendations

6.5.1. Zambian Government

- Government should continue to pursue expenditure financial reforms as well as fiscal policies that promote transparency, accountability and prudence in the usage of public resources
- Government should continuously build and retain capacity in its institutions to be able to design, implement, monitor and evaluate policies and programmes
- With or without IMF pressure, Government should continue to pursue sound and stable macro and microeconomic policies in order to enhance investment decisions by both local and foreign investors
- To the extent that development cannot be imposed upon a people, the Government of Zambia should therefore take responsibility for setting its own development priorities and policies.
- Government should continue to recognise the importance of partnership with civil society. Based on this, engagement with civil society should be more structured and institutionalised

6.5.2 International Financial Institutions (WB/IMF)

- There is need to genuinely streamline conditionalities and give government policy space to be able to set its own economic development priorities
- The IMF and World Bank should show commitment to making ex ante Poverty and Social Impact Analyses (PSIAs) and make them an integral part of all their major reforms through their support to low-income countries
- The IMF should also move away from acting as a "gate keeper" of development programmes in poor countries to a more useful role of an equal development partner

6.5.3 Civil Society

- Civil society should, as a deliberate move, build its own capacities to be able to engage meaningfully in PRGF policy issues especially around macroeconomic issues. It should be realised that it is not so much the quantity of engagement that will count but the quality of engagement.
- As noted in the CSPR Evaluation Report (2005), civil society engagement in national policy dialogue should be broadened to include actors in the more peripheral areas where poverty is highly manifest
- This report further reinforces the observations of CSPR that civil society in Zambia needs to strive to participate in the broad-based and open discussions of macroeconomic policy alternatives with Government as well as its cooperating partners.

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7.0 Appendices

Table 7: Quantitative Performance Criteria (PC), Benchmarks and Indicative Targets Under the PRGF Program 1/(In billions of Kwacha, unless otherwise indicated) for 2004

		2003 Dec. Stocks	2004 Sep.	2004 Dec.
Performance Criteria				
1	Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia 2/3/4/5/ Adjusted NDA	6,274	131	127
2	Ceiling on the cumulative increase in net domestic financing (NDF) 2/5/ Adjusted NDF	3,093	577	573
3	Floor on the stock of gross international reserves (GIR) of the Bank of Zambia (In millions of U.S dollars) 2/6/ Adjusted GIR	197	164	175
4	Ceiling on new external payment arrears		0	0
5	Ceiling on the stock of short-term debt and on contracting or guaranteeing of non-concessional debt (In millions of U.S dollars) 7/		0	0
6	Ceiling on cumulative new concessional loans collateralised or guaranteed by the central government of the Bank of Zambia for ZESCO.		20	20
7	Floor on the cumulative payment of domestic arrears of the government 5/		66	77
	Quantitative Benchmarks			
8	Cumulative ceiling for the Central Government wage Bill 5/		1,492	2,018
9	Ceiling on the cumulative arrears on the Central Government wage bill		0	0
10	Floor on the cumulative deposits into the HIPC Account 49 at the BoZ		383	522
	Memorandum item:			
11	Cumulative net balance of payments support (In millions of U.S dollars) Balance of payments assistance		-63	-60
	Central Government debt service obligations (excl. IMF)		49	69
	Shortfall (-) Excess (=) net BOP support		-112	-129

Table 8: Quantitative Performance Criteria (PC), Benchmarks and Indicative Targets Under the PRGF Program 1/(In billions of Kwacha, unless otherwise indicated) for 2005

5/11/2004 12:59:34PM	2004 Dec. Stocks	2005 March Prog.	Jun Prog	Sep. Prog	Dec. Prog
Performance Criteria					
1 Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia 2/3/4/5/ Adjusted NDA	6,836	14	182	104	166
2 Ceiling on the cumulative increase in net domestic financing (NDF) 2/5/ Adjusted NDF	3,305	60	217	301	500
3 Floor on the stock of gross international reserves (GIR) of the Bank of Zambia (In millions of U.S dollars) 2/Adjusted GIR	238	232	204	244	246
4 Ceiling on new external payment arrears		0	0	0	0
5 Ceiling on the stock of short-term debt and on contracting or guaranteeing of nonconcessional debt (In millions of U.S dollars) 6/		0	0	0	0
6 Ceiling on cumulative new concessional loans collateralized or guaranteed by the central government of the Bank of Zambia for ZESCO.		20	20	20	20
7 Floor on the cumulative payment of domestic arrears of the government 5/		100	100	151	284
Quantitative Benchmarks					
8 Cumulative ceiling for the Central Government wage Bill 5/					
9 Ceiling on the cumulative arrears on the Central Government wage bill		593	1236	1876	2531
		0	0	0	0
Memorandum item:					
10 Cumulative net balance of payments support (In millions of U.S dollars)					
Balance of payments assistance					
Central Government debt service obligations (excl. IMF)		-8	-29	4	13
Shortfall (-) Excess (=) net BOP support					
		31	49	98	133
		-39	-93	-93	-120

1/ The definition of the indicative targets are contained in the Technical Memorandum of Understanding (TMU)

2/ Adjustors, including for balance of payments support are defined in the TMU.

3/ Excluding HIPC debt relief from the IMF.

4/ The ceiling will be adjusted for changes in the legal reserve requirements

5/ Cumulative form the end of 2004

6/ Nonconcessional loans are defined as having a grant element of less than 40 percent.

Table 9: Quantitative Performance Criteria (PC), Benchmarks and Indicative Targets Under the PRGF Program 1/ (In billions of Kwacha, unless otherwise indicated) for 2004

5/11/2004 12:59:34 PM	2003 Dec. Stocks	2004 Sep. Prog	Sep. Act	Status	Dec Prog	Dec Act	Status Observed
Performance Criteria							
1. Ceiling on the cumulative increase in net domestic assets (NDA) of the Bank of Zambia	6,204	131	38	Yes	127	126	Yes
2. 2/3/4/5/ Adjusted NDA		174			227		
3. Ceiling on the cumulative increase in net domestic financing (NDF)	3,093	577	213	Yes	573	212	Yes
4. 2/5/ Adjusted NDF		589			520		
5. Floor on the stock of gross international reserves (GIR) of the Bank of Zambia (In millions of U.S dollars)	197	164	217	Yes	175	222	Yes
6. 2/6/ Adjusted GIR		161			187		
7. Ceiling on new external payment arrears		0	0	Yes	0	14	No
8. Ceiling on the stock of short-term debt and on contracting or guaranteeing of non-concessional debt (In millions of U.S dollars) 7/		0	0	Yes	0	0	Yes
9. Ceiling on cumulative new concessional loans collateralized or guaranteed by the central government of the Bank of Zambia for ZESCO.		20	0	Yes	20	0	Yes
10. Floor on the cumulative payment of domestic arrears of the government 5/		66	52	No	77	84	Yes
Quantitative Benchmarks							
11. Cumulative ceiling for the Central Government wage Bill 5/		1,492	1,479	Yes	2,018	2,012	Yes
12. Ceiling on the cumulative arrears on the Central Government wage bill		0	0	Yes	0	0	Yes
13. Floor on the cumulative deposits into the HIPC Account 49 at the BoZ		383	384	Yes	522	522	Yes
Memorandum item:							
14. Cumulative net balance of payments support (In millions of U.S dollars)		-63	-65		-60	-49	
Balance of payments assistance		49	27		69	65	
Central Government debt service obligations (excl. IMF)		-112	-92		-129	-114	
Shortfall (-) Excess (=) net BOP support			3			11	

Source: Memorandum of Economic and Financial Policies (MEFP) of the Government of Zambia for 2005 contained in 23rd March 2005 Letter of Intent (LOI)

1/ The definition of the indicative targets are contained in the Technical Memorandum of Understanding (TMU)

2/ Adjustors, including for balance of payments support are defined in the TMU.

3/ Excludes HIPC debt relief from the IMF.

4/ The ceiling will be adjusted for changes in the legal reserve requirements

5/ Cumulative form the end of 2004

6/ Nonconcessional loans are defined as having a grant elements of less than 40 percent.

Table 10: Structural Benchmarks and Performance Criteria/1 for 2005
Report on the findings of a preliminary review of the piloting of the IFMIS in at least three line ministries. 3/

	Timing
Prior Action	
Cabinet approval of a proposal to repeal sections of the Building Societies, Act, the National savings and Credit Bank Act and the Development Bank of Zambia Amendment Act which are in conflict with the Banking and Financial Services Act.	
Benchmarks and Performance Criteria	
1 Public Expenditure Management and Financial Accountability (PEMFA)	
The Government will refrain from paying any amounts for which it is not legally liable and which are not included in the budget. 3/	Continuous
Publication of quarterly budget execution reports using the activity-based budgeting classification, within 45 days of the end of each quarter.	Continuous
In consultation with the PEMFA Technical Working Group, design a cash-flow framework for all the line ministries.	May 2005
In consultation with the PEMFA Technical Working Group, finalise a framework for monitoring and evaluating the PEMFA program.	May 2005
Initiate the piloting of the IFMIS in at least three line ministries. 3/	June 2005
Prepare and publish the first draft ("Green Paper") of the MTEF for 2006-2008.	Aug 2005
Issue new regulations and revised accounting manuals for the new Finance Act.	Sep 2005
Complete review of the implementation of the PEMFA program.	Nov 2005
Report on the findings of a preliminary review of the piloting of the IFMIS in at least three line ministries. 3/	Dec 2005
2 Debt Management	
Beginning with the second quarter of 2005, validate end-quarter external debt stock data and, within 45 days, provide updated 3-year schedule of debt service falling due. 3/	Continuous from Aug 2005
3 Financial Sector Reform	
Adoption by the government and the Bank of Zambia of an action plan, finalised in consultation with the World Bank and IMF staff, for the resolution of the Zambia National Building Society.	Apr 2005
The NSCB and the DBZ submit to the BoZ plans for their incorporation in 2006 under the Companies Act.	Dec 2005
4 Governance and Transparency	
Unbudgeted expenditure requirements will be funded only to the limits of the contingency resources indicated in the budget or only after the Cabinet has approved any changes by finding compensatory funding within the approved budget resources.	Continuous

Source: Memorandum of Economic and Financial Policies of the Government of Zambia 2005

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