Changing aid relations in Zambia

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This paper draws on interviews with officials from donor agencies and the Zambian government conducted in Lusaka from October to December 2007, as well as on a review of key policy documents and relevant reports.

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Preface

The aid architecture is changing radically in many countries today, largely in step with the implementation of the 2005 Paris Declaration on Aid Effectiveness. In that document, donors and partner countries committed themselves to new ways of operating in which aid is more efficiently planned, delivered and evaluated.

Zambia's relationship with the donor community has undergone multiple revisions over the years. Particularly the manner in which aid is disbursed and the conditionalities to which it may be attached have emerged as discussion topics in Zambian politics. A special focus herein has been the potential impacts of the reforms under way in the wider aid system on the possibilities for Zambia to implement its own development plans. To position itself to take advantage of the new aid modalities currently being promulgated, the country has drafted an aid policy and strategy, implemented a joint assistance strategy and developed its local planning processes.

This *Discussion Paper* examines the process of changing aid modalities, commenting on the time, resources and commitment that both donors and national governments must invest to make the new aid framework work, in cooperation with key stakeholders from national civil society. Focusing on the case of Zambia, it concludes that new aid modalities and revitalised national governance processes are vital if development cooperation is to lead to sustainable development and reduced aid dependency.

Introduction

Like most countries in Africa, Zambia has travelled a long journey since its independence in 1964. At that time, Zambia was a relatively prosperous nation that had built its economy on trade in mineral resources, mainly copper, which did well throughout the 1960s. In the early 1970s, external shocks, such as the sharp increase in the price of oil and the fall in copper prices, severely affected the country, leading to prolonged economic deterioration. While government revenue slumped, public spending remained high, principally financed by massive external borrowing. By the early 1980s, the economy was under serious strain (GRZ 2005b).

As the situation worsened, Zambia had to accept support from the international community, which at that time meant agreeing to implement structural adjustment programmes designed by the International Monetary Fund (IMF) and the World Bank. However, these programmes, which were executed during most of the 1980s and 1990s, did little to alter the country's economic performance. In fact, they further aggravated the situation. Today there is general acknowledgement that the design of the structural adjustment policies was faulty and the pace and sequence of their implementation was inappropriate. The magnitude of the conditionalities imposed on Zambia by the structural adjustment programmes and the breadth of the structural changes mandated within a limited timeframe exerted severe functional stress on the economy, especially when these were in inverse proportion to the level of assistance that the multilateral agencies instrumental in designing the programmes were able or willing to provide (World Bank 2005, AfDB/OECD 2004, Serlemitsos and Fusco 2001, Saasa and Carlsson 2002).

With hindsight, Edward Jaycox, then World Bank vice president in charge of Africa, underscored not only the strategic role that multilateral bodies such as the IMF played in Zambia's structural reforms but, more significantly, also confirmed the IMF's poor handling of the Zambian programme:

> 'Zambia's was a terribly under-funded program. We overestimated copper revenue, overestimated aid flows, and did everything we could to paint a picture of an internally consistent financing plan based on the resources that we and others could bring to bear. If the case had been looked at more closely or more sceptically, the plan's lack of realism would have become apparent. Certainly this is clear with hindsight. A great number of shocks took place as the adjustment process went along: copper prices went down or stayed at the same level when they were expected to go up; aid that was expected did not arrive; deals with the Paris Club that were normative were made less liberal when the aid was increased. (...) In sum, the Zambian Programme was administered in a very chaotic way, and the chaos resulted in part from the inadequacy of financing and unrealistic financing projections' (Jaycox in Thomas et al [ed.] 1991: 358).

The design of the structural adjustment programmes, furthermore, did little to address the widespread poverty that became increasingly evident as the structural changes took hold. International assistance helped Zambia to meet its external debt obligations, in addition to financing a significant part of the country's most pressing balance-of-payments arrears. Yet this assistance left poverty unaddressed. Poverty actually continued to worsen during this period. By the end of the twentieth century, more than 70 per cent of the population was categorized as poor, and Zambia was reclassified from a 'middle-income country' to a 'least developed country'.

Developments from 2000 to 2007

Zambia's economic performance improved considerably after 2000. Real annual GDP growth averaged 4.6 per cent in the five years from 2002 to 2007, reversing the negative trend in previous periods. The current growth is explained mainly by increased agricultural production and significant new investments in key sectors, particularly in the privatised mining sector. Zambia's growth has further been complemented by improved management of the economy, especially with respect to the budgeting process, expenditure management and financial accountability (GRZ 2004a, 2005a, 2006).

Zambia reached a major milestone in 2005, when it arrived at its completion point under the Heavily Indebted Poor Countries (HIPC) initiative, triggering significant debt forgiveness/cancellation. Zambia's foreign debt was reduced to US $4.0 billion, down from the $7.1 billion registered at end 2004. That same year Zambia became eligible for debt relief under the G8 initiative, which proposed cancellation of all of the country's debts to the IMF, the African Development Bank and the World Bank. After the G8 commitments were effected through the Multilateral Debt Relief Initiative, Zambia's total external debt was reduced to some $500 million (Saasa 2006, IMF/GRZ 2006).

The Zambian government responded with new policies aiming to take the economy further and, in particular, to incorporate poverty reduction in the recovery. It implemented an interim poverty reduction strategy in 2001, followed by the drafting of a more comprehensive Poverty Reduction Strategy Paper (PRSP) covering the 2002–05 period. At the end of that period, the government developed its Fifth National Development Plan (FNDP) covering 2006–10. These plans were increasingly domestically developed with the inclusion of Zambian stakeholders. Equally noteworthy, all emphasised sound economic management and strong, stable institutions with reducing poverty as their ultimate objective.

Development cooperation and aid dependence

During its first decade of independence, Zambia financed much of its development expenditure from internally generated resources. Aid served mainly to support government-initiated projects. After the external shocks hit Zambia in the mid-1970s, however, the country became a large aid recipient. Zambia accepted its first conditioned loan as part of a 1973/4 IMF stabilisation package to help it to cope with the drop in copper revenues. From 1983, the World Bank became involved in the programme, introducing a wide range of further policy conditions. Since that time, aid conditionality has been an important part of Zambian politics (Saasa 2002, 2006). The result has been marked fluctuations of aid, mainly in relation to the country's compliance with and fulfilment of donor conditions and expectations. Though the Zambian government has protested at times, and even tried to do it alone, it has always had to return to the negotiation table with the donor community led by the IMF and World Bank (Rakner 2003).

In the report Zambia: *Back to the Future?*, Alastair Fraser draws on available research to examine how aid conditionalities have interfered with the democratisation process in Zambia. Especially interesting is Fraser's assessment of how the HIPC process has taken over as a measure of external control after the demise of structural adjustment: 'Through the process of setting hurdles in the HIPC process, donors were able to establish even closer supervision of the Zambian policies than under [structural adjustment programmes]' (Fraser 2005: 28). This is not to play down the Zambian government's own role in the deterioration of the country's economic and political situation, but rather to emphasise the key part played by aid in Zambia, not only in terms of quantities but also with respect to policy interference (Rakner 2003, Fraser 2005).

Notwithstanding the fluctuations over the years, aid to Zambia averaged US $951 million annually between 1990 and 1994. It reached a record high of $2.1 billion in 1995, following the country's transition to multiparty democracy in 1991 and its subsequent more intensive implementation of structural adjustment. Aid declined by as much as 70 per cent by 1996, reaching $636 million as donors again started to question government policies. It has fluctuated around that level ever since.
Financial aid, which includes grants and concessional loans with a grant element of 25 per cent or higher, makes up the major part of the aid committed. Technical assistance, however, is also an important channel, with as much as 26 per cent of donor assistance provided in that form in 2001 and 11 per cent in 2003 (GRZ 2005b).

The importance of aid to Zambia is illustrated by its contribution to the government budget. During 2000–05, aid accounted for an average 43 per cent of the total state budget, having peaked at 53 per cent in 2001 (*ibid.*). In 2006 and 2007, the figure dropped to below 30 per cent, according to the budget speeches of the respective years. In the budget speech of January 2008, foreign grants and loans were said to have fallen to 24 per cent, from 28 per cent in the

Box 1 The Paris Declaration on Aid Effectiveness

At the start of the new millennium, donors within the Development Assistance Committee (DAC) of the OECD in reviewing their experiences and practices agreed to adopt a common view of what is meant by 'effective assistance'. An agenda of best practices had already been developed in the early 1990s, based on what was required, but not sufficient, for development to take off (OECD/DAC 1992). Also, the 'Millennium Declaration', with its Millennium Development Goals, formulated in 2000 was set to have great impact on the content of development cooperation and on the operationalisation of the goal of poverty alleviation. However, the importance of the Paris Declaration and the agenda for effective development cooperation that it encompasses, lies not only in the content but also in the methodology of development assistance it promulgates (*ibid.*).

The Paris Declaration is the product of the March 2005 high-level forum on aid effectiveness, which brought together development officials and ministers from 91 countries, representatives from 26 donor organisations and partner countries, civil society organisations and the private sector. Issues discussed included local ownership of development programmes, aid fragmentation, transaction costs and parallel systems and the general failure of programmes to be adapted to local needs and conditions.

To address such deficiencies the Paris Declaration names five key principles for the functioning of international aid:

- **Ownership**. This reflects efforts by partner countries to exercise effective leadership over their development policies and strategies and to coordinate development activities. The Paris Declaration commits partner countries to develop and implement their strategies through broad consultative processes, to operationalise these strategies jointly and to allow national governments the lead in coordinating development aid in dialogue with donors, while at the same time encouraging participation of non-state actors. The Paris Declaration calls upon donors to respect this leadership and strengthen partner countries' capacities to exercise it.

- **Harmonisation.** This principle is understood as donors' attempts to bringing the policies and procedures that govern their support as much into accord as possible, so to avoid imposing varying and conflicting requirements on partner countries which reduce the effectiveness of the development cooperation efforts. The Paris Declaration emphasises the need for harmonisation, increasing transparency and improving the collective effectiveness of donor actions (through division of labour).

- **Alignment.** The Paris Declaration commits donors to seek to align their support with the priorities and strategies set by their partner countries, rather than imposing their own priorities. This also means building up and relying on the partner countries' own mechanisms for implementing projects, rather than putting parallel systems in place. For their part, partner countries undertake to adopt sound strategies and set sensible priorities, and to strengthen and improve their institutions.

- **Results-oriented management.** Donors and partner countries have jointly undertaken to manage and implement aid in a way that focuses on the desired results, and to improve evidence-based decision making. Both parties are committed to work together on a participatory basis, to strengthen the capacities of partner countries and to sharpen the focus on managing for results.

Box 1 The Paris Declaration on Aid Effectiveness (continued)

- **Mutual accountability.** Both donors and partner countries have agreed to prioritise mutual accountability and transparency in the use of development resources. The Paris Declaration states that this will 'also help to strengthen public support for national policies and development assistance'. Mutual progress towards meeting the Paris Declaration commitments on aid effectiveness will be jointly assessed with the assistance of country-level mechanisms.

In addition to commitments under the Paris Declaration, the EU member states and the European Commission are bound to increase the effectiveness of their development cooperation by implementing the so-called '3C' principles set out in the Maastricht Treaty of the European Union. This treaty, signed in 1992, pioneered the introduction of these principles of coordination, complementarity and coherence in the 'new aid architecture'. The '3Cs' also feature in the Cotonou Partnership Agreement, as well as in the European Consensus on Development that was signed in December 2005. The recently adopted EU Code of Conduct on Complementarity and the Division of Labour in Development Policy has similar bearing in the Zambian context.

In September 2008, a third high-level forum on aid effectiveness will be held, this time in Accra. Several goals are envisaged for the forum, which is scheduled for three days including a ministerial-level meeting:

- take stock and review progress in implementing the Paris Declaration;
- broaden and deepen dialogue on aid effectiveness by giving space and voice to new actors, including civil society organisations and donors which are not members of the OECD-DAC;
- identify required actions and bottlenecks to be overcome for successful implementation of the Paris Declaration.

Several preparatory events for this forum have already taken place and others are scheduled to increase understanding and build ownership and consensus on the Accra agenda. The main output of the forum is to be the Accra 'Agenda for Action'. This document is not expected to be another Paris Declaration. Rather, it will focus on a limited number of actions of high political interest relating to the implementation of the Paris Declaration. The statement will aim at securing high-level buy-in, and could include new indicators to monitor the implementation of the Paris Declaration.

Note: The full text of the Paris Declaration is available at www.oecd.org/dataoecd/11/41/34428351.pdf. The EU Code of Conduct on Complementarity and the Division of Labour in Development Policy is available at http://register.consilium.europa.eu/pdf/en/07/st09/st09558.en07.pdf For more on the high-level forum in Accra, see http://www.accrahlf.net

previous year. This relative drop in the contribution of aid to the government budget is mainly due to debt relief, and rising copper prices (Oxford Policy Management 2008). It should be noted, however, that not all aid is captured in the budget. For example, funds for HIV/AIDS provided through the US President's Emergency Plan for AIDS Relief fall outside of the budget, but there is nevertheless a positive trend of a state budget that is gradually becoming less dependent on aid.

Aid to Zambia in recent years

The PRSP introduced an entirely new system of aid programming. Indeed, Zambia's first PRSP was held up as a model in which government officials, civil society and donors under the national government's leadership effected a shift towards inclusion of stakeholders in the domestic policymaking process. Led by the Ministry of Finance and Planning the drafting of the interim poverty reduction strategy, the PRSP and the Fifth National Development Plan (FNDP) was based on similar principles: 'capacity building of state and civil society actors to understand new priorities, provision of opportunities to contribute insight and experience, and direct involvement of stakeholders in decision-making forums' (Fraser 2005:26).

It is interesting to note the involvement of civil society in these processes. According to Bwalya *et al*. (2004), 90 professional and internationally oriented organisations joined the new umbrella organisation, Civil Society for Poverty Reduction (CSPR), which was active in these processes. The CSPR brokered non-governmental organisation (NGO) participation in the official PSRP process and established a shadow process, holding its own hearings and releasing a shadow PRSP. The consensus-building effort was highly successful in bringing previously hostile actors closer to one another (*ibid*.).

The inclusion of donors in the process was deliberate and understood by many as a pre-emptive move against possible criticisms from the donor side after the PRSP had been finalised (*ibid.*: 20). Originally, the PRSP was meant to serve as a qualifying instrument to access resources under the HIPC initiative. As such, it was subject to final approval and acceptance by the boards of the World Bank and the IMF. Zambian politicians, both councillors and members of parliament, participated as representatives of their respective constituencies in the nationwide consultations held in the lead-up to preparation of both the PRSP and the FNDP. However, neither document was subjected to parliamentary approval. Once they had been approved, actual disbursements of resources to the various programmes did have to be approved by the parliament, during the annual budgeting process.

Civil society representatives and academics have raised the criticism that political parties were left out of the process, in their view weakening the authority of politicians and the parliament. However, this criticism reflects the perspective that only when one participates at the approval stage can they really be viewed as a participant. The process was so designed in an attempt to replace the confrontation, argument, mobilisation and voting often inherent in democracy with a form of 'national conversation' (Fraser 2005).

With the FNDP, Zambia reverted back to a state-planning regime. The process for designing the FNDP was much more protracted than that in which the PRSP was drafted. Key committees were established at lower levels and detailed district plans were brought on board. The FNDP approval process was also more extended and, in some respects, more inclusive than that for the PRSP.

Responding to the Zambian government's efforts to take the lead in the domestic development process after many years of having to respond to external conditionalities, and also in response to the Declaration on Harmonisation formulated at the first high-level meeting on aid effectiveness, in Rome in 2003, seven donors (Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom) agreed to join together in support of harmonisation and alignment, forming the Harmonisation in Practice (HIP) initiative. In early 2003, the group commissioned a study on harmonisation of donor practices in Zambia. Following that study and discussions with government, the group signed a memorandum of understanding with the Zambian Ministry of Finance and National Planning agreeing to harmonise their programmes, to increase the share of budget support they provided and to coordinate policy inputs (GRZ 2004c). 'Sector advisory groups' were established made up of various stakeholders, including the donors. Also, a lead donor was assigned which could at times speak for the others, with the aim of lowering transaction costs for both donors and the Zambian government. Annex 1 presents a recent overview of the actual and planned division of labour among the cooperation partners.

The HIP initiative was expanded in 2004 to create the Wider Harmonisation in Practice (WHIP) group, following the decision of all the remaining major donors to the country to join the initiative. However, new actors, such as China, and the new phenomenon of 'vertical funds' – for which donors set parallel standards of resource management and accountability -have remained outside of the process, weakening it considerably.

Zambia's joint assistance strategy goes as far as to mention the provision of non-concessional funding by cooperation partners that are not signatories to the strategy, including non-DAC donors, as a key risk to the debt sustainability of the country.

More generally, as evidenced by the decreasing proportion of ODA in the government budget, it should be noted that China has heavily manifested itself in Zambia by means of investments and trade. Many see this as a positive development, giving Zambia increased room for manoeuvre, in both political and economic terms. However it has also been criticised in Zambian public and political debate. For example, in the recent elections opposition candidate Michael Sata criticised Chinese involvement in the Zambian economy, and won support from the electoral authorities to avoid using Chinese computers in the vote count, in view of Chinese ties to the incumbent government (Lewis n.d.).

Zambian aid policy and strategy

In the process of implementing policies increasingly led by Zambia and less influenced by aid conditionalities, it became clear that a specific national policy and strategy was needed for dealing with partners in the international community. In this regard, both the Zambian government and the cooperation partners have recognised the major challenges to overcome in their respective camps for beneficial cooperation. The Zambian government developed its Aid Policy and Strategy with the main objective to ensure that it maintains a clear, systematic and coordinated approach for soliciting and managing aid (GRZ 2005b). This policy document is the product of a series of consultations both within the government and between the government and its many stakeholders, including the cooperation partners. The consultative process ended with a national conference on the draft Aid Policy and Strategy in September 2005. That document was finally approved by the Cabinet in May 2007.

The Aid Policy and Strategy emphasises Zambian sovereignty, including a threat to refuse aid that does not conform to the country's preferred priorities and modalities, and it suggests a number of strategies to recover sovereignty. Though the content of the document is mainly administrative, it could if pursued nonetheless have significant impact on Zambia's aid relationships, extending up to the political level. A strong focus is on problems within the Zambian bureaucracy, and it sets out commitments to reorient the state administration – mainly the financial system – to meet the prerequisites for improving the efficiency and effectiveness of development cooperation. It offers seven guiding principles for aid policy, which constitute a frame of reference in interactions between the government and its cooperation partners:

- country ownership;
- promotion of justice and equity with in the country and internationally;
- enhancement of true partnership through dialogue, coordination, harmonisation, alignment and information-sharing;
- simplification of processes and procedures;
- grants as the preferred form of external assistance;
- clear capacity-building components in all external assistance;
- promotion of strong partnerships with non-state actors (GRZ 2005b).

Based on these principles, the document makes detailed commitments for strengthening the government's planning, budgeting and financial management systems in a manner that will maximize the country's resource absorptive capacity and optimally utilize both domestic and externally derived resources. It declares that all development efforts, be they funded domestically or externally, should be treated in the same manner and all be based on the priorities set by the national development planning and budgeting process. Alignment to the Zambian system is repeatedly stressed, and if the system is weak it is to be strengthened not bypassed. Of special interest is the section that takes up a strategy for technical assistance. It makes very clear that such assistance must be demand-driven and integrated into the government's comprehensive national capacity-building strategies.

By way of conclusion, the document describes three challenges for the implementation of the Aid Policy and Strategy, putting a finger on some of the major obstacles ahead. First is the political will to assume local ownership and leadership of aid management. This point cannot be emphasised enough and is to be addressed by raising governmental awareness that political will must be accompanied by appointing 'talented, dedicated, patient, and persistent professionals whose level of commitment to the mission of local ownership of the country's Development Agenda is unwavering' (GRZ 2005b: 33). The second challenge is dialogue, coordination and information-sharing: 'For Zambia's cooperating partners to provide increased support and doing so while surrendering leadership to the country, there is need to develop and nurture constructive and mutually beneficial dialogue that is founded on the spirit of genuine partnership' (*ibid.*: 34). The third challenge is capacity building and capacity retention, which are to be central to government efforts to improve the management of aid resources.

Joint assistance strategy

The Joint Assistance Strategy for Zambia (JASZ) cements the new relations between the cooperation partners and Zambian government. It is a unique document in the history of aid cooperation, representing the cooperation partners' joint response to Zambia's Vision 2030, its FNDP and its Aid Policy and Strategy, which together constitute the national framework for reducing poverty and promoting sustainable development. It also relates to the Paris Declaration in emphasising local ownership of the development process and enhancing aid effectiveness and mutual accountability. The idea is that this document will substitute for all of the separate strategies of the cooperation partners.

The JASZ states seven key objectives:

1. establish a shared vision and guiding principles for the cooperation partners' support to the FNDP objectives, which is the first stage in meeting the Vision 2030;
2. articulate priorities for suport during the plan period;
3. replace or better align the cooperation partners' country strategies (including resource allocations) with national priorities, targets and systems;
4. improve aid delivery by achieving a more effective division of labour and allocation of cooperation resources;

Box 2 EU aid to Zambia, 2008–13

The financial resources programmed for Zambia under the 10th European Development Fund are detailed in the two columns below. In accordance with Article 3.2(b), Annex IV, of the Cotonou Partnership Agreement, this amount may if necessary be increased in light of operational or *ad hoc* reviews.

'A' envelope	'B' envelope
The A envelope covers long-term programmable development operations under the country strategy. *Focal sector 1: Regional integration (transport infrastructure)* €117 million, 24.6% of total *Focal sector 2: Health* €59 million, 12.4% of total *General budget support* €232 million, 48.9% of total *Other programmes* €67 million, 14.1% of total: • food security and agriculture diversification (€30 million) • governance (€25 million) • support to initiatives of non-state actors (€5.5 million) • Economic Partnership Agreement and trade-related capacity-building support (€2 million) • technical cooperation facility (€3 million) • other (€1.5 million) *Total: €475 million*	The B envelope covers unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. *Total: €14.8 million*

Source: http://ec.europa.eu/development/icenter/repository/scanned_zm_csp10_en.pdf

5 deepen the results focus of assistance programmes;
6 simplify aid management and improve aid predictability;
7 reduce transaction costs for the Zambian government (JASZ 2007).

The signatories to the JASZ are 12 bilateral donors, the European Commission, the United Nations, the World Bank and the African Development Bank. Five of the bilateral donors (Germany, Ireland, Norway, Sweden and the United Kingdom) will replace their current strategy for development cooperation with Zambia with the JASZ. The others will base their ongoing county strategies on the JASZ, which should lead to overall diminished transaction costs in terms of government consultations. For example, the European Commission's country strategy paper for 2008–13 aligns well to the JASZ principles (Box 2).

The cooperation partners recognise that a fully subscribed JASZ would provide a unique opportunity to develop a joint analytical and programmatic response to the FNDP. However, they also underline that the JASZ does not constitute an international treaty or other such legally binding agreement.

The JASZ begins with a joint assessment of the current political, economic and social situation of Zambia, which in itself is an interesting feature. Thereafter, the FNDP is described in brief, including its theme and strategic focus, priorities by sector, monitoring and evaluation system and financing. This is followed by the cooperation partners' joint response to the FNDP, outlining the response in terms of main challenges and priorities by sector, projected financial support and a risk assessment.

The two last chapters deal with the aid relationship, firstly presenting the principles and commitments on how the cooperation partners will work with the Zambian government and civil society and secondly presenting the steps that the cooperation partners are expected to take towards attainment of the results outlined in the FNDP and the Paris Declaration.

In accordance with the Zambian Aid Policy and Strategy, the JASZ gives major responsibilities to the Government of Zambia, positioning it to take on ownership and aligning external assistance with well-established and functioning Zambian systems. It also requests the cooperation partners, in turn, to collaborate to improve funding predictability and alignment with Zambia's own financial management systems. Here, it re-emphasises many of the points made in the Aid Policy and Strategy:

- proposing a division of labour between cooperation partners to make full use of their respective comparative advantages at the sector level by delegating, where appropriate, execution authority to a lead agency or organisation;
- requesting cooperation partners to base their overall support on Zambia's national development strategies and on periodic reviews of progress in implementing these strategies;
- asking cooperation partners to use Zambia's national systems and procedures to the maximum extent possible and where use is not feasible to establish additional safeguards and measures in ways that strengthen rather than undermine existing systems and procedures;
- requesting cooperation partners to commit themselves to progressively increasingly their use of the preferred modalities in their assistance to the public sector;
- inviting cooperation partners to support capacity development within the public sector and among non-state actors;
- asking cooperation partners to work together to reduce the number of duplicative missions to the field and diagnostic reviews.

One issue that has been extensively discussed is whether transaction costs will increase or decrease under the new system. Transaction costs during the first couple of years could actually increase as a result of the required consultations and reorientation of systems to align them to new ways of doing things. The expectation is nevertheless that progressively the reduction of duplicated efforts, in the medium to long run, will reduce transaction costs, especially those related to planning, accounting, auditing and procurement, since common modalities will be used. In the final analysis, if and when donors move to general budget support, they would do away with most of the transaction costs related to aid management. This relates to costs borne by both donors and the national government. However, it is noteworthy that Zambia, while expressing a preference for general budget support, has made accommodations for other modalities, particularly sector assistance programmes. Questions have been raised regarding project support. Even at this level, there is recognition that such support is in need of reform to take into account country priorities as expressed in national development plans.

Dialogue and coordination between aid stakeholders

Coordination between donors and the Zambian government has gradually expanded and improved during the past few years, according to interviews conducted in the course of this study. Donors are harmonising positions on most of the issues they raise with the government. They have also agreed on lead agencies in all areas, which has led to better prepared coordination meetings with fewer donors present. This has enabled the Zambian government, in turn, to take leadership, with most coordination meetings now being held in government offices. The number of coordination meetings are still many, however, both those for technical purposes and those related to policy dialogue. The frequency of meetings varies according to the specific circumstances in each area of cooperation. On technical matters meetings are frequent when necessary, while meetings on policy follow more formalised official time schedules.

In the context of the Poverty Reduction Budget Support (PRBS) process, the Government of Zambia and the nine participating cooperation partners agreed to undertake a learning assessment as part of a joint annual review. The assessment aimed at formulating practical recommendations for strengthening the effectiveness and efficiency of PRBS-supported initiatives. The report, published in July 2007, provides an in-depth look at the quality of aid relations, containing several interesting points in relation to the quality and process of dialogue during the joint review (Gerster and Chikwekwe 2007).

First, it notes that the Zambian government was well-represented at the technical level but less so at the political level. The Secretary to the Treasury, who is the highest civil servant in the Ministry of Finance and National Planning, heads the PRBS as well as the joint annual review. On a number of occasions, however, it emerged that certain issues (e.g. agricultural subsidies) had to be dealt with at the political level, and that it would therefore be more appropriate if the process were led by the Minister of Finance and National Planning.

Second, the participation of civil society and the private sector in the PRBS process has improved but is still considered weak. It was noted that invitations for meetings were sent only a few days in advance, and not all documents were available beforehand. Members of parliament were entirely absent from the joint review.

Box 3 Key facts on development assistance to Zambia

DAC and multilateral donors involved in implementation of the joint assistance strategy Canada, Denmark, Finland, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden, the United Kingdom, the European Commission, the United Nations family (14 UN agencies present), the US Agency for International Development , the World Bank and recently the African Development Bank. The IMF participates informally but cannot sign the JASZ for legal reasons. (www.aidharmonization.org).

Multilateral versus bilateral assistance
Multilateral donors account for abut 45 per cent of Zambian development assistance and bilateral donors 55 per cent (GRZ 2005b).

Aid received
- Since its independence in 1964, Zambia has been a large recipient of assistance, with an annual average of US $488.7 million (1997–2006) in net official development assistance (International Development Statistics Online).
- In 2007, foreign development assistance disbursed was $503.6 million, of which 46 per cent was in the form of project support, 25 per cent sector support and 29 per cent budget support, according to the 2008 government budget speech.
- Foreign assistance contributed an average 43 per cent of Zambia's annual budget during 2000–05, having peaked at 53 per cent in 2001 (GTZ 2005b).

Annex 2 presents statistics on donor involvement in the different sectors collected for the donor matrix in the European Commission's recently released country strategy paper for Zambia (EC 2008).

Third, independent of the PRBS process, sector advisory groups offer an excellent and inclusive avenue for stakeholders to engage in dialogue on aid effectiveness. However, many of these groups are institutionally weak and meet only on government invitation. Furthermore, the meetings do not result in recommendations but are used mainly to share information. The government's decision in 2007 to decentralise these advisory groups to the district and provincial levels to position them to advise the planning units at those levels was seen as a positive step. Despite these more critical points, the report emphasises that the Zambian context for cooperation is characterised by an 'advanced level of harmonisation and coordination', with the PRBS being part of that setting.

Challenges ahead

Let us first and foremost make clear that the Paris Agenda and its implementation in Zambia is more an administrative reform than a shifting of the overall world order in favour of the poor countries in the South. However, these reforms have not been without considerable implications in terms of the relations and relationships between governments and their cooperation partners. The ideas expressed in the Paris Declaration are in themselves nothing new. The declaration's ingredients have been discussed since the 1970s and agreed upon a number of times (e.g. in the country programming thrust and new economic world order of the 1970s and in the emphasis on ownership in the late 1980s).

The novelty is that a number of recipient countries, including Zambia, were active in developing the declaration's underlying precepts and the fact that it opens space for partner countries to grab the initiative in the development dialogue. While offering recipient countries an opportunity to take the initiative, it also requires of them a proactive stance. It will surely not bring about automatic improvements. Yet if implemented systematically, the administrative reforms might in time take on a political character, strengthening aid recipients in their relationships with the international community.

From the viewpoint of donors, the major challenges are two: results-oriented management and mutual accountability. Strong progress is needed in both of these areas if the Paris Agenda, JASZ and the related Zambian policy documents are to be effectively implemented. Results-oriented management, in particular, is high on the agenda of the group supervising implementation of the Paris Declaration as it prepares for the follow-up high-level forum in Accra in autumn 2008.

Zambia has no doubt come far on its way to taking hold of the opportunity that these new developments offer. The documents prepared so far are well formulated, saying the right things and making the right analyses of the present situation and how to get beyond the hurdles now in the way of development. Also, the consultation machinery has been developed in a way that would have been inconceivable only a few years ago. However, as always, good intentions and well-formulated documents are only the beginning. The real test will come in the implementation, and here the key issue is the political will to support following through on the stated intentions. This is expressed well in the Aid Policy and Strategy, but it relates not only to Zambia but also to the international community. Local ownership and alignment with local systems are easily said but difficult to uphold in day-to-day practice – as has been revealed by many evaluations and studies from more than 50 years of development cooperation.

For Zambia, capacity remains a foremost issue. Ownership, harmonisation and alignment plus the emergence of new aid modalities, budget support in particular, heighten the importance of effective institutions and regulations in recipient countries. The staff responsible for implementing and coordinating the budget, including external resources, accounting and reporting, must be sufficiently competent to comply with all of the new obligations and live up to expectations. This has to be clearly expressed and involve all of the parties in the process. The rules for technical assistance developed in the 2005 Aid Policy and Strategy are of great importance in this respect. As aid comes into alignment with Zambia's internal systems these rules and regulations will become a concern not only of external actors, but equally of the country's own citizens.

Thus, to capture the opportunities provided by the introduction of the new Aid Policy and Strategy, priority must be given to ongoing capacity development, to improve accountability and transparency and limit opportunities for corruption. To ensure that these developments really will benefit the citizens of the country, and not just please the donor community, the underlying policies must be rooted in a democratic and participatory national climate. Consultation processes need to move beyond technical meetings of civil servants to incorporate the political class. Parliament has a crucial role, which so far has been underestimated, in implementation of the Aid Policy and Strategy. Furthermore, the political will to adhere firmly to national objectives and the priorities presented and approved in democratic elections is essential.

International trends and fads come and go. This is particularly true with regard to development cooperation policies. A cynic might stress this fact and view the Paris Declaration as another of these fads, which will soon make way for a new brilliant idea. In fact, research that takes a longer term perspective confirms that the issue of ownership arises cyclically in development discourse (e.g. Wohlgemuth 1997). But a development optimist would urge making the most of the present momentum. The new aid architecture offers an opportunity to seize, to start the process of Zambia taking the driver's seat in its own development. Further reform of the aid system is no doubt necessary, and the international community must not stop with the Paris Declaration, which after all relates only to the modalities of aid. Genuine partnerships for effective development are needed to match these advances. Though the five key principles of the Paris Declaration may appear primarily a technical endeavour, transforming them into reality could not be more political.

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Annex 1 Division of labour in Zambia, situation in June 2006

Sector from NDP	Lead Ministry	China (proposed)	ADB	BADEA	EC (excl. EIB)	IMF	KUWAIT Fund	OPEC	UN Systems	WB	Canada	Denmark	Finland	France	Germany	Ireland	Japan	Netherlands	Norway	Sweden	UK	USA	Total lead/active
Agriculture	MACO		A		A				A	L			A				A	P	B	L		L	8
Decentralization	MLGH								A	L		B			L	A	L	B			A	B	6
Education	MoE		B	B	A				A	A	P	A	P			L	A	L	A		A	A	10
Energy	MEWD				B				B	L							A		A	A			4
Gender	CO-GIDD								L									A	A			A	4
Governance	MOJ				A				L	A		A	B		A	A		A	L	P	L	A	10
Health	MOH				A				L	A	A	P				P	A	A		L	L	A	9
Housing	MLGH, MOL									A										P		A	2
HIV/Aids	MOH								L	A	B					B	A	A	A		L	L	7
Macro-economics	MOFNP				L	A			B	L		B	A		A	B		A	A	A	L	B	9
Private Sector Dev.	CO-DSC/MCTI				L				A	L	B		A			B	A	L		P	B	A	7
Social Protection	MCDSS		A						A	B					L						L		4
Science and Tech.	MTEVT									P													0
Tourism	MTENR									L							A		L			A	4
Water (WR and WSS)	MEWD/MLGH		A		B				A	A		L			L	A	A	B					7
Transport	MWS/MCT		A		L		A	A		A		A			P		A		B				7
Environment	MTENR								A	A		B	L						A				4
Total lead responsibilities					3				4	6		1	1		2	1	1	2	2	2	5	2	

XXX Non-signature to the WHIP MoU; L Lead CP; A Active CP; B Background CP; P Phasing out

Source: GRZ (2005a).

Annex 2 Zambia donor matrix

MATRIX OF DONOR PROJECT SUPPORT FOR THE PERIOD 2006-2010

(USD millions)

DONOR / SECTOR	Agriculture	Education	Energy	Environmental Protection & Natural Resources	Governance	Health	HIV/AIDS	Local Govt & Decentralisation	Social Protection	Transport Roads/Air	Water & Sanitation	Others	TOTAL BY DONOR
GRANTS													
DENMARK	0.00	3.20	0.00	5.10	30.30	4.10	0.00	0.00	0.00	56.2	43.4	15.7	158.00
DFID	0.0	0.0	0.0	0.0	9.2	13.1	25.6	0.0	20.4	0.0	0.0	51.4	119.70
NORWAY	0.0	0.0	0.0	29.7	5.8	0.0	2.3	0.0	0.0	0.0	0.0	4.8	42.60
NETHERLANDS	0.0	0.0	0.0	0.0	1.3	3.7	0.0	0.0	0.0	0.0	0.0	10.7	15.70
SWEDEN	39.5	0.0	5.4	0.0	26.2	3.6	0.0	0.0	0.0	0.0	0.0	38.7	113.40
GERMANY	0.0	0.0	0.0	0.0	33.2	0.0	6.5	16.6	0.0	9.6	52.1	4	121.98
FINLAND	16.9	2.1	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.3	40.00
E.U.	21.0	1.9	0.0	0.0	6.0	7.6	0.0	0.0	0.0	18.5	0.0	81.73	136.73
UNITED NATIONS	10.6	17.8	0.0	20.7	40.7	70.2	1.7	0.0	46.7	0.0	17.4	191.2	417.00
JAPAN	17.3	23.8	0.0	0.0	3.0	20.8	0.0	0.0	0.0	1.2	12.8	16.95	95.89
FRANCE	0.0	0.2	0.0	3.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0	3.80
ITALY	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	2.5	0.0	0.0	0	5.00
IRELAND	0.0	8.7	0.0	0.0	16.8	6.1	24.6	0.0	0.0	0.0	24.8	0	81.00
USAID	29.8	22.0	0.0	6.1	12.6	58.6	145.5	0.0	0.0	0.0	0.0	7	281.60
WORLD BANK	0.0	0.0	0.0	12.6	0.0	0.0	27.0	0.0	0.0	0.0	0.0	2.1	41.70
ADB	0.4	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.70
OPEC	0.0	0.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0	0.0	0	0	3.00
SUB-TOTAL GRANT BY SECTOR	135.5	79.7	5.4	78.1	185.8	187.8	238.7	16.6	69.6	85.5	150.5	444.6	1677.80
LOANS													
AFRICAN DEV. BANK	38.3	4.7	2.0	0.0	8.9	5.8	0.0	0.0	0.0	0.0	61.5	0.0	121.22
WORLD BANK	40.0	13.2	30.0	30.3	0.0	20.0	27.0	20.0	0.0	58.0	30.0	47.5	316.00
BADEA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.5	12.0	0.0	26.50
KUWAIT FUNDS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.0	0.0	0.0	22.00
OPEC FUNDS	0.0	2.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0	20.0	4.5	0.0	29.50
EIB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.4	11.40
SUB-TOTAL LOANS BY SECTOR	78.3	19.9	32.0	30.3	8.9	25.8	30.0	20.0	0.0	114.5	108.0	58.9	526.62
GRAND TOTAL BY SECTOR	213.77	99.64	37.42	108.43	194.74	213.54	268.7	36.6	69.6	199.95	258.55	503.48	2204.42

MATRIX OF DONOR PROGRAMME SUPPORT FOR THE PERIOD 2006-2010

BUDGET SUPPORT						
DONOR	2006	2007	2008	2009	2010	Total by donor
Denmark	0.0	0.0	0.0	0.0	0.0	0.0
Norway	7.3	11.7	10.0	10.0	10.0	49.0
Netherlands	6.9	10.2	10.8	10.8	10.8	49.5
UK	41.1	47.2	46.3	46.3	46.3	227.0
Finland	0.0	6.0	6.0	6.0	6.0	24.0
Sweden	6.0	13.9	12.9	12.9	12.9	58.6
Germany	0.0	6.4	6.0	6.0	6.0	24.4
EU - o/w	66.9	72.6	49.1	71.8	69.5	329.9
General Budget Support	41.9	32.7	29.75	30.8	31.8	166.9
Sector BS Roads	25.0	25.5	10.1	28.6	26.8	115.9
FASector BS PEM	0.0	6.5	5.4	3.6	2.0	17.5
Sector BS Health	0.0	7.9	3.9	8.9	8.9	29.6
TOTAL BUDGET SUPPORT	128.2	167.9	141.1	163.8	161.4	762.4

Programme loans for an amount of USD 10 million (WB) and USD 30 million (ADB) are projected in 2007

EDUCATION SWAP						
DONOR	2006	2007	2008	2009	2010	Total by donor
Denmark	3.0	8.0	5.0	5.0	5.0	26.0
DfID	5.0	1.7	1.8	1.8	1.8	12.1
Norway	15.9	14.4	15.0	15.0	15.0	75.3
Netherlands	13.0	21.4	23.8	23.8	23.8	105.8
Sweden	0.0	0.0	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.0	0.0	0.0	0.0
Finland	4.8	4.7	0.0	0.0	0.0	9.5
EU	2.9	2.9	0.0	0.0	0.0	5.8
USAID	1.4	0.0	0.0	0.0	0.0	1.4
Ireland	5.3	0.0	0.0	0.0	0.0	5.3
UNICEF	3.0	5.0	11.0	10.0	6.0	35.0
TOTAL EDUCATION SWAP	54.3	58.1	56.6	55.6	51.6	276.2

HEALTH SWAP						
DONOR	2006	2007	2008	2009	2010	Total by donor
Denmark	0.0	0.0	0.0	0.0	0.0	0.0
DfID	0.5	0.0	0.0	0.0	0.0	0.5
Norway	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	14.9	15.5	15.5	15.5	15.5	76.8
Sweden	12.9	12.9	15.5	15.5	15.5	72.3
Germany	0.0	0.0	0.0	0.0	0.0	0.0
Finland	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	8.9	8.9	17.9
USAID	0.0	0.0	0.0	0.0	0.0	0.0
JAPAN	0.0	0.0	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0	0.0	0.0
Italy	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	3.3	0.0	0.0	0.0	0.0	3.3
UNICEF	0.0	0.0	0.0	0.0	0.0	0.0
ADB	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL HEALTH SWAP	31.59	28.37	30.97	39.90	39.90	170.7

GRAND-TOTAL	214.08	254.41	228.65	259.25	252.90	1209.29

Source: EC (2008).

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