Ex post evaluation – Zambia

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Sector: General budget support (CRS code 51010)
Project: Joint support for Zambian poverty reduction strategy (PRBS) II (200866780*) / PRBS III (201165828**) and the funding of a complementary measure (BMZ project number 201170091)
Implementing agency: Ministry of Finance, Zambia

Ex post evaluation report: 2018

All figures in EUR million	PRBS II (Planned)	PRBS II (Actual)	PRBS III (Planned)	PRBS III (Actual)	CM (Planned)	CM (Actual)
Investment costs (total)***	-/-	-/-	-/-	-/-	-/-	-/-
Counterpart contribution***	-/-	-/-	-/-	-/-	-/-	-/-
Funding	30.00	27.50	21.00	18.50	7.00	7.00
of which BMZ budget funds	30.00	27.50	21.00	18.50	7.00	7.00

*) Random sample 2015 **) Random sample 2018
***) not applicable for budget support

Summary: The joint programmes to support the Zambian poverty reduction strategy were designed to help the Zambian government in its fight against poverty by implementing the National Development Plans; the programmes were co-financed with the Poverty Reduction Budget Support (PRBS). In addition to Germany, the donors included the World Bank, the EU, the African Development Bank, the Netherlands, Norway, the United Kingdom and Finland.

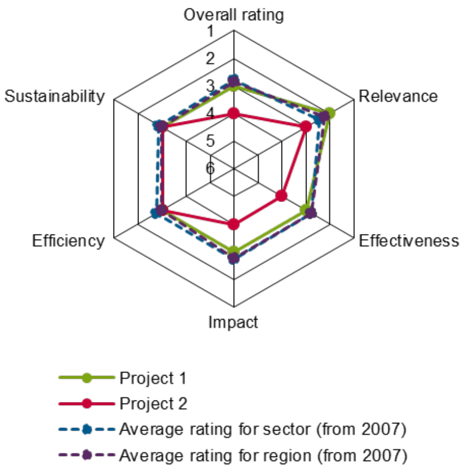
Objectives: The overarching development objective (impact) of the DC programmes for the joint support of the Zambian poverty reduction strategy was to support the Zambian government in implementing the Fifth and Sixth National Development Plans as well as the revised Sixth National Development Plan (FNDP, SNDP, R-SNDP), measured against the national monitoring of implementation. At the outcome level, the DC programmes were supposed to make an important contribution to the efficient, effective, pro-poor and sustainable implementation of national development plans and corresponding reform programmes, and help to improve the general conditions in Zambia as well as strengthen institutional structures with a special focus on public finance.

Target group: The target group of PRBS II and PRBS III was the entire population of Zambia, especially poor sections of the population.

Overall rating: PRBS II: 3 / PRBS III: 4

Rationale: The achievement of the targets fell almost every year from the beginning of the general budget support. The target achievement at the end was just 30.8%. Even if the Zambian government slightly improved access to social services such as education and health care, no influence could be determined on the proportion of poor people measured against the national poverty line and on fair distribution. The general economic development that also helped Zambia to develop into a middle-income country was largely determined by other factors, such as the price of copper and access to the capital market.

Highlights: As demonstrated by evaluations of previous budget support in Zambia, the cooperation worked well where the Zambian government showed “genuine ownership”. Governance reforms cannot be “bought” by budget support.



Rating according to DAC criteria

Overall rating: 3 (PRBS II), 4 (PRBS III)

Ratings:

Relevance	2	3
Effectiveness	3	4
Efficiency	3	3
Impact	3	4
Sustainability	3	3

General conditions and classification of the project

This evaluation comprises two phases of general budget support in Zambia (PRBS II and PRBS III, BMZ project numbers 2008 66 780 / 2011 65 828) amounting to EUR 46 million, and the financing of a complementary measure (BMZ project number 2011 70 091) totalling EUR 7 million.

The total sum of EUR 27.5 million was disbursed in PRBS II across four tranches. In PRBS III there were three tranches amounting to EUR 18.5 million in total, disbursed in degressive amounts. The budget support programmes span over the period from November 2009 to February 2015. To examine the complementary measure, sustainability and the achievement of overarching developmental impacts, the evaluation also included developments to date.

Relevance

Evaluating the relevance of a budget support project poses a particular challenge since it is a method of high political relevance with an extremely complex results chain. Budget support is an instrument designed to support the reform efforts of a partner together with other donors. Therefore, donor funds are pooled and transferred to the national budget. The disbursements and targets are geared to implement the partner government's reform goals, which are negotiated through policy dialogue, recorded in a joint matrix, and the implementation is reviewed annually. This generates a high degree of ownership and alignment. The agreed objectives include both sectoral goals to reduce poverty (poverty alleviation objective) as well as reform goals with an eye on governance (governance objective). In general, the objectives are based on official partner strategies for development and alleviating poverty.

Formally speaking, Zambia was a suitable candidate for general budget support. Zambia fulfilled the entry criteria of the BMZ budget support concept as well as the requirements according to KfW's fiduciary risk analysis. A large group of donors was involved in the general budget support. In addition to Germany, they included the World Bank, the EU, the African Development Bank, the Netherlands, Norway, the United Kingdom and Finland. In 2005, the budget support donors signed a *Memorandum of Understanding* (MoU) with the Zambian government, which can be seen as a sign of the Zambian government's ownership. The objective of the PRBS II and PRBS III programmes was to support the Fifth National Development Plan (FNDP, 2006–2010), the Sixth National Development Plan (SNDP, 2011–2015), and the revised SNDP (R-SNDP). In this respect, the projects to be evaluated were formally aligned with a partner strategy. The target group of the FNDP and the SNDP was the entire population of Zambia, especially poor sections of the population. The R-SNDP (2013–16) in particular also focused on the rural population with its high share of poverty, which was to be supported by infrastructure investments and employment programmes for more inclusive growth as well as by social programmes. These objectives were perfectly aligned with the development policy priorities of the donors. There was close cooperation with TC, which was designed to strengthen governance through bilateral projects. Governance and macroeconomic issues played a crucial role in reporting on budget support programmes as well as in PRBS reviews and donor group reports. The governance objective seems to have been more important than the poverty alleviation objective.

The share of general budget support in the overall budget steadily decreased. While budget support payments still accounted for about 7.8% of the annual budget in 2009, this figure was only 0.5% in 2014. It should not be inferred that the decreasing share of budget support in the overall budget is necessarily negative as this can also be a sign of the recipient country's emancipation and economic development. This was observed in the case of Zambia, but at the same time the reduction in the share was also attributable to lower disbursements by donors, which were caused, among other things, by the low target achievement (see section on Effectiveness).

The relevance of budget support tends to be rated worse in the course of the budget support years, especially since the policy dialogue resulted less and less in a common interpretation of the results and in agreement on common goals. Budget support became irrelevant by 2013 at the latest, and was consequently discontinued or reprogrammed at the end of 2014.

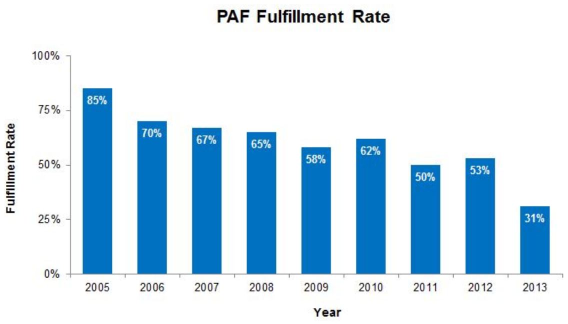
Relevance rating: PRBS II: 2 / PRBS III: 3

Effectiveness

At the outcome level, budget support was to make an important contribution to the efficient, effective, pro-poor and sustainable implementation of national development plans and corresponding reform programmes, and help to improve the general conditions in Zambia as well as strengthen institutional structures with a special focus on public finance.

The effectiveness of budget support (and thus also of the German contribution under PRBS II, PRBS III and the complementary measure) is measured by the degree to which the PAF indicator targets were achieved. It is not possible to attribute the German contribution and the budget support funds directly to the PAF target achievement, as the concept of budget support is based on the assumption that budget support donors only make a coordinated financial contribution to the development objectives supported by the partner government. The PAF indicators represent the framework agreed between the donors and the government of Zambia for measuring progress.

After the PAF matrix was overloaded with a large number of indicators at the beginning of the general budget support, which made policy dialogue and donor harmonisation more difficult, the matrix was consolidated to 14 indicators in 2011. The matrix as a whole reflected the equal importance of governance reforms and achieving (sectoral) poverty alleviation goals. The 14 PAF indicators were divided into six governance indicators (macroeconomics, public finance and administrative reform), four indicators each for economic sectors (infrastructure, agriculture, energy, etc.) and four indicators for social sectors (education, health, HIV/AIDS, social protection and the environment).

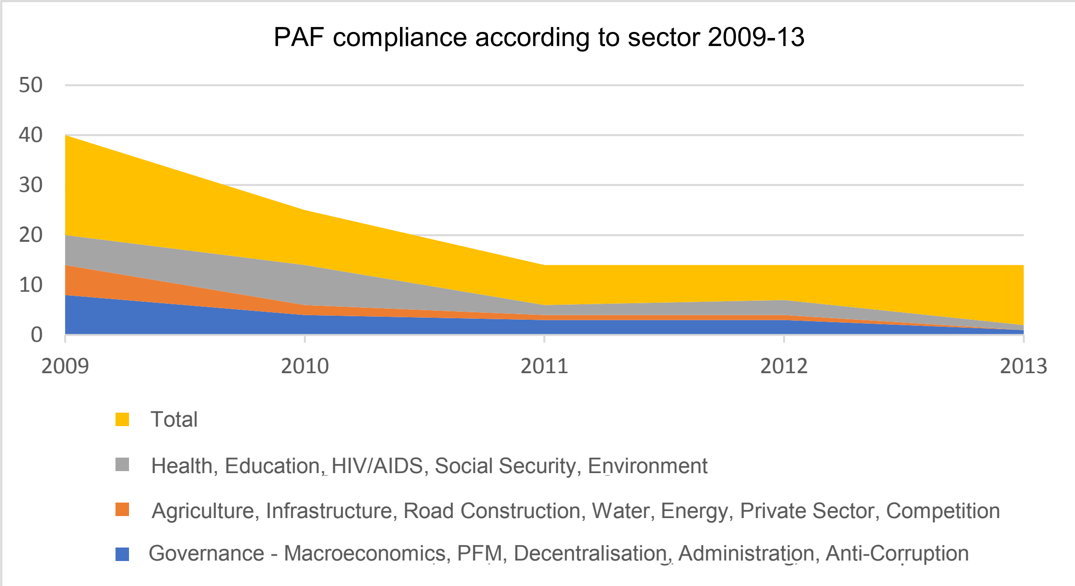


The target achievement of the PAF indicators steadily declined. From the beginning of the general budget support, the achievement of the targets fell in almost every year (see Figure 1). During the preceding PRBS I period, the target achievement level was still relatively constant, albeit decreasing (from 85% in 2005 to 65.3% in 2008), but particularly in the last three years of the budget support programme the degree of target achievement declined to 50%, and to 30.8% in 2013. Only two of the 14 PAF indicators were achieved in 2013 (in the areas of "own revenues" and "health"), and four were partially met. The *review* for 2014 was not completed and general budget support was terminated. This is a particularly devastating result for PRBS III.

Previous evaluations of general budget support in Zambia demonstrated that cooperation worked particularly well where the Zambian government showed "genuine ownership". This emphasises that ownership and donor interest are not always in harmony – even when joint agreements have been reached – and that goals and priorities always have to be renegotiated.

The fulfilment rate of the PAF indicators did not differ much between the indicator groups clustered by sector – governance, economy, social and environment. Individual indicators can be highlighted though.

The objectives for health and water supply as well as for own revenues were mostly achieved. The target achievement was particularly poor in agriculture, road construction and public finance reforms.



The sectors of education and health care, which are important for alleviating poverty, were only represented by one indicator each in the PAF matrix. Due to the positive impact of the budget support programmes on additional expenditure in the social sectors, tangible progress was made in these sectors. For example, the share of girls completing Year 9 in school increased. Measured against the R-SNDP objectives, the results were nevertheless disappointing. This was mainly due to unrealistic indicators for the R-SNDP implementation.

Even though the social sectors were largely “protected”, and despite additional revenues, fiscal space was increasingly narrowed, in particular by high expenditure on state-subsidised maize purchases, fuel subsidies, public salaries and excessive debt servicing due to bonds issued on the capital market.

The improvement of the public finance system was an explicit objective of and a basic prerequisite for general budget support (in line with the entry criteria for German DC of the Federal Ministry for Economic Cooperation and Development (BMZ) and the assessment of fiduciary risks by KfW). German DC supported this objective both within the framework of policy dialogue and via PAF indicators, as well as through a complementary measure and bilateral TC modules.

Based on the evaluation of four *Public Expenditure and Financial Accountability* (PEFA) Assessments – the central diagnostic tool for public finance – from 2005, 2008, 2012 and 2017, a moderate improvement of the public finance system in Zambia can be observed overall for the financial years from 2002 to 2015.[1] Encouragingly, the share of positive evaluations (evaluation A-B) increased from six indicators in 2005 to 14 indicators in 2016 (the total number of indicators is 28). This was not a linear trend, however, and fluctuated significantly. After a general improvement in many indicators in the 2008 assessment, the trend headed downwards again in 2012 with a deterioration in a large number of indicators, followed by a recovery in 2017 to the level seen in 2008.

This makes it impossible to identify any clear trends pointing towards improved results in public finance. During the reporting period, Zambia neither improved nor delivered an acceptable result overall for one key result indicator of the PEFA assessments in particular: the deviation of actual expenditure from the chapters of the budget law. Between 2007 and 2013, the variations ranged between 14% and 23%. This means, in fact, that a substantial part of the actual allocation of funds was ultimately not transparent and not legitimised by parliament in the budget law. It also explains why large arrears were accumulated at the

[1] The detailed results of the 2008 PEFA Assessment were not published, only the evaluations. The 2017 PEFA Assessment was partly based on a reformed framework with modified indicators in some cases, which made it difficult to compare individual indicators.

end of the budget support and in the period thereafter, why a massive fiscal deficit emerged, and why expenditure decisions were made without parliamentary control (see Impact chapter).

The development in own revenues can be described as moderately positive. The tax rate rose from 15.8% in 2009 to 18.9% in 2014. Over the same period, however, the country's economic strength (GDP) also grew by 78% from USD 15.4 billion to USD 27.2 billion. Hence nominal tax revenues rose sharply overall. This is partly due to an increase in tax administration efficiency. The deviation of budgeted revenues from actual revenues remained within a healthy range. One difficulty was the continuing reliance on income taxes (>50%), which are mainly derived from the mining sector and the taxation of large companies. At the same time, the tax rate was still very low by international standards (2015: OECD 34.3%, Latin America 22.8%) and slightly below average by continental standards – according to a recent OECD study of 16 African countries[2] (2015: 19.1%).

Even though the social sectors were largely "protected", and despite additional revenues, fiscal space for these sectors was increasingly narrowed, in particular by high expenditure on state-subsidised maize purchases, fuel subsidies, public-sector salaries and rising debt service.

After exiting budget support, the focus was trained on technical support for public finance. A new reform programme – the Public Financial Management Reform Programme (PFMRP) – was launched in July 2014. The programme was financed jointly by Germany (as an FC complementary measure of the PRBS), the United Kingdom and Finland. The community financing was implemented through a Trust Fund (MDTF) managed by the World Bank. The examined phase of the complementary measure will be completed by December 2018. In September 2018, the World Bank reviewed the progress of the project. The progress of seven of the eight programme objectives is deemed to be at least "satisfactory". Overall, the progress of the project was described as "satisfactory".[3]

The achievement of the objective at outcome level can be summarised as follows: budget support in Zambia ultimately did not meet its own ambitious goals, as measured by the PAF indicators. By 2013 at the latest, none of the parties involved was interested in maintaining this method. However, it is unclear whether other methods would have achieved better results.

Effectiveness rating: PRBS II: 3 / PRBS III: 4

Efficiency

Efficiency is assessed based on an analysis of the quality of donor harmonisation, the predictability of development funds, the alignment with the partner strategy and the associated question of whether transaction costs were reduced.

The rating of "production efficiency", i.e. the efficient and reliable provision of donor funds and efficient policy dialogue, is less positive as the donors were increasingly in disagreement or uncoordinated.

The predictability of development funds, in particular budget support payments, was mixed. PEFA indicator D-1, which measures the predictability of donor funds, was regularly rated D+, the second-worst score. The deviations related in particular to the scheduling of payments. This was partly due to the fact that the Zambian government made review documents available too late, or that donors did not reach a common understanding in evaluating the target achievement. Donor harmonisation initially appeared to proceed well. High-level bodies chaired by the Ministry of Finance (minister or state secretary level) were convened. Relevant representatives from other government units were also represented. Topics such as subsidy policy, public finance and macroeconomic issues were discussed. Over time, however, the donors diverged more visibly in their ways to assess government action. Most recently, evaluations were primarily carried out based on own analyses and considerations. One positive aspect is the reduction in the PAF indicators due to criticism of the budget support evaluation.

Another difficulty was that the national development plan acted as a common target framework to a limited degree only. The extent to which development plans actually reflect governmental priorities is a subject of delicate debate. The often-measured discrepancy between planned figures and the budget funds actually

[2] OECD: Revenue Statistics in Africa, 2017.
[3] World Bank: Public Financial Management Reform Programme Phase I – Implementation Status and Results Report, April 2018.

spent indicates that development plans do not necessarily guide governments in their actions. This pattern can also be observed in the case of Zambia. Since there were also a large number of governmental changes with different government parties during the evaluation period, the question also arises as to what extent they felt bound by the development plans. In June 2014, for example, the then Zambian government officially aligned the R-SNDP to the party programme of the *Patriotic Front*, thus taking the political priorities of the new government into account. Until 2014, the administrative conditions that would have linked the planning estimates to the annual budgetary process in a structured manner were not in place either.

The allocation efficiency, i.e. the ratio of the overarching impacts achieved to the inputs provided (in particular financing and advisory services), can be regarded as acceptable. The allocation of public expenditure in accordance with the national development plan or in poverty-reducing sectors can be described as relatively stable. Allocations to the sectors of education, health care and agriculture sectors were largely excluded from intra-year reallocations in the budgetary process. The extent to which this can be regarded as a success of policy dialogue remains unclear, however. Over time the increase in funds cannot be attributed to donor contributions, but seems to have been in the Zambian government’s own interest and financed by growth.

Efficiency rating: 3 (both phases)

Impact

To assess this dimension, economic development and socio-economic development – especially poverty reduction – as well as the development of *governance* indicators over time were considered and classified based on quality criteria.

Zambia’s annual economic growth during the years of the general budget support programmes from 2005 to 2014 was constantly above six percent, which can be seen as a success. After exiting budget support there was a downturn in 2015, with growth slowing to 3.6% of GDP. In addition to donor financing, the economic upswing in the decade 2005–2014 is closely linked to the “super-cycle” of raw materials, in which copper prices temporarily rose fivefold. The slowdown in growth was also a result of the price trend reversal on the copper market from 2011. Gradually, by 2016/17, the copper price on the London Metal Exchange (LME) more than halved. Additional pressure on the economy stemmed from the devaluation of the Kwacha, the reduction of donor funds and the Zambian government’s expansive debt policy.

Zambia reached the *completion point* under the HIPC Initiative in 2005 and thus qualified for debt relief. This also gave the green light for budget support. After a period of relatively stable fiscal policies from 2007 to 2011 with an average deficit of 1.6% of GDP, the Zambian government pursued an aggressive and expansionary fiscal policy from 2012 onwards. From 2010 to 2015, Zambia steadily increased its government spending, more than tripling it in nominal terms over this short period. Own revenues did increase during the same period, but not nearly as much as expenditure. ODA funds fell at the same time, as did revenues from the raw materials sector due to the fall in the price of copper. In addition to this, it seems that the increase in expenditure was not only the result of strategic goals, such as boosting infrastructure investment, but also of politically motivated liabilities stemming from public-sector subsidies and salaries. During this period, the government failed to find a fiscal response to these internal and external shocks. Especially after 2012 the budget deficit increased sharply, from 3% in 2010 to 8.1% in 2015. The budget deficit was mainly financed by external debt. After the World Bank classified Zambia as a *middle-income country* in 2011, Zambia refinanced itself on the capital market for the first time in 2012 by issuing a USD 750 million Eurobond. A USD 1.0 billion Eurobond was issued in 2014, followed by another at USD 1.25 billion in 2015. As a result, the debt more than doubled to 52.9% of GDP in three years from 2012 to 2015.

The Human Development Index (HDI) reveals a positive trend for Zambia between 2005 and 2015. The figure improved from 0.48 to 0.58 during this period. However, this means Zambia essentially developed at the same pace along the positive trend curve from the early 1990s. That said, the positive trend in development weakened from 2012. The share of the absolute poor measured against the national poverty line remained virtually unchanged over the period 2010–2015. Measured against the international poverty line of USD 1.9 per day, the figure fell from 64.4% to 57.5%. Due to strong population growth, the number of poor people rose slightly in both cases relative to the national poverty line, from 8.9 to 9.3 million.

Moreover, the improvements only took place in urban areas, while the poverty of the rural population remained unchanged. In 2015 some 81% of the rural population were poor based on the international poverty line, while this figure was only 25% in the cities. The Gini coefficient, i.e. the index measuring fair distribution, deteriorated slightly from 2010 to 2015, meaning the overall distribution of income became more unfair. In 2010 the top 10% accounted for 45.2% of income, compared with 44.4% in 2015.

During the evaluation period, Zambia enjoyed a marked political stability by African standards. Despite two presidents who died in office (Levy Mwanawasa in 2008 and Michael Sata in 2014), and the fact that in 2011 the Patriotic Front replaced the Movement for a Multiparty Democracy (MMD), the party that had ruled for 20 years, the governmental handovers were peaceful and the democratic process was largely open. The World Bank's Government Effectiveness Index initially showed very positive development from 2009 until peaking at 38 in 2012, before it flattened off steadily until 2016. The relevant corruption indices for Zambia also improved noticeably in the period 2005–2015. In the Corruption Perception Index published by Transparency International, Zambia ranked 87 out of 175 countries in 2016 with a score of 38 out of a possible 100 points. Zambia was therefore far above the average for Sub-Saharan Africa, but is generally still classified as "corrupt". Overall, the effectiveness of government action continues to be hampered by a significant lack of capacity in almost every sector.

To sum up, access to social services such as education and health care improved slightly over the decade of general budget support, but this had no influence on the proportion of poor people measured against the national poverty line and on fair distribution. PRBS III is rated worse than PRBS II due to the weakening of the country's positive development trend in recent years.

Impact rating: PRBS II: 3 / PRBS III: 4

Sustainability

Zambia underwent a period of strong growth during the budget support, and evolved into a *middle-income country*. As this meant it could finance itself on the capital market, and given the dwindling financial importance of budget support for the national budget, the incentive of the Zambian government to remain interested in budget support diminished. From a donor perspective too, the question arises, whether support for a *middle-income country* should be structured differently from traditional budget support. It should be noted that the budget support donors were only able to exert a limited influence on the Zambian government anyway as part of policy dialogue. Despite the stable macroeconomic situation until 2013, the Zambian government failed to create sustainable, transparent and effective governance structures by means of reforms (supported by policy dialogue), to make progress in diversifying the economy, and to significantly reduce the poverty rate.

The macroeconomic risks and uncertainties accumulated after exiting budget support to such an extent that the government developed a Stability and Growth Programme 2017-19 (ESGP), also known as "Zambia Plus", and placed it at the centre of the Seventh National Development Plan. The key elements of the programme include restoring the credibility of the budget and reducing the budget deficit. However, the economy in Zambia is currently still experiencing a downturn. A debt crisis seems inevitable. Debt has risen to 60-75% of GDP, depending on the source of information, and interest rates on government bonds have risen to over 16% of the budget. There is also a huge corruption scandal where millions were stolen from the *Social Cash Transfer* (STC) programme, and the donors to the programme have already frozen funds.

Therefore, the general conditions in Zambia have changed. Only a few sustainable achievements of budget support can be identified, especially since Zambian policy has generated further risks in recent years that affect poverty-oriented development. Cooperation with Zambia will be structurally freed from budget support.

Sustainability rating: 3 (both phases)

Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).