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Efficiency of local service provision in Zambia's health, education and road sectors: implications for decentralisation and the effectiveness of budget support

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Deutsches Institut für  
Entwicklungspolitik



German Development  
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## Studies

### Efficiency of Local Service Provision in Zambia's Health, Education and Road Sectors

Implications for decentralisation and the effectiveness  
of budget support

*Stefan Leiderer*  
*Maximilian Geigenmüller*  
*Anja Hornig*  
*Kathrin Kästle*  
*Christopher Smith*  
*Franziska Tröger*



# Efficiency of local service provision in Zambia's health, education and road sectors

The German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development cooperation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of cooperation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European university graduates for a career in the field of development policy.

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## Abbreviations

AfDB	African Development Bank
AC	Audit Committee
ADSP	Agricultural Development Support Programme
ADC	Area Development Committee
ADP	Annual Development Plan
AIID	Amsterdam Institute of International Development
ANC	(Northern Rhodesia) African National Congress
ASIP	Agricultural Sector Investment Programme
AWP	Annual Work Plan
AWPB	Annual Work Plan and Budget
BADEA	Arabic Bank for Economic Development in Africa
BESSIP	Basic Education Sub-Sector Investment Plan
BFP	Budget Framework Paper
BHCP	Basic Health Care Package
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry of Economic Cooperation and Development)
BSAC	British South African Company
CBO	Community Based Organisation
CBoH	Central Board of Health
CDC	Constituency Development Committee
CDF	Constituency Development Fund
CFAA	Country Financial Accountability Assessment
CP	Cooperating Partner
CPI	Corruption Perception Index



CRN	Core Road Network
CSEN	Children with Special Educational Needs
CSO	Civil Society Organisation
DAC	Development Assistance Committee (of the OECD)
DANIDA	Danish International Development Assistance
DC	District Commissioner
DCC	Development Coordination Committee
DDCC	District Development Coordination Committee
DDP	District Development Plan
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
DIP	Decentralisation Development Plan
DEB	District Education Board
DEBS	District Education Boards Secretariat
DED	Deutscher Entwicklungsdienst
DESO	District Education Standards Offices
DFID	Department for International Development
DHB	District Health Board
DIP	Decentralisation Implementation Plan
DISS	Department of Infrastructure and Support Services
DHMT	District Health Management Team
DPO	District Planning Officer
DPSC	District Planning Sub-Committee
DRE	District Road Engineers
DWD	District Works Department
DoW	Director of Works
EAZ	Economics Association of Zambia

EC	European Commission
EDF	European Development Fund
EDTL	Essential Drugs and Tracer List
EMIS	Education Management Information System
ESIP	Education Sector Investment Plan
FAMS	Financial and Administration Management System
FAWEZA	Forum for African Women Educationalists of Zambia
FGPC	Finance and General Purpose Committee
FMS	Financial Management System
FBO	Faith Based Organisation
FNDP	Fifth National Development Plan
GDP	Gross Domestic Product
GER	Gross Enrolment Ratio
GRZ	Government of the Republic of Zambia
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
HDI	Human Development Index
HIP	Harmonisation in Practice
HIPC	Highly Indebted Poor Country
HIV/AIDS	Human immunodeficiency virus/Acquired immunodeficiency syndrome
HLF	High Level Forum
HMIS	Health Management Information System
IBA	Independent Broadcasting Authority
IDA	International Development Agency
IFA	Intergovernmental Fiscal Architecture
IFMIS	Integrated Financial Management Information System

IFS	International Financial Statistics (IMF)
ILO	International Labour Organization
IMF	International Monetary Fund
IMT	Intermediate Means of Transport
INTOSAI	International Auditing Standards
IOB	Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs
JAR	Joint Annual Review
JASZ	Joint Assistance Strategy for Zambia
JICA	Japan International Corporation Agency
KFAED	Kuwait Fund for Arab Economic Development
KfW	Kreditanstalt für Wiederaufbau
LCMS	Living Conditions Monitoring Survey
LGA	Local Government Act
LGAZ	Local Government Association of Zambia
LOGOSP	Local Government Support Project
LRA	Local Road Authority
MCA	Multi-Criteria Analysis
MCDSS	Ministry of Community Development and Social Services
MCGs	MTEF Consultative Groups
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MMD	Movement for Multiparty Democracy
MMR	Maternal mortality rate
MoE	Ministry of Education
MoESP	Ministry of Education Strategic Plan
MoF	Ministry of Finance

MoFNP	Ministry of Finance and National Planning
MoH	Ministry of Health
MoLGH	Ministry of Local Government and Housing
MoU	Memorandum of Understanding
MP	Member of Parliament
MPSAs	Ministry and Public Spending Agencies
MR	Mortality rate
MSL	Medical Stores Ltd.
MSTVT	Ministry of Science, Technology and Vocational Training
MTEF	Medium Expenditure Framework
MWS	Ministry of Works and Supply
MYSDC	Ministry of Sport, Youth and Child Development
NAS	National Assessment System
NCC	National Council for Construction
NDCC	National Development Coordination Committee
NDF	Nordic Development Fund
NER	Net Enrolment Ratio
NGO	Non-Governmental Organisation
NHA	National Health Accounts
NHSP	National Health Strategic Plan
NIF	National Implementation Framework
NORAD	Norwegian Agency for Development Cooperation
NPHRA	National Public Health Regulatory Authority
NRB	National Road Board
NRFA	National Road Fund Agency
OAG	Office of the Auditor General

OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
OVC	Orphans and vulnerable children
PA	Provincial Administration
PAC	Public Accounts Committee
PAF	Performance Assessment Framework
PBA	Programme-based Approach
PCSC	Parent Community School Committee
PDCC	Provincial Development Coordination Committee
PDM	Provincial Deputy Minister
PEO	Provincial Education Office
PF	Patriotic Front
PEFA	Public Expenditure and Financial Accountability
PEM	Public Expenditure Management
PEMFA	Public Expenditure Management and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PHC	Primary Health Care
PHD	Provincial Head of Department
PHO	Provincial Health Office
PLGO	Provincial Local Government Officer
PMC	Project Management Committee
PMEC	Payroll Management and Establishment Control
PPP	Private-public partnership
PPS	Provincial Permanent Secretary

PRBS	Poverty Reduction Budget Support
PRE	Provincial Road Engineer
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty Reduction Support Credit
PS	Permanent Secretary
PSRP	Public Sector Reform Programme
PSU	Pharmaceutical Services Unit
PTA	Parent Teacher Association
PWD	Provincial Work Departments
R&D	Research and Development
RDA	Road Development Agency
RMI	Road Maintenance Initiative
ROADSIP I/II	Roads Sector Investment Programme I/II
RRU	Rural Roads Unit
RTP	Rural Transport Program
RTSA	Road Transport Safety Agency
RUC	Road User Committee
SAG	Sector Advisory Group
SAI	Supreme Audit Institutions
SAP	Structural Adjustment Programme
Sida	Swedish International Development Cooperation Agency
SNDP	Sixth National Development Plan
SSATP	Sub-Saharan African Transport Policy Program
STGs	Standard Treatment Guidelines
STIs	Sexually Transmitted Infections

SWAp	Sector Wide Approach
TB	Tuberculosis
TDSP	Training Sub-Sector Investment Plan
TI	Transparency International
TPRC	Tax Policy Review Committee
TWG	Technical Working Group
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations International Children's Emergency Fund
UNIP	United National Independence Party
UPP	United Progress Party
USAID	United States Agency for International Development
VAT	Value-Added Tax
WDI	World Development Indicators (World Bank)
WHIP	Wider Harmonisation in Practice
WSS	Water supply and sanitation
ZANIS	Zambia News and Information Services
ZCTU	Zambia Congress of Trade Unions
ZDHS	Demographic and Health Survey
ZMK	Zambian Kwacha
ZNBC	Zambia National Broadcasting Corporation
ZNFC	Zambia National Formulary Committee
ZNTB	Zambia National Tender Board
ZPPA	Zambia Public Procurement Agency
ZRA	Zambia Revenue Authority

## **Preface**

This study was conducted in close cooperation with the Economics Association of Zambia (EAZ) within the framework of DIE's postgraduate training programme. It is based on field-work carried out in Zambia between February and April 2010 and forms part of the background work for an international joint evaluation of budget support in Zambia, led by the Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs (IOB), the Evaluation and Audit Department of the German Federal Ministry for Economic Cooperation and Development (BMZ-E) and the Secretariat for Evaluation of the Swedish International Development Cooperation Agency (Sida), working in close cooperation with the Ministry of Finance and National Planning in Zambia (de Kemp / Faust / Leiderer 2011). Preliminary results of this research were presented and discussed at a joint EAZ/DIE workshop in Lusaka on 28 April 2010.

We are deeply grateful to EAZ, to all those who agreed to be interviewed and to all other stakeholders for the warm welcome and excellent collaboration we experienced during our research in Zambia.





## Executive summary

The aim of this study is twofold. On the one hand, it forms part of the background work for an impact evaluation of budget support in Zambia, jointly led by the Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs (IOB), the Evaluation and Audit Department of the German Federal Ministry for Economic Cooperation and Development (BMZ-E) and the Secretariat for Evaluation of the Swedish International Development Cooperation Agency (Sida), working in close cooperation with the Ministry of Finance and National Planning in Zambia (de Kemp / Faust / Leiderer 2011). As such, it gives a detailed description of the administrative set-up, the flow of funds and key constraints on operational efficiency in the basic education, health and road sectors that directly informed the budget support evaluation conducted in 2010/2011.

The second aim of the study is to contribute to the wider research and policy debate on the performance and reform of public financial management systems in sub-Saharan African countries. The main contribution in this respect consists in explaining more clearly (i) how budget allocations in Zambia are transformed into service delivery and the provision of public goods in selected sectors (health, education, roads) and (ii) how the operational efficiency of budget implementation in Zambia could be improved.

### **Background: public financial management in sub-Saharan Africa**

The performance and reform of public financial management (PFM) systems in developing countries are the focus of an intense debate among development researchers and practitioners.

On the one hand, the extent to which fiduciary risks affect aid resources channelled through government systems is primarily determined by the quality of the recipient country's PFM system. The risk that such aid resources will not be spent in line with donor intentions, or not be spent efficiently, is directly related to the concepts of allocative and operational efficiency. Efficiency in both these respects is ultimately determined by the willingness and the political and technical capacity of recipient governments to implement pro-poor policies with public expenditure.

The quality of national PFM systems in recipient countries is thus of crucial importance for the effectiveness of new approaches in development cooperation. However, the main relevance of efficient PFM lies primarily not in the effectiveness of innovative aid instruments but in the key role it plays in development processes in general. PFM is one of the core tasks of the public administration in any modern state. Besides legislation and regulation, it is mainly through the allocation of public resources to their strategic programmes and priorities that governments are able to foster economic growth and human development. The budget thus plays a vital role in the implementation of governments' strategic policy goals, such as national poverty reduction strategies (PRSSs), and sound public financial management is essential if poverty in developing countries is to be effectively reduced. In addition, transparent, effective and efficient administration of public resources and the participation of civil society in the budget process increase the citizens' ownership of state policy and public acceptance of and identification with government decisions.

It is often assumed that the reform of PFM systems is particularly difficult in sub-Saharan Africa because the specific characteristics of African societies and political systems are inconsistent with efficient PFM. These characteristics of the "African state" are generally subsumed in the term "neo-patrimonialism", and it is often argued that it is the co-existence of formal and informal institutions in neo-patrimonial states that causes African PFM systems to perform poorly and makes reform difficult. However, some authors argue that the failure to adhere to formal PFM rules and procedures in African countries cannot be entirely blamed on "cultural" or systemic factors (Leiderer et al. 2007, 16). Rather, the courses of action chosen may be pragmatic second-best (i.e. efficient, given the existing constraints) solutions to unexpected problems and shortcomings in an environment of uncertainty (Leiderer et al. 2007, 125).

### **Research question and approach**

If this analysis is correct, it has an important implication for PFM reforms in typical neo-patrimonial systems in sub-Saharan Africa: while it should be possible to improve the efficiency of PFM in African

countries not only in a long-term time-frame of 15 to 25 or more years, there should also be scope for at least modest early gains, which could be exploited more systematically if the underlying mechanisms were better understood.

The overarching research question of this study is therefore: **What scope is there for improving the operational efficiency of PFM in sub-Saharan African countries in the short and medium term?**

The starting point for this research is the hypothesis that such potential for short- and medium-term improvements at the level of operational PFM efficiency does exist. Given that PFM reforms are highly political and complex endeavours, it can be argued that such short-term efficiency gains are possible only if at least some of the underlying causes of operational inefficiencies are not 'systemic' in the sense that they can be addressed only by means of long-term systemic reforms. In other words, quick, yet sustainable, efficiency gains can be expected only if not only obvious external causes (such as geographical or climatic factors) and systemic determinants of inefficiencies, but at least some 'non-systemic' determinants of operational inefficiency capable of being addressed with technical interventions other than systemic PFM reforms are present.

The main hypothesis is therefore that **systemic and external determinants affecting Public Financial Management in sub-Saharan Africa are joined by non-systemic determinants that create potential for enhancing efficiency in service delivery in the short term.**

Should the hypothesis prove to be wrong, i.e. should there be no non-systemic determinants of operational inefficiencies, the scope for short-term efficiency gains would be expected to be very limited. In this case, the only short-term gains in operational efficiency that could possibly be achieved would be at the 'constraint' level, that is, at the level of the transmission channels through which underlying (systemic) determinants affect efficiency. Such 'technical' solutions, however, could be expected to bring about no more than a local and temporary efficiency gains that might not be sustainable, since the underlying systemic drivers would still not have been addressed.

A qualitative comparison at sub-national level in an arguably ‘typical’ sub-Saharan African country has been identified as the most appropriate approach to identifying non-systemic determinants of inefficiencies in service delivery in neo-patrimonial systems.

Zambia was chosen as an appropriate country case for this research, and three sub-sectors were selected for in-depth studies of determinants of operational efficiency: basic health care, primary education and rural road maintenance. In total, four comparable districts were selected for the identification of determinants of inefficiencies. The principal approach was to compare good and bad performers to find out what factors might explain performance differences.

### **The country case: PFM and decentralisation in Zambia**

It is commonly argued that most sub-Saharan African states share specific features that can be traced back to the continent’s colonial past (Tetzlaff / Jakobeit 2005) and that these specific features still hinder the emergence of a Weberian “administrative state” with a clear distinction between the private and the public sphere, the existence of legally binding rules and the implementation of public policy by a highly specialised, hierarchical, rational and impersonal bureaucratic apparatus (Weber / Winkelmann 1980, 30). The result is a ‘neo-patrimonial’ system, in which patrimonial and charismatic forms of rule continue to exist behind the façade of a weakly functioning administrative state (Tetzlaff / Jakobeit 2005, 135). The emerging systems, which are characterised by the co-existence of modern democratic processes, institutions with strong (neo-)patrimonial political structures and informal institutions are commonly described as ‘hybrid regimes’ (Diamond 2002). It is often argued that it is this co-existence of formal and informal institutions that makes African PFM systems perform poorly and difficult to reform.

Zambia is, in many respects, a typical case. Its PFM system is organised along the same lines as those of most anglophone African countries, being formally based on the ‘Westminster model’ of parliamentary democracy. It has been described as an “unconsolidated democracy” (Simon 2005, 200) or an “authoritarian regime that did not completely reverse the transition into a democratic regime and oscillates

between democracy and dictatorship” (Erdmann / Simutanyi 2003, 2). It is considered to be a showcase of a hybrid regime, where formal institutions compete with informal institutions at the expense of an efficient and effective state.

At the same time, PFM reform efforts have been on-going in Zambia for various years. In its comparison of PFM performance in 2005 and 2008, a 2008 PEFA (Public Expenditure and Financial Accountability) assessment recognises significant improvements in Zambia's PFM system. At the same time, the implementation of the PEMFA (Public Expenditure Management and Financial Accountability) reform programme has not always been smooth, and major PFM challenges have still to be addressed.

One consequence of this is the continuing poor status of service delivery at local level. The remedy envisaged by the government is a process to provide decentralised public services and to strengthen and empower local councils with a significantly increased number of public service functions and new administrative and financial responsibilities. Until 2002, however, decentralisation efforts made little progress, central government retained authority, and intergovernmental transfers were rarely released and highly unpredictable, leading to inefficiencies in local service provision (Hampwaye 2008, 350).

In sum, expectations of improvements in PFM performance in a more decentralised system are high in Zambia, whereas progress in implementing this systemic reform has been slow. The current decentralised system in Zambia can be described as an amalgam of deconcentration, delegation and devolution, and it is one of various cases in sub-Saharan Africa where decentralisation has yet to result in the centre relinquishing much control and where no clearly defined division of functions between central and local government in different areas has been developed (Dauskardt 2004, 333).

It is because of these observations that this study places particular emphasis on the need to understand the obstacles to efficient service delivery at local level and the implications of the proposed steps towards PFM decentralisation. Three sectors have been selected for in-depth studies of determinants of local level operational efficiency: infrastructure/roads, education and health.

### Empirical and conceptual findings

The empirical research for this study identified two general determinants of efficiency challenges in public financial management at local level in Zambia: the **systematic lack of resources for PFM, and the concentration of control over resources and decision-making at central government level.**

These determinants impact on the efficiency of local service delivery at all stages of the budget cycle. This happens through four main transmission channels or ‘constraints’: poor commitment, capacity, coordination and mobility. However, the specific form taken by these constraints differs among the (sub-)sectors selected for the in-depth analysis.

### Zambia’s health sector

Zambia’s health expenditure per capita is similar to its middle-income southern African neighbours’, but its health indicators are similar to Tanzania’s or Malawi’s, countries that spend less money on health (ODI / Mokoro 2009, 7).

At present, health service delivery in Zambia is severely affected by the ineffectiveness of the health system. Two major concerns in this respect are the human resource crisis in the sector, where 69 per cent of professional posts are unfilled and health facilities are too few in number and too unevenly distributed, a far cry from the targets.

Decentralisation is a key component of health-sector reforms in Zambia and is also emphasised in the current strategic plan. In the course of the decentralisation process the health sector is preparing to devolve and transfer responsibilities to the district councils, which will take over the functions of DHMTs (*District Health Management Teams*). As this process is time-consuming and has stalled several times over the years, it is unclear when devolution will be completed. Until then, the Ministry of Health’s (MoH) deconcentrated service delivery units at district level, the DHMTs, remain tightly bound by the decisions taken at central level.

The fragmentation of funding for health services – through cooperation partners’ (CPs) interventions and the re-verticalisation of service delivery as a result of the restructuring of the MoH provider institutions – has

resulted in the further neglect of effectiveness considerations in the allocation of resources that could lead to more cost-effective service delivery mechanisms (Picazo / Zhao 2009, 3, 4). In general, the cash budgeting system (which is meant to keep actual spending in line with available resources) seems to work well for the sector. Releases tend to be predictable and timely, but variations in different categories of budget items do occur, capital expenditure being the most erratic (Picazo / Zhao 2009, 41). The MoH channels funds directly to the districts (DHMTs and hospital boards). However, the flow of funds is complicated and fragmented since different agencies disburse salaries, money for drugs and other recurrent expenditure (Picazo / Zhao 2009, 34).

The sector is hardest hit by the lack of human resources, which has reached crisis proportions: health service delivery and efficient public financial management is severely hampered because two thirds of professional posts remain unfilled. This is partly due to a lack of financial resources, which was aggravated by a corruption scandal in 2009.

The concentration of control over resources and decision-making is evident in the reversal of the health-sector reforms in which more responsibility had been transferred to District Health Boards. Since the abolition of the boards some re-centralisation has been noticeable, the central level taking responsibility for policy development, staff recruitment and decisions on allocations and in-kind resources. Procurement is centralised, and the scope for decision-making at district level is generally limited. District health staff are bound by central guidelines and budget ceilings and have to seek approval for flexible solutions from headquarters.

### **Coordination in health**

A lack of coordination manifests itself both vertically and horizontally at local level. This lack of horizontal coordination leads to a duplication of structures at district level and poorly integrated district planning. The deconcentrated government units of various line ministries in the district do not coordinate their efforts adequately, and there is evidence that potential synergies are not exploited. Furthermore, the study has found some evidence of DHMTs and local councils not cooperating satisfactorily during the construction of health facilities, for example. This leads to



a lack of coordination of running and construction costs and can result in facilities not being recognised by the MoH. Apart from challenges within the district, difficulties occur in communication and coordination between deconcentrated units at district level and headquarters at central level. This is evident from the failure of higher levels to answer queries and from the lack of familiarity with guidelines at lower levels.

### **Capacity in health**

Challenges arising in the area of capacity can be grouped under two headings: human capacity and technical capacity. Where human capacity is concerned, the greatest strain on the sector is caused by the human resource crisis. Most facilities are understaffed and, in the most basic facilities in particular, just one employee may be responsible for everything from planning to budgeting, from reporting to service delivery. Efficient PFM is therefore challenged at all stages of the budget cycle. This lack of capacity is not solely an issue of numbers, but also manifests itself in the capability of staff. Many positions in facilities and in the DHMTs are filled by staff who do not have the necessary skills for the tasks that have to be performed. Among other things, this has an impact on budget control, since reports are not compiled correctly or in time. As proper reporting is a prerequisite for district grants and new supplies of drugs, the lack of human capacity affects health service delivery. With regard to technical capacity, there is strong evidence that all the districts examined lack appropriate infrastructure and equipment. This prevents DHMTs from performing their management tasks, since a shortage of vehicles is an obstacle to supervision and drug delivery, a lack of communication equipment limits the ability to coordinate health services in the district, and the absence of computers and other office equipment hampers reporting and alignment with higher level policies and guidelines. At the level of the individual facility there is evidence of a frequent lack of adequate infrastructure for service delivery, which leads to substantial funds being spent on referrals to other facilities. It was also found that a certain lack of data collection mechanisms poses a problem for adequate planning at district level. Planning is further constrained by the lack of human capacity, in both qualitative and quantitative terms.

### **Commitment in health**

Poor commitment as a constraint on efficient PFM is inherently difficult to measure. There is some evidence, however, that a certain degree of civil service attitude prevails among DHMT staff. This finding should not obscure the fact that there was also evidence of extraordinary commitment by individuals even in adverse working conditions. Nonetheless, a certain lack of ambition and dedication was observed and indicated by interviewees not directly involved in government health services. Our observations suggest that this attitude is closely associated with a lack of flexibility and room for creativity. Interviewees showed the limited scope for decision-making to be a tremendous source of frustration, especially as some feel restricted by the central level in the search for their own solutions to problems specific to the district and have the impression that their expertise and ideas are not appreciated by headquarters. In general, poor working conditions and a lack of incentive seem to be further reasons for the lack of commitment observed among government employees.

### **Mobility in health**

Mobility is the fourth area in the health sector in which constraints exist. The lack of mobility can be regarded as a combination of deficiencies in technical capacity and coordination among actors at district level. As DHMTs face mobility challenges caused by a lack of funding and poor infrastructure, the distribution of drugs, supervisory visits, outreach programmes and referrals are hampered. Thus a lack of mobility not only hinders service provision but also impacts on efficiency in public financial management, in terms of control, for example. Efficiency could possibly be improved if coordination worked better.

Despite evidence that some technical solutions are helping to improve the efficiency of PFM at local level, and others seem to be promising options for the future, it became clear during our research that technical solutions which ease the constraints will not develop enough potential for major efficiency gains to be achieved in the health sector. As it is the causes of many of the challenges which need to be addressed, systemic rather than technical solutions are needed. Decentralisation as a systemic reform could eliminate or at least reduce some of the effi-

ciency constraints at all stages of the budget cycle, this being especially true of those affecting coordination, mobility and commitment.

### **Zambia's education sector**

After years of neglect, the education sector in Zambia has recently experienced a period of renewed attention, during which the Ministry of Education (MoE) has significantly improved its performance in service delivery and especially in making education accessible.

The improvement of the performance of the education sector in recent years is closely related to the increased investment of public resources. While external donor support fell in absolute terms from 2004 to 2006, domestic allocations to the sector increased from ZMK 756.7 billion in 2004 to ZMK 1,277.1 billion in 2006. In relative terms, this means that domestically resourced expenditure on education has remained steady at around 3 per cent of GDP in recent years (World Bank 2008a, 43).

Although total expenditure on education has increased in Zambia in recent years, it is still low compared to regional levels. An Education Expenditure Review in 2006 concluded that “Zambia has a ‘low-cost, low-quality’ education system, especially at the basic schools level” (World Bank 2006, 19).

Public funding for education is delivered to schools through a three-tiered administrative system involving the Provincial Education Offices, the District Education Offices and the schools (Das et al. 2004, x). Although the education sector is among the most decentralised in Zambia, the fund flow system remains “top-heavy”, meaning that a large proportion of funds is handled by MoE headquarters and by the Provincial Education Offices.

### **Coordination in education**

There are two general areas in which a lack of coordination poses a challenge to more efficient service delivery. The vertical flow of information between the various levels of administration in the MoE on the amount and timing of funding releases is insufficient. This seems to include both the flow of information from MoE headquarters down to the deconcentrated units and schools and a lack of demand from some

actors at lower levels of the administrative structure for such information. This lack of information leads to inefficiencies in planning, implementation and control processes.

In certain districts evidence also suggests a lack of coordination at horizontal level. The activities of the District Education Boards Secretariat (DEBS) office are not sufficiently coordinated with activities in other sectors. Although integrative district planning takes place through the District Development Coordination Committee (DDCC), implementation often does not follow planning, since agreements reached at DDCC meetings are not binding, and the decisions coming from the head offices of the line ministries take precedence. Consequently, scarce resources at district level may not be fully used owing to insufficient integrative district coordination.

### **Capacity in education**

As regards human capacity, DEBS offices in general appear to be adequately staffed both quantitatively and qualitatively. Staffing levels were generally regarded as sufficient for administrative management at district level. However, despite sufficient manpower, many tasks of DEBS officers are hampered by a shortage of funds.

Where technical capacity is concerned, a lack of office equipment impedes the efficient exchange of information and so prevents planning and control tasks from being performed more efficiently. In most case districts, for example, the accounting system has recently been computerised, but has yet to be connected to higher levels of the administrative structure. The exchange of information for planning and control purposes, both between the DEBS office and higher levels within the MoE and between different DEBS offices in one Province, still entails a considerable amount of travel for Education Officers, since data have to be transferred physically by car. This process is time-consuming and leads to scarce resources being spent on travel, which makes certain PFM processes inefficient. Important inefficiencies in reporting and control can also be attributed to the inadequate training of teachers.

However, the MoE has already taken major steps to reduce these inefficiencies by moving certain data-processing tasks (for the EdAssist

Planning and Information Tool, for example) to lower levels of the administrative structure. Equipping DEBS offices with and connecting them to the digitalised accounting system IFMIS is also envisaged.

### **Commitment in education**

The level of commitment and its influence on the efficiency of PFM is difficult to measure. However, there are no obvious signs of a lack of commitment amongst District Education Officers that would lead to inefficiencies in service delivery. On the contrary, in some cases Education Officers use personal resources in fulfilling their duties to compensate for the lack of public resources.

Although no evidence of a lack of commitment was to be found within the structures of the MoE, the efficiency of the PFM system in the education sector is still affected by external commitment issues. There is evidence in certain areas, especially where traditional practices still largely prevail, of an apparent lack of demand for education in certain communities, which manifests itself in a lack of coordination with the DEBS office. When it comes to building classrooms for community schools, for example, certain communities are difficult to mobilise for various reasons, and the many sensitisation and supervisory visits this necessitates reduce the efficiency of service delivery.

### **Mobility in education**

At district level DEBS officers face a general lack of mobility, which is mainly due to a shortage of functioning vehicles, insufficient funding for fuel and generally poor road infrastructure. Consequently, many of the duties of DEBS officers for which mobility is required, such as supervisory visits to schools, become difficult to fulfil effectively.

However, the lack of mobility does not seem to be solely due to insufficient capacity in terms of a shortage of vehicles and funding for fuel. Evidence suggests in some cases a lack of the coordination among different deconcentrated units at district level that would permit the joint use of vehicles for trips in the same direction or even to the same destination.

### **Zambia's road sector**

A large part of Zambia's road network was constructed during the economic boom between 1965 and 1975 to link principal administration

centres throughout the country or to enable goods to be exported (EAZ 2009b, 57). Since the 1980s, the lack of funding and the neglect of road maintenance have led to a steady deterioration of road conditions (Republic of Zambia 2006a, 2). In 1991, only 20 per cent of the road network was reported to be in good condition (World Bank 2005, 41).

Overall, urban and rural areas in Zambia are very different in terms of access to and the quality of infrastructure. Urbanised areas receive disproportionate public infrastructure investment, since they host more economic activities, which result in higher tax revenues. Compared to other countries of sub-Saharan Africa, Zambia has a well-developed network of main roads, whereas nearly 50 per cent of the rural network is in poor condition (see Figure 15: Road network length by country, classification, and condition). The dichotomy between urban and rural infrastructure development is said to perpetuate the two-nation syndrome: a modern and developed urban area with better access to public infrastructure and an impoverished rural area with poor infrastructure (EAZ 2009b, 56). There is no evidence that the maintenance of the unpaved road network has improved in the last few years.

Between 2001 and 2005, 2.5 per cent of GDP and US\$ 30 per capita per year were spent on road transport. Government expenditure was higher than the regional average for sub-Saharan Africa, which stood at 1.8 per cent of GDP and US\$ 7 per capita per year (Gwilliam et al. 2008, vii), but was still insufficient. The general lack of funding for rural roads is due to many factors that are related either to government policy or to the fragmentation of funding flows to the local level. The concentration of control at central government level results from the objection that councils do not currently have the capacity to manage the rural road network themselves. These causes influence the nature of service provision in various ways and at all stages of the budget cycle.

### **Coordination in the road sector**

The findings of our research suggest that poor coordination is the major challenge to efficient service provision in the road sector. Coordination problems arise at central level mainly between the ministries involved in policy formulation and in the implementation and financing of road projects. At local level they arise predominantly during the implemen-

tation of projects, affecting the hiring and supervision of contractors, for example. The most pressing coordination challenge at provincial level concerns the planning and implementation of projects by the Roads Development Agency (RDA) and Rural Road Units (RRUs).

One of the main coordination problems at central level concerns the overall coordination of the sector by the Committee of Ministers on Road Maintenance Initiative. Evidence gained from interviews with various actors in the road sector and from the findings of the audit recently carried out by the Office of the Auditor General (OAG) suggests that the Committee lacks the power to enforce the policy laid down in the Roads Sector Investment Programme (ROADSIP). Road agencies continue to pay greater allegiance to their former “mother ministries”, when it comes to reporting lines, for example (OAG 2010). The lack of supervision by the Committee may lead to inefficiencies, as in cases where the ministries are able to exert influence over the decision-making of the road agencies and formal rules and procedures cannot be upheld by the Committee. Decisions on political rather than efficiency grounds may have an adverse effect on the efficiency of service provision. The lack of coordination between the RDA and the NRFA, which was one of the main reasons for the recent over-commitment of funds by the RDA, may be a consequence of these weaknesses.

Challenges exist with regard to coordination between agencies and ministries involved in road-sector financing and those involved in the implementation of projects. Insecure funding and late disbursements affect the activities of implementing agencies and cause inefficiencies during the implementation of projects. The unpredictability of funding – from both the CPs and the GRZ – has been a major challenge for timely disbursement of resources to the Road Fund and the payment of contractors. During the implementation stage, in particular, the lack of coordination between funding and implementing agencies affects PFM adversely.

Problems raised by poor coordination between central and local level are due to the fact that the decentralisation of responsibilities for rural road maintenance has yet to be completed. Until the Memorandum of Understanding (MoU) between the Ministry of Works and Supply

(MWS) and the Ministry of Local Government and Housing (MoLGH) was signed, it was not clear which agency or ministry was in charge of the supervision of and coordination with the councils. The lack of oversight from central level has resulted in confusion about the accountability of councils with respect to reporting, the preparation of procurement plans and calls for tenders. The MoU has clarified the responsibilities of the actors involved in rural and urban road maintenance, but has not yet been implemented.

At local and provincial level, coordination challenges arise between the road authorities, i.e. Local Road Authorities (LRAs) and the RDA and between the road authorities and the operators, i.e. the RRUs and private contractors. Evidence suggested that there is generally very little contact between the RDA's provincial road engineer or senior engineer and the councils at all stages of the budget cycle. Coordination between the councils and contractors may be less than satisfactory owing to late payment for work done and the lack of supervision. RRUs and the RDAs have difficulty coordinating their work plans at provincial level, which causes inefficiency during the implementation phase.

### **Capacity in the road sector**

Poor technical and human capacity has a serious impact on the efficiency of service provision at every stage of the budget cycle. Evidence from the case studies suggests that many councils employ capable staff. Although some directors of works (DoWs) lack the civil engineering qualifications required by job specifications, most hold civil engineering diplomas or have received training from the MoLGH, MWS, RDA or CPs. Councils tend to attract generally less qualified staff than the RDA because they pay lower salaries and because of the remoteness of some districts. Considering the various tasks the Department of Works has to perform – rural road maintenance being only one – most councils generally have too few staff to maintain rural roads effectively. In most cases, only one person, the DoW, sometimes supported by an Assistant Director, was in charge of rural road maintenance. The position of DoW is often vacant and has been temporarily filled by a junior member of the department staff. Evidence gathered in the field phase suggested that the problem of staff turnover is a result of the on-going



reform of the local government staffing policies, which involved a re-centralisation of responsibilities. Evidence from our research suggests that understaffing was a major challenge to efficient service delivery at local level. More important for the efficiency of rural road maintenance, however, was the understaffing of the RDA. It generally has only one senior engineer in charge of liaison with the councils. Evidence also suggests that the understaffing of the RDA has an adverse effect on coordination with the councils and may result in inefficiencies during the supervision of work by the RDA and the councils.

### **Mobility in the road sector**

A major constraint on the efficiency of public service provision identified during the field phase is the limited mobility of council staff. There is strong evidence that most districts do not have sufficient funding to service vehicles properly or to pay for fuel. With regard to the budget cycle, this poses challenges mainly during the supervision and monitoring of contractors. Without adequate transport to work sites, council staff cannot supervise and monitor contractors effectively and regularly.

### **Commitment in the road sector**

As a constraint on efficient PFM, poor commitment is inherently difficult to measure. Some evidence from interviews at central level and from the field phase suggests, however, that the commitment of RDA staff to supporting the councils is low as a consequence of a difference of priorities. As pointed out above, the RDA focuses mainly on upgrading trunk and main roads. Evidence from the field phase and interviews with RDA staff at central level suggest that even rural roads included in the 'Core Road Network' (CRN) receive insufficient attention from the RDA. Its limited interest in rural road maintenance may also be a result of the relatively recent reform of the sector in 2002. Under the old system the Department of Infrastructure and Housing in the MoLGH was responsible for rural road maintenance, while the Works Department of the MWS was in charge of main, trunk and district roads. With the creation of the RDA, all public roads, including rural ones, became its responsibility. As most staff of the Works Department now work under the RDA, it may be that they still lack both the awareness and the experience of working with councils at local level. Evidence from the field

phase suggests that the RDA is even more reluctant to assume its responsibility for rural roads after the creation of the RRUs. There are some indications that the activities of the RRUs may help to reduce the backlog in rural road maintenance. It remains to be seen what impact the introduction of the RRUs will have on the RDA's commitment to rural road maintenance.

### **Conceptual interpretation and conclusions**

The main research question of this study was: What scope is there for improving the operational efficiency of service provision in a 'typical' African PFM system in the short and medium term?

In the initial approach to this research, we formulated the hypothesis that, in a country like Zambia, there are both 'systemic' and 'non-systemic' determinants of operational PFM inefficiencies at local government level. We defined as systemic those determinants which are rooted in cultural, political or other features of the neo-patrimonial structures that arguably characterise the state in Zambia. The only hope of remedying these factors would be through comprehensive long-term systemic PFM (or other) reforms. Such systemic PFM reforms are, however, commonly believed to take at least 15 to 25 years to become fully effective, a time horizon that seems unacceptably long given the crucial role that effective and efficient PFM plays in the achievement of urgent development objectives. Non-systemic determinants, on the other hand, can be addressed with reforms or interventions that do not require any interference with the neo-patrimonial political system and can thus be expected to meet with less resistance. If short-term, yet sustainable, improvements to the operational efficiency of PFM in Zambia are to be achieved, such non-systemic reforms will be needed.

In the absence of such non-systemic determinants, this study argues, the only way to achieve short-term gains in operational efficiency would then be to find 'technical' solutions at what this study terms the 'constraint' level. With such technical solutions, however, only locally and temporally limited efficiency gains can generally be expected to be achieved.

In view of these considerations, the main aim of this research was therefore to identify non-systemic determinants of PFM inefficiencies,

meaning factors which cannot be addressed only with long-term systemic reform, but which offer potential for short-term (and less political) remedies for PFM inefficiencies.

In our field research we were, however, unable to identify any relevant determinants that would qualify as non-systemic in this sense. While we cannot categorically exclude the possibility that minor non-systemic determinants nonetheless exist, there is strong evidence that no substantial improvements in PFM efficiency can be expected from other than truly systemic PFM reforms. Consequently, our first conclusion is as follows:

**Conclusion 1: The determinants identified as having an adverse effect on the operational efficiency of local PFM in Zambia are either systemic or external; no relevant “non-systemic” determinants could be identified.**

All challenges to PFM identified at local level that might at some point be subject to change could be traced back to two main systemic determinants:

**a) Systematic lack of resources:** There is a ubiquitous lack of resources for PFM activities. This poses a considerable risk of PFM inefficiency, since key monitoring, control and supervision activities of PFM-relevant institutions, for instance, cannot be undertaken owing to a lack of funding.

**b) Concentration of control over resources and decision-making at central government level:** Control over public resources, including the power to decide on what they are to be spent, rests almost entirely with central government. Lower levels of government, especially the district level, have, depending on the sector, little or no competence to handle funds. As a result, decision-making and distribution of funds at central level often fails to reflect the priorities on the ground.

Both these determinants affect the efficiency of service delivery at all stages of the budget cycle – planning, implementation, and control – because of a number of constraints. In fact, when the operational efficiency of PFM at local level is examined, all identified challenges to PFM

can be traced back to these two determinants. Both are inherently systemic and cannot be altered in the short term, or at least not sustainably.

No determinants that could be classified as non-systemic were found. The systemic determinants identified require long-term reform approaches and do not offer any potential for short-term technical solutions to improve the operational efficiency of PFM.

This means that any short-term improvements to the operational efficiency of service delivery in Zambia can stem only from 'technical' interventions at what this study labels the 'constraint level', i.e. the level of transmission channels through which the underlying determinants have an adverse impact on the operational efficiency of PFM at local level.

The research team identified a number of areas where technical solutions at the constraint level could bring about efficiency gains in the short run. The potential identified in the sectors for short-term technical interventions at the constraint level is, however, very limited and cannot be expected to produce any substantial or sustainable efficiency gains. Three of the constraints suggested by our initial conceptual framework (lack of commitment, lack of capacity and lack of coordination) were confirmed as relevant transmission channels through which the determinants identified affect efficiency at all stages of the budget cycle.

In addition, a fourth constraint that turned out to be of major importance for the efficiency of PFM at local government level could similarly be traced back to the two systemic determinants: 'lack of mobility' was included in the conceptual approach as a major constraint that caused inefficiencies. It is understood as a surrogate of two other constraints, lack of capacity and lack of coordination, but cannot be replaced by any one of the other constraints and is therefore included as a constraint in its own right.

**Conclusion 2: There is only limited potential for short-term improvements of PFM efficiency at local government level in Zambia, given that the constraints exist only at the constraint level.**

### **Implications for decentralisation**

Decentralisation has been on the political agenda in Zambia for years, but the process of developing and negotiating a concrete implementation decentralisation plan has been quite slow. In the conceptual framework used here, decentralisation qualifies as a ‘systemic reform’: by targeting the determinant “concentration of control over resources and decision-making”, decentralisation has the potential to contribute positively to the efficiency of PFM at local level. However, these potentially positive effects are likely to take several years to materialise. Major challenges will also have to be overcome if the decentralisation policy is to be effective in this regard.

Decentralisation has great potential for positive change with respect to the challenges identified in this study that adversely affect the operational efficiency of PFM at local level. This is especially true of the challenges rooted in the underlying determinant “concentration of control over resources and decision-making”. However, decentralisation, like any other systemic reform, will take years before it has most of its potentially positive effects, especially given the aforementioned challenges related to the implementation of the DIP. Even when full decentralisation as envisaged in the DIP has been achieved, it is highly unlikely that decentralisation will resolve all the existing challenges to the operational efficiency of PFM; in all probability, some challenges rooted in the systemic determinant “concentration of control over resources and decision-making” will persist. Nor is decentralisation likely to have any noteworthy impact on the second systemic determinant identified, “lack of resources”, or on external determinants. Furthermore, decentralisation will be a promising prospect for PFM at local level only if the issues referred to above are addressed and dealt with appropriately. If they are not, the management of public finances may even deteriorate in so flawed a decentralised system.

### **Implications for budget support as an aid modality**

The likelihood of the operational efficiency of PFM at local government level in Zambia being increased in the short term is extremely limited. As all inefficiencies identified in this case study can ultimately be traced back to systemic features of Zambia’s PFM system, any short-

term 'technical' solutions suggested can only address the transmission channels (or constraints) through which these determinants impact on the efficiency of service delivery at local government level. In other words, such technical solutions can be expected to ease only the symptoms, not the underlying systemic causes of inefficiencies in Zambia's local PFM system.

However, systemic reforms of PFM systems (such as fiscal decentralisation) that have the potential to improve the efficiency of public service provision take time, first, to implement and, second, to have the expected positive effects.

It is thus crucial for donors not only to use budget support effectively as a funding source, but also to see the related policy dialogue and financial leverage as a means of maintaining the momentum of such systemic PFM reforms as fiscal decentralisation in recipient countries.

The findings of this study strongly endorse the argument that budget support should always be accompanied by strategic interventions aimed at developing the recipient's capacities to manage public resources effectively and efficiently. In Zambia's case, for example, extensive capacity-building at local level is indispensable if decentralisation is to bear fruit and the efficiency of public financial management for service provision is to improve. This calls for the more strategic integration of capacity-building programmes into the wider area of governance, beyond core PFM reform programmes (such as PEMFA in Zambia) that tend to focus on core PFM functions at central government level.



## **1 Introduction: Context, research aim and organisation of the report**

The aim of this study is twofold. On the one hand, it forms part of the background work for an impact evaluation of budget support in Zambia, jointly led by the Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs (IOB), the Evaluation and Audit Department of the German Federal Ministry for Economic Cooperation and Development (BMZ-E) and the Secretariat for Evaluation of the Swedish International Development Cooperation Agency (Sida), acting in close cooperation with the Ministry of Finance and National Planning in Zambia (de Kemp / Faust / Leiderer 2011). As such, this study provides a rich description of the administrative set-up, flow of funds and key constraints on operational efficiency in the basic education, health and road sectors that directly informed the budget support evaluation conducted during 2010/2011 (see Box 1 on page 29f.).

The second aim of this study is to contribute to the wider research and policy debate on the performance and reform of public financial management systems in sub-Saharan African countries. The main contribution in this respect consists in providing a clearer understanding of (i) how budget allocations in Zambia are transformed into service delivery and the provision of public goods in selected sectors (health, education, roads) and (ii) how the operational efficiency of budget implementation in Zambia could be improved.

By combining these two aims, the research was able to enrich the knowledge base for the evaluation of budget support in Zambia at the level of 'induced outputs'. At the same time, the findings should also be of direct benefit to the government of Zambia and particularly to the sector ministries concerned, the MoFNP and external development partners wishing to help Zambia to achieve its developmental goals.

The study is structured as follows: Chapter 2 begins by providing some background information on the international debate on aid effectiveness and budget support as an aid instrument. It goes on to present an overview of the characteristics and performance of public financial management (PFM) systems in sub-Saharan Africa and outline neo-patrimonialism as one of the main causes of poor PFM performance in the region. Chapter 3 presents the main research question and the conceptual framework for the empirical research.



Chapter 4 gives some general background information on Zambia, while Chapter 5 presents an overview of its PFM system and of the on-going decentralisation efforts. Chapters 6, 7 and 8 provide, respectively, an analysis of the institutional and administrative set-up, the flow of funds and empirical findings on the operational efficiency of service delivery to the health, education and road sectors. Chapter 9 draws overall conclusions and highlights specific implications for decentralisation as a systemic PFM reform and for budget support as an aid instrument in Zambia.

## **2 Background: Aid, development and the efficiency of Public Financial Management**

### **2.1 The international debate on aid effectiveness**

The question whether development aid is effective is as old as aid itself. Yet over the past decade or so the discussion on aid effectiveness has intensified in academia, among aid practitioners and in the wider public arena.

The more recent debate on aid effectiveness was sparked by the rather disappointing findings of empirical research on a topic that has been emerging since the mid-1990s. These findings suggest that even after four decades or more of development aid, there is no robust evidence to show that aid fosters growth and reduces poverty in the developing world (Faust / Leiderer 2008; Doucouliagos / Padalm 2009).

In the academic discussion, this frustrating inability to produce robust evidence of the effectiveness of aid led to innumerable econometric studies on aid effectiveness, employing ever more sophisticated estimation methods and more and better data, yet to little avail.

In the aid practitioners' world, the (absence of) findings gave aid donors and recipients reason to embark on an agenda of thoroughly reforming the aid relationship and the manner in which aid is provided. The principles underlying this new aid agenda (ownership, alignment, harmonisation, managing for results and mutual accountability) were formulated at a High Level Forum (HLF) in Paris in 2005 (High Level Forum 2005) and reaffirmed and substantiated at the HLF3 held in Accra in 2008 (High Level Forum 2008) and most recently at the HLF4 in Busan in 2011 (High Level Forum 2011).

## 2.2 New approaches in development cooperation and the role of PFM systems

In essence, the Paris/Accra Agenda proclaims a fundamental shift in the donor-recipient relationship aimed at transferring ownership, leadership and responsibility to the recipient. To implement this new paradigm, the Paris Declaration proposes programme-based approaches (PBAs), which are defined as aid modalities having the following features: (i) leadership by the host country or organisation; (ii) a single comprehensive programme and budget framework; (iii) a formalised process for donor coordination and harmonisation of procedures for reporting, budgeting, financial management and procurement; and (iv) efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation (Leiderer 2010a, 1).

The HLF3 in Accra reaffirmed the donors' commitment to make an effort to use partner-country systems as the first option for aid delivery (High Level Forum 2008, 17). Arguably the most consequential modality for this is direct budget support, which the OECD-DAC defines as *"a method of financing a partner country's budget through a transfer of resources from an external financing agency to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures"* (OECD/DAC 2006, 26). At the same time, it is viewed as the most controversial aid modality in many donor countries' domestic debates on aid effectiveness (Leiderer 2010a, 2).

The controversy on budget support as an aid modality for fostering poverty reduction stems primarily from different perspectives on the instrument's objectives<sup>1</sup> and resulting perceptions and approaches regarding the fiduciary risks<sup>2</sup> involved. The extent to which fiduciary risks affect donor contributions channelled through government systems is determined primarily by the quality of the recipient country's public financial management (PFM)

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1 For a discussion of the various goal hierarchies applied by donors in the use of budget support see Faust / Koch / Leiderer (2011).

2 "Fiduciary risk" in the case of budget support describes the risk of the funds provided not being used (or not being used efficiently) for the intended purposes and/or of not being properly accounted for (DFID 2004, 4).

system.<sup>3</sup> The risk that such aid resources will not be spent, or not be spent efficiently, in accordance with donor intentions, is directly related to the concepts of allocative and operational efficiency. **Allocative efficiency** represents “the degree to which resources are allocated in accordance with strategic priorities”, while **operational efficiency** “is the rate at which resources allocated towards and spent on the government’s strategic priorities are actually translated into results, or in short the value for money of public expenditure” (IDD and Associates 2007, 37).

Efficiency in both these dimensions is ultimately determined by the willingness and the political and technical capacity of recipient governments to implement pro-poor policies with public funds. While a government’s political capacity to implement pro-poor policies largely depends on the country’s specific power structures, the technical capacity to do so hinges on the quality of the national (and subnational) PFM system.

In principle, two lines of argument with regard to the performance of PFM systems and the decision for budget support can be identified among OECD-DAC donors: while some stress the need to have satisfactory PFM systems in place if support is to be effective, others argue that the weaker PFM systems are, the more consequential the shift to budget support and other forms of programme-based approaches (PBAs)<sup>4</sup> should be. The rationale for the latter argument is that only programme-based approaches ensure that scarce administrative capacities on the recipient side are not further stretched by fragmented and uncoordinated donor requirements regarding the planning, financial management and reporting of aid projects.

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3 In the international discourse on public finance and budget reform the term “Public Financial Management (PFM)” is used and defined in different ways. A narrow definition of the term often refers only to the management and control of public expenditure. In a broader definition the term covers not only the management and control of public expenditure, but also the management of the entire budget cycle, including strategic planning, budget formulation, budget execution and revenue and debt management, together with the shaping of the legal and institutional framework and the management of human and technical capacity for PFM (Leiderer et al. 2007, 27). In this study, we use the term as broadly defined here, which also covers the translation of budget resources into public service delivery.

4 Other forms of PBAs include basket-financing mechanisms and similar forms of harmonised donor approaches.

Thus, while one camp emphasises the imperative of adequate entry conditions for budget support, others refer to the dynamic effects which the provision of budget support is expected to have on government systems. It is worth noting, however, that the tendency for donors to differ over these two concepts of budget support entry conditions does not necessarily lead to entirely different designs of budget support programmes by different donors. Rather, these different conceptions have a greater impact on the selection of countries eligible for budget support<sup>5</sup> and on the volume of aid provided through this modality and far less impact on the actual way in which individual budget support programmes are implemented at country level. In fact, in recent years most multi-donor budget support programmes – in sub-Saharan Africa at least – have evolved into what might be called a ‘standard model’ (Leiderer 2010a). This standard model is characterised by a high degree of donor coordination and harmonisation, facilitated by one or more (revolving) lead donors and by the more or less systematic combination of (mutually reinforcing) financial and non-financial contributions to the budget support programme.<sup>6</sup>

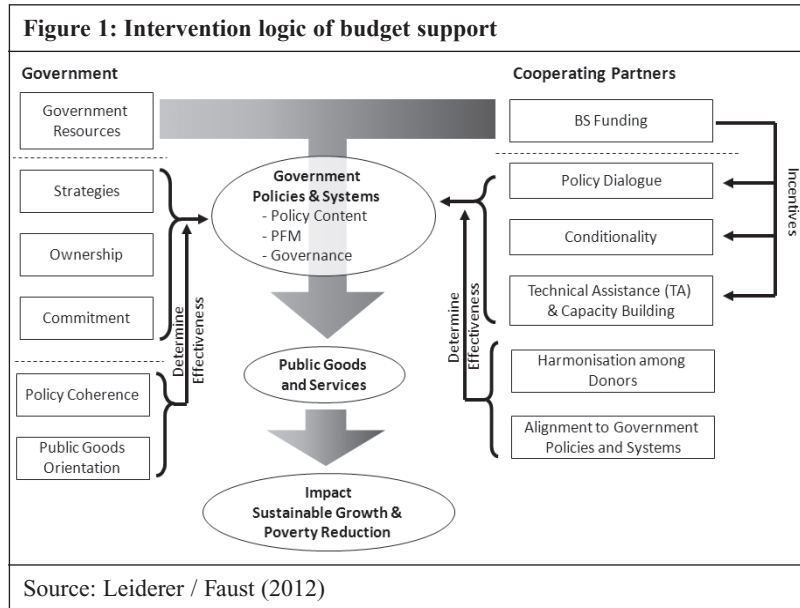
The intervention logic implicit in the ‘standard model’ of budget support is depicted in Figure 1: the distinctive input of budget support obviously consists of donors’ financial contributions to the government’s budget. These funds are combined with the recipient government’s own financial resources and are then used by the recipient government to produce services and public goods. Ultimately, these services and public goods are then expected to contribute to growth and poverty reduction by providing the population with the means to earn incomes, receive education and live healthy lives. How the recipient government allocates and uses the resources available is primarily determined by the political and technical

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5 For example, in 2009 Germany provided budget support for only eleven countries. In contrast, the European Commission programmed budget support for 44 countries in its 10th EDF (Leiderer 2010b).

6 Non-financial inputs to budget support include policy dialogue, conditionality and technical assistance / capacity-building. Even though there is a general consensus on the ‘standard model’, donors differ in what they consider to be appropriate approaches to conditionality. While the World Bank, for example, links disbursements of its Poverty Reduction Support Credit (PRSC) to ex-ante triggers and policy actions, the European Commission favours performance-based conditionality linked to variable budget support disbursements.

capacities of government systems, which are, in turn, shaped by the government's strategic policy objectives (ownership and commitment) and actual policies.



As government systems in most recipient countries have many shortcomings (see Chapter 4), donors complement their financial contributions with such non-financial inputs as policy dialogue, conditionality, technical assistance and capacity-building. In addition, it is hoped that, by moving to harmonised budget support aligned with the recipient government's own priorities and administrative processes, the strain put on weak systems by parallel and uncoordinated donor activities can be reduced. Together, these non-financial inputs to budget support are expected to strengthen government systems (particularly in the area of PFM) and so increase the effectiveness of the financial contributions provided through budget support. At the same time, these financial contributions give the recipient government incentives to engage in an intensive policy dialogue with the donors, to make appropriate use of technical assistance and to meet conditions agreed with the donors.

**Box 1: Evaluation of budget support in Zambia**

While the multi-dimensional interaction logic of budget support described above may make perfect sense at a conceptual level, it poses an immense challenge when it comes to assessing whether budget support is effective in practice and, in fact, more effective than other forms of aid. This is because the very long causal chains (both temporary and conceptually) involved as well as the numerous feedback loops that are expected to work between financial and non-financial government and donor inputs make the evaluation of budget support inherently complex. As a result, there is little empirical evidence so far that this approach does indeed work to make aid more effective. Previous attempts to evaluate budget support have produced some evidence that it helps to improve the quality of donor-recipient relations, particularly in the areas of policy dialogue, harmonisation and policy formulation and – to some extent at least – the overall quality of PFM systems. Yet, with the methodologies applied, these evaluations have not been able to produce solid evidence on the ultimate impacts of budget support on poverty reduction and/or growth (IDD and Associates 2006; Leiderer 2010b).

Several cooperating partners have therefore joined forces to develop a comprehensive evaluation framework based on a specific methodology for the evaluation of budget support proposed by Caputo / Lawson / van der Linde (2008). The methodology was first applied to assess the effectiveness of budget support in three countries (Mali, Tunisia and Zambia) between 2009 and 2011. The aim of this comprehensive evaluation framework is to combine different evaluation components along the causality chain, from budget support inputs (e.g. funding) through direct outputs (e.g. increased predictability of funds), induced outputs (enhanced allocative and operational efficiency of public expenditure), outcomes (e.g. increased use of services) to impacts (e.g. reductions in income poverty). Annex 7 reproduces the underlying causality map proposed by Caputo / Lawson / van der Linde (2008). This study focuses on the operational efficiency of service provision and so contributes to knowledge on 'induced outcomes' in this causal chain.

Zambia is one of the three countries where budget support was evaluated with this new evaluation framework in the first round of evaluations. As part of this joint endeavour, the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) conducted an evaluation of the political economy and policy processes of budget support in Zambia on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). This part of the overall budget support evaluation covered the segment of the causality chain stretching from inputs to induced outputs in the health, education and road sectors and is complemented by various sector impact evaluations carried out by the

independent evaluation unit of the Foreign Ministry of Foreign Affairs of the Netherlands (IOB) in cooperation with the Amsterdam Institute of International Development (AIID) for the health and education sectors; by the independent evaluation unit of KfW Development Bank for infrastructure (Roads, Water & Sanitation); and by the Secretariat for Evaluation of the Swedish International Development Cooperation Agency (Sida) for the agricultural sector.<sup>7</sup> The evaluation was conducted in close cooperation with the Zambian Ministry of Finance and National Planning (MoFNP).

The quality of national PFM systems in recipient countries is thus of crucial importance for the effectiveness of new approaches in development cooperation. However, the main relevance of efficient PFM is primarily due not to the effectiveness of innovative aid instruments, but to its key role in development processes in general. This central role and the main challenges for PFM in developing countries are outlined in the following sections.

## 2.3 Beyond aid: The role of Public Financial Management in development

Public Financial Management is one of the core tasks of the public administration in any modern state. In recent years, PFM has thus been increasingly recognised as a crucial factor for the development of poor countries.

Besides legislation and regulation, it is mainly the allocation of public resources to their strategic programmes and priorities that enables governments to foster economic growth and human development. The budget thus plays a crucial role in the implementation of such strategic policy goals pursued by governments as national poverty reduction strategies (PRSs), sound public financial management being essential if poverty is to be effectively reduced in developing countries.

PFM is also recognised as a key dimension in the achievement of good governance and democratic accountability (Leiderer / Wolff 2007; Klingebiel / Mahn 2011). Underlying this argument is the idea that the transparent,

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7 The synthesis report for the evaluation and the various sector studies can be downloaded from <http://www.minbuza.nl/producten-en-diensten/evaluatie/afgeronde-onderzoeken/2011/iob---between-high-expectations-and-reality-an-evaluation-of-budget-support-in-zambia.html>

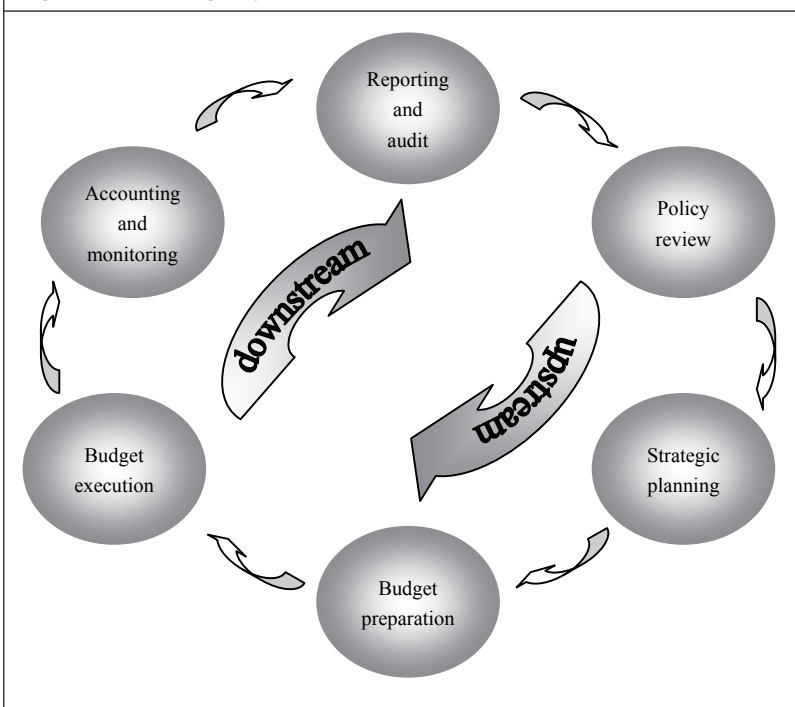
effective and efficient administration of public resources and the participation of civil society in the budget process increase the citizens' ownership of state policy and public acceptance of and identification with government decisions (GTZ 2006b, 6). Furthermore, the participatory scrutiny and control of public finances is one of the core competences of the legislature. The inclusion of the parliament in both *ex ante* budget formulation and *ex post* budget control ensures the involvement of the legislature in public policy planning and implementation. Parliamentary participation further serves as a mechanism for controlling the activities of the executive and so contributes to domestic accountability (Santiso 2005, 6-10). Stakeholders in PFM in developing countries are thus all public actors involved in the use, generation, regulation, organisation and/or control of public resources. They include not only such executive institutions as the finance ministry, the revenue authorities, audit offices, line ministries, public agencies and subnational authorities, but also the legislative body (parliament), civil society, the media and the donor community (GTZ 2006a, v).

The main instrument in PFM is, of course, the national budget. It authorises the government to collect revenue, incur debt and effect expenditure in order to implement its policies. As it determines both the source and the use of public financial resources, the budget enables the government to perform its economic, political, legal and managerial functions and to provide its citizens with goods and services (Foster / Fozzard 2000, 8). The typical budget cycle can be subdivided into six stages in a repetitive downstream and upstream process: 1) strategic planning, 2) budget preparation, 3) budget execution, 4) accounting and monitoring, 5) reporting and auditing and 6) policy review (see Figure 2).<sup>8</sup>

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8 Other presentations, such as GTZ (2006a), use only four stages, 1) strategic and budget planning, 2) budget formulation, 3) budget execution and 4) budget control and evaluation. Although the budget is an annual plan in most countries, the entire cycle can take several years, starting with the early strategic planning phase more than a year before the actual budget year, and ending with *ex post* control by audit and legislative institutions months or even years after the end of the fiscal year.



**Figure 2: The budget cycle**

Source: based on Lawson et al. (2001)

Each of these stages is relevant to the effective implementation of a government's strategic policies, such as a PRSP (Leiderer et al. 2007, 29). Today, there is a large body of theoretical and empirical literature on how best to design each step and the overall PFM system to this end.<sup>9</sup> By and large, there is a broad consensus in the literature on what constitutes good practices in PFM. At the same time, a vast quantity of empirical evidence indicates that PFM systems in most developing countries are deficient in numerous ways and often fail to meet those standards. Box 2 compares such good practices with typical practices in developing countries in the area of budgeting.

9 For a recent reading list on PFM in developing countries, see Simson / Sharma / Aziz (2011).

<b>Box 2: The theory and practice of budgets in poor countries</b>	
Good Budgeting Principles ...	
<ol style="list-style-type: none"> <li>1. Comprehensiveness: the budget must encompass all fiscal operations of government</li> <li>2. Discipline: policy decisions with financial implications must be made against the background of a hard budget constraint and in competition with other demands</li> <li>3. Legitimacy: decision makers who can change a policy during implementation must take part in and agree to the original policy draft</li> <li>4. Flexibility: decisions should be taken at a point when all relevant information is available</li> <li>5. Predictability: fiscal policy must take into account the need to ensure the timely flow of funds to spending units</li> <li>6. Contestability: existing policies are subject to constant review and evaluation</li> <li>7. Honesty: budgets are based on unbiased projections of both revenue and expenditure</li> <li>8. Information: accurate and timely information on inputs (costs), outputs and outcomes is indispensable</li> <li>9. Transparency: information on budget decisions must be explicit and accessible to the public</li> </ol>	<p>... and Poor Budgeting Practices</p> <ol style="list-style-type: none"> <li>1. Unrealistic planning and budgeting: both plans and budgets are not a statement of intention but a wish list of political promises</li> <li>2. Short-term budgeting: no consideration of medium-term implications of budgets, such as the recurring operating costs of new investments</li> <li>3. Repetitive budgeting: the budget is frequently altered during the budget year in response to (at budget planning) unforeseen changes of economic or political conditions</li> <li>4. Cashbox budgeting: government spends as cash becomes available, not according to preset budget priorities</li> <li>5. Deferred budgeting: arrears build up as expenditures are pushed into subsequent years</li> <li>6. Distorted priorities: scarce resources are spent on "show case" projects that produce meagre social returns</li> <li>7. Declining productivity: compensating for rising unemployment the public service expands, but its efficiency is compromised by challenges such as ghost workers, underinvestment in training and IT and poor working conditions</li> </ol>

10. Accountability: decision makers must be held accountable for the exercise of authority provided they have been provided with	8. Informal arrangement: extra-legal arrangements dictate government recruitment, procurement etc.  9. Corruption: inadequate enforcement of formal rules breeds undetected and unsanctioned illegal practices
Source: ODI (2004)	

The reform of PFM systems in developing countries is thus a highly relevant topic and has received considerable attention in development research over the past decade or so. Researchers and practitioners agree that PFM reforms in developing countries are highly complex and – more importantly – political in nature and, as a consequence, are difficult and usually slow to implement. Realistic estimates put the time-frame for systemic PFM reforms at 15 to 25 years (Leiderer 2005, 4).

One developing region in which PFM systems have been analysed extensively with a view to externally supported reform is sub-Saharan Africa (Klingebiel / Mahn 2011, 2), where the new aid approaches discussed above are most relevant. At the same time, it is also the region where the need for systemic PFM reforms is greatest, whereas the progress of PFM reforms is at best mixed (Section 2.4.2).

The reform of PFM systems is often assumed to be particularly difficult in sub-Saharan Africa because the specific characteristics of African societies and political systems are inconsistent with efficient PFM. This argument is explained in somewhat more detail in the following section.

## 2.4 PFM systems in sub-Saharan Africa

### 2.4.1 The African state and the concept of neo-patrimonialism

It is commonly argued that most sub-Saharan African states share specific features that can be traced back to the continent's colonial past (Tetzlaff / Jakobeit 2005) and that these features continue to hinder the emergence of a Weberian "administrative state" with a clear separation of the private and public spheres, the existence of legally binding rules and the implementation of public policy by a highly specialised, hierarchical, rational and impersonal bureaucratic apparatus (Weber / Winckelmann 1980, 30).

These features of the "African state" are commonly subsumed under the term neo-patrimonialism. Although the foundations of the administrative state model were laid in sub-Saharan Africa by colonial administrations, pre-colonial Africa had been shaped by different forms of centralised authority, such as tribes and kingdoms (Thomson 2004, 7). By creating entirely novel institutions and intermediary structures, the European colonisers imposed their idea of statehood in the African territories, transforming or replacing existing forms of rule. Yet even though these structures were upheld after the end of colonialism by the new political elites and formed the administrative basis of the newly independent states (Thomson 2004, 33), patrimonial and charismatic forms of rule continue to exist in most African states behind the façade of a weakly functioning administrative state (Tetzlaff / Jakobeit 2005, 135). The emerging systems, which are characterised by the co-existence of modern democratic processes and institutions with strong (neo-)patrimonial political structures and informal institutions are often described as "*hybrid regimes*" (Diamond 2002).<sup>10</sup>

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10 The African continent is certainly far from monolithic, and its colonial heritage differs widely from one former colonial power to another. In particular, many of the characteristics of PFM systems in anglophone African countries still differ significantly from those in francophone countries, budget execution and government accounting being the areas in which the main differences lie (Lienert 2003). Notwithstanding these differences, a 2003 comparison of francophone and anglophone African PFM systems comes to the conclusion that "any distinctive strengths of the individual PEM [public expenditure management] systems do not appear to have influenced the performance of the system as a whole. In both regions, common weaknesses dominate. These weaknesses are widespread at every phase of the budget cycle" (Lienert 2003, 63).

It is often argued that it is this co-existence of formal and informal institutions that causes African PFM systems to perform poorly and makes them difficult to reform.

#### 2.4.2 Performance and challenges to the reform of PFM systems in sub-Saharan Africa

Numerous instruments and diagnostic tools have been developed over the years to assess the quality and performance of PFM systems, or some of their specific elements, in developing countries. These tools include Country Financial Accountability Assessments (CFAAs), Public Expenditure Reviews (PERs), HIPC Public Expenditure Tracking Assessments and, more recently, the standardised Public Expenditure and Financial Accountability (PEFA) assessments.<sup>11</sup>

One of the most comprehensive overviews of PFM performance in sub-Saharan Africa has recently been produced by De Renzio et al. (2010). It combines the findings of the 2001 and 2004 HIPC assessments<sup>12</sup> and the PEFA assessments undertaken from 2005 to 2010. Table 1 (pages 40–41) shows the findings for 19 sub-Saharan African countries across three dimensions of PFM: budget transparency and comprehensiveness; the linking of budgets, policies and plans; and budget control, oversight and accountability. According to this overview, of the 19 countries for which data are available, only five (Burkina Faso, Cameroon, Ethiopia, Mali and Zambia) show an incontrovertible improvement across all three dimensions. In four countries (Benin, Gambia, Rwanda and Uganda) overall PFM performance deteriorated. In the remaining ten countries, no clear trend can be identified. On balance, most improvements were made in the area of linking budgets, policies and plans, while least progress was seen in the area of control, oversight and accountability (De Renzio / Andrews / Mills 2010, 17).

Evidently, despite substantial internal and external efforts to strengthen PFM systems in sub-Saharan Africa, these systems have proved difficult to improve, and most still perform poorly. It is often argued that neo-patrimonial structures are responsible for this poor track record of PFM perform-

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11 For an overview of the instruments and the PFM areas covered by the individual tools, see Allen / Schiavo-Campo / Garrity (2004) and Leiderer (2004).

12 IMF / IDA (2001; 2005).

ance and reforms. However, not too many studies make an empirical analysis of the actual mechanisms of formal and informal institutions that lead to poor PFM performance (Leiderer et al. 2007, 16). One that does is Rakner et al. (2004), which explicitly examined the effect of formal and informal budget institutions in Malawi. Rakner et al. (2004, v) identifies four main reasons for the continued poor budget process in Malawi:

- a) Incentives to the key stakeholders in the civil service, the executive branch, the parliament (MPs) and the private sector appear to undermine the formal processes and institutions at each stage of the budget process.
- b) Accountability institutions are not effective, since they are undermined by subversion, underfunding and political patronage.
- c) Currently, civil society in Malawi is not vociferous enough in its demands for economic accountability.
- d) Donor conditionality linked to economic accountability has unintended consequences.

Another study that considers how the co-existence of formal and informal PFM institutions in a neo-patrimonial system affects PFM performance at local government level (again in Malawi) is Leiderer et al. (2007). Like Rakner et al. (2004), it observes that actual PFM practices and in particular the budget process deviate significantly from formal rules and procedures. Rather than being guided by the generally well-designed formal PFM framework, actual PFM processes are characterised by three main features: (i) an *ad hoc* mode of planning and budgeting; widespread informal practices; and uncertainty about formal rules, the availability of financial resources, roles and responsibilities, political developments and the progress of reforms (Leiderer et al. 2007, 125-129). According to Leiderer et al. (2007, 138-140), it is mainly this systemic uncertainty that leads to the adoption of informal rules and procedures in everyday PFM. The root causes identified for this uncertainty are:

- **Lack of resources:** Inadequate salaries for PFM staff and lack of funding for necessary formal PFM procedures lead to shortages of qualified staff and ad hoc planning and budgeting and encourage informal procedures;
- **Unpredictability of donor funding:** A high degree of uncertainty in a PFM system can be caused by a lack of predictability of donor funds, which includes the actual amounts, time of disbursement and possible reductions. If donor commitment is not well coordinated with the relevant government, delays of originally appropriated funds (or unexpected additional funding) can lead to financial shortcomings (or unforeseen exuberance) and thus promote *ad hoc* budgeting;
- **Lack of capacity:** A lack of capacity in the PFM system may take various forms. Firstly, a lack of personnel (e.g. a shortage of qualified staff) may lead to excessive workloads, cause key tasks to be neglected and encourage *ad hoc* planning and budgeting and informal procedures. The adverse effect of a lack of personnel may be further exacerbated by high staff turnover, long and/or unpredictable recruitment processes and insufficient equipment and financial resources;
- **Coordination challenges:** The absence of or deficient communication between the various stakeholders in a PFM system can lead to increased uncertainty among them, resulting in the use of informal communication channels rather than formal coordination mechanisms and so undermining the formal institutional and legal infrastructure;
- **Lack of commitment:** A lack of political commitment is another crucial determinant of uncertainty in a PFM system with regard of what actually motivates political actors and civil servants to adhere to and enforce formal rules.

While these constraints may at first sight appear to be either external factors or deeply rooted in the social and political system, Leiderer et al. (2007, 16) argue that not all non-adherence to formal PFM rules and procedures can be blamed on “cultural” factors (Leiderer et al. 2007, 16). They may in fact represent pragmatic second-best (i.e. efficient, given the existing constraints) solutions to unexpected problems and shortcomings in an environment of uncertainty (Leiderer et al. 2007, 125).

If this analysis is correct, it has an important implication for PFM reforms in typical neo-patrimonial systems in sub-Saharan Africa: it should be possible to improve the efficiency of PFM in African countries not only in the long-term time frame of 15 to 25 or more years that is usually suggested in the literature, but there should also be scope for at least modest early gains, which could be exploited more systematically if the underlying mechanisms were better understood.

The scope for such ‘non-systemic’ improvements of PFM (i.e. improvements that can be achieved through replicable technical rather than systemic changes) is the focus of this study on local PFM in Zambia. The following chapter explains the approach adopted to explore the potential for such non-systemic improvements in (local) PFM in what is argued to be, to some extent, a typical (and thus representative) African state.



**Table 1: HPIC / PEFA indicators by country and dimension (2001-2007)**

	INFO					POL				
	2001	2004	2007	2010		2001	2004	2007	2010	
<b>Benin</b>	9	9	7		–	6	7	5		=
<b>Burkina Faso</b>	8	8	10	11	+	8	8	7	7	–
<b>Cameroon</b>	8	8	8		=	4	5	6		+
<b>Chad</b>	10	10		7	–	5	5		5	=
<b>Ethiopia</b>	8	10	8		=	5	5	7		+
<b>Gambia</b>	8	8		8	=	5	4		4	–
<b>Ghana</b>	6	8	9	9	+	5	5	6	6	+
<b>Guinea</b>	8	9	8		=	4	4	5		+
<b>Madagascar</b>	10	10	10	9	–	5	6	5	5	=
<b>Malawi</b>	9	8	8	9	=	6	5	5	6	=
<b>Mali</b>	9	10	10		+	6	7	8		+
<b>Mozambique</b>	7	7	8	8	+	5	5	6	5	=
<b>Niger</b>	9	9		10	+	4	4		5	+
<b>Rwanda</b>	10	8	9		=	7	7	5		–
<b>São Tomé &amp; Príncipe</b>	8	9	8	7	=	3	3	3	4	+
<b>Senegal</b>	9	9	7		–	5	6	6		+
<b>Tanzania</b>	8	9	9	8	=	7	7	7	7	=
<b>Uganda</b>	10	8	8	8	–	7	6	7	7	=
<b>Zambia</b>	7	6	6	9	=	3	4	6	7	+
Note: INFO: Transparency and comprehensiveness; POL: Linking budgets, policies and plans; CTRL: Control, oversight and accountability. The original letter scores from HIPC assessments and the 2007 PEFA are converted into numerical scores										

	CTRL					TOTAL				
	2001	2004	2007	2010		2001	2004	2007	2010	
<b>Benin</b>	9	8	7		–	24	24	19		–
<b>Burkina Faso</b>	8	9	9	10	+	24	25	26	28	+
<b>Cameroon</b>	8	8	7		–	20	21	21		+
<b>Chad</b>	5	8		6	=	20	23		18	=
<b>Ethiopia</b>	8	8	10		+	21	23	25		+
<b>Gambia</b>	8	5		5	–	21	17		17	–
<b>Ghana</b>	4	9	10	8	=	15	22	25	23	=
<b>Guinea</b>	7	8	6		=	19	21	19		=
<b>Madagascar</b>	7	7	7	7	=	22	23	22	21	=
<b>Malawi</b>	8	7	6	7	=	23	20	19	22	=
<b>Mali</b>	10	9	8		–	25	26	26		+
<b>Mozambique</b>	9	7	10	10	=	21	19	24	23	=
<b>Niger</b>	6	8		5	=	19	21		20	=
<b>Rwanda</b>	6	6	7		+	23	21	21		–
<b>São Tomé &amp; Príncipe</b>	7	6	4	5	=	18	18	15	16	=
<b>Senegal</b>	8	9	8		=	22	24	21		=
<b>Tanzania</b>	9	9	10	9	=	24	25	26	24	=
<b>Uganda</b>	8	9	8	8	=	25	23	23	23	–
<b>Zambia</b>	7	8	8	9	+	17	18	20	25	+
(A = 3, B = 2, C = 1). The numerical scores are then added up for each individual indicator included in the three dimensions of budget institutions. The + indicates an improvement, the – deterioration and the = unclear trend.										
Source: de Renzio / Andrews / Mills (2010)										

### 3 Research question and strategy

This chapter first explains the main research question and the research strategy that was developed during the desk study phase (November 2009 to January 2010) and refined in the course of a three-month period of field research in Zambia from February to April 2010.<sup>13</sup> It goes on to explain the conceptual framework and empirical approach adopted for the study. It ends with a discussion of the empirical challenges and necessary adjustments to the initial empirical approach made in the course of the field work after numerous interviews with a wide variety of governmental and non-governmental stakeholders at central level. The reason this structure was chosen is that the constraints that made these adjustments necessary are considered important findings of the research in their own right.

#### 3.1 Research question and hypotheses

As outlined in the previous chapter, the main research interest of this study is to find evidence of “non-systemic” determinants of inefficiency in public financial management in a “typical” neo-patrimonial African state which would allow efficiency gains to be achieved through replicable short-term technical rather than long-term systemic changes and interventions. The focus is on operational efficiency, i.e. *the translation of allocated resources into results* (see Section 2.2).

Most research on PFM in developing countries suggests that reforms that can lead to improvements in PFM performance and to efficiency gains are long-term processes for which 15 to 25 years is a realistic time frame (Leiderer 2005, 4). Given the enormous challenge posed by the urgency of using public resources in the most effective way possible to achieve the MDGs, it is imperative to identify mechanisms that can improve PFM system performance over a shorter time horizon.

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13 Annex 6 shows the timetable of the research project.

The overarching research question is therefore:

**What scope is there for improving the operational efficiency of PFM in sub-Saharan African countries in the short and medium term?**

The starting point for this research is the hypothesis that there is indeed potential for short- and medium-term improvements in operational PFM efficiency.<sup>14</sup> Given that PFM reforms are highly political and complex exercises, it could be argued that such short-term efficiency gains are possible only if at least some of the underlying causes of operational inefficiencies are not 'systemic' in the sense that they can be addressed only by means of long-term systemic reforms. In other words, quick, yet sustainable, efficiency gains can only be expected if – besides obvious external causes (such as geographical or climatic factors) and systemic determinants of inefficiencies – there are at least some 'non-systemic' determinants of operational inefficiency that can be addressed with technical interventions other than systemic PFM reforms.

It seems fair to assume that the potential for such technical solutions is greater, the more remote the "political sphere" of PFM processes becomes. For this reason, we decided to focus the search for short-term gains in operational efficiency on the last step in the process of budget execution, i.e. the provision of public services at user level. The basic idea is that it should be possible to improve the efficiency of service delivery at this level even before long-term PFM reform efforts take effect.

In sum, our main hypothesis is that

**Besides systemic and external determinants affecting Public Financial Management in sub-Saharan Africa, there are also non-systemic determinants that create potential for enhancing efficiency in service delivery in the short term.**

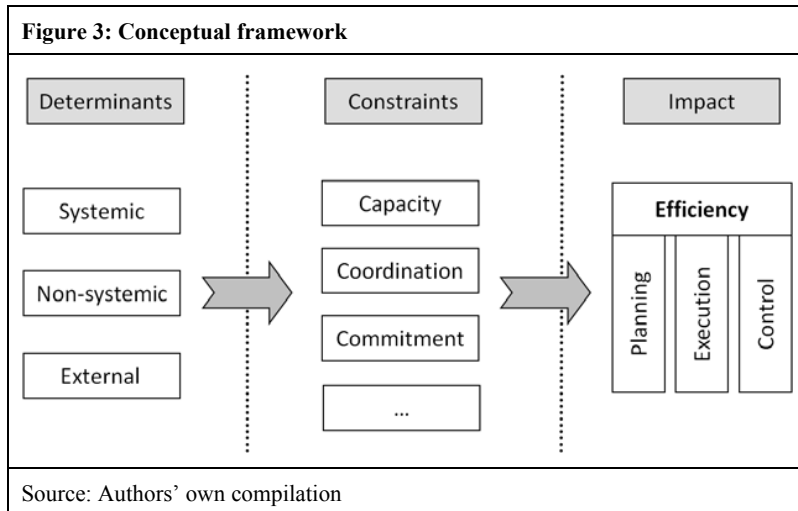
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14 If operational PFM efficiency was improved, the effectiveness of such aid modalities as budget support would also be enhanced, since the funds channelled through the recipient government's PFM system would be used more efficiently in their entirety. Given that this research was undertaken in the context of an evaluation of budget support, an implicit secondary research interest of this study is therefore the possibility of the effectiveness of budget support being enhanced through the improvement of operational PFM efficiency.

This hypothesis is based on earlier research on PFM performance in neo-patrimonial systems and implies that there are essentially three types of determinants impacting on the operational efficiency of service provision in sub-Saharan African:

- external determinants impacting on the efficiency of PFM systems, such as geographical or climatic factors, which cannot be influenced either by internal or external actors.
- ‘systemic’ determinants of inefficiencies such as economic, political and cultural factors that can be addressed – if at all – only in the medium to long term and cannot be expected to be eliminated by mere technocratic PFM reforms.
- ‘non-systemic’ determinants that can be addressed with ‘technical’ reforms in the sense that they do not require changes to systemic political or institutional structures in order to improve the operational efficiency of service provision in the short and medium term.

These determinants affect efficiency through a variety of transmission mechanisms or constraints. Figure 3 illustrates this conceptual understanding of how inefficiencies arise at the various stages of the budget cycle: each underlying cause (or determinant) affects efficiency through different transmission mechanisms or constraints, such as those suggested by Leiderer et al. (2007): (1) lack of coordination, (2) lack of capacity, (3) lack of commitment.



Should, on the other hand, the hypothesis prove to be wrong, i.e. should there be no non-systemic determinants of operational inefficiencies, the expectation would be that the scope for short-term efficiency gains was very limited. In this case, the only short-term gains in operational efficiency that could possibly be achieved would be at the 'constraint' level. Such 'technical' solutions, however, would be likely to bring about only local and temporary efficiency gains that might not be sustainable, since the underlying systemic drivers would remain unaddressed.

This would have important (negative) implications for the scope for 'quick gains' in the area of PFM reform in most sub-Saharan African countries.

## 3.2 Research strategy and case selection

### 3.2.1 Empirical approach

The main aim of this study is to identify non-systemic determinants of inefficient service provision in sub-Saharan Africa so that – where possible – recommendations for addressing them in the short or medium term can be made. To answer the main research question formulated above, it is useful to reformulate the main hypothesis so that it can be tested (i.e. rejected):

**H<sub>0</sub>: There are no non-systemic determinants for inefficiencies and, as a consequence, there is no short-term potential for enhancing PFM efficiency in sub-Saharan Africa.**

Testing this hypothesis empirically, however, poses three major challenges. The following sections describe our approaches to addressing these challenges.

Testing this hypothesis empirically, however, poses three major challenges. The following sections describe our approaches to addressing these challenges.

- There is no absolute measure of efficiency of service delivery. The only sensible way to identify non-systemic inefficiencies and their underlying causes therefore seems to be to compare relative efficiency measures of the performance of similar entities.
- What we define as systemic determinants (in combination with external determinants) can generally be expected to be the dominant drivers of inefficiencies in service provision. These systemic and

external determinants are obviously very context-specific. Hence, even within sub-Saharan Africa, where we argue political systems share a range of common features that impact on PFM performance (see Section 2.4), cross-country comparisons do not seem an appropriate way to identify non-systemic determinants (in the sense defined above) of inefficiencies in sub-Saharan African PFM systems, since the latter are likely to be obscured by much more important differences in systemic and external causes. A more appropriate approach, then, is to examine the variation of operational efficiency within one country so that one major source of possible (systemic) variation in efficiency measures, namely all country-specific factors, may be kept constant.

- Even when a significant share of potential systemic determinants is kept constant, it is still an empirical challenge to identify and distinguish between systemic and non-systemic determinants of inefficiencies. Most importantly, it seems implausible that such identification should be possible by means of purely quantitative comparisons of relative efficiency measures. Instead, a thorough qualitative study of underlying causes and causal links leading to inefficient service provision seems a more appropriate avenue to make this distinction.

As a consequence of these considerations, a qualitative comparison at sub-national level in an arguably “typical” sub-Saharan African country has been identified as the most appropriate way to identify non-systemic determinants of inefficiencies in service delivery in neo-patrimonial systems. The prime focus must therefore be on the principal question whether such short-term technical solutions exist at all, rather than on the identification of concrete solutions that could be replicated across the continent.

The following sections describe the justification for choosing Zambia as a case for this empirical approach and the rationale for the sector selection for this comparative approach at subnational level.

### 3.2.2 Country case and sector selection

Zambia has been identified as an appropriate country case for this research for a number of reasons: to begin with, a joint evaluation of budget support (led by the Netherlands, Germany and Sweden) has been under way in Zambia since February 2010 (de Kemp / Faust / Leiderer 2011), using a com-

prehensive budget support evaluation framework for the first time. Our research has made a direct contribution to that evaluation by considering determinants of inefficiencies in service provision at local government level. Its aim in this was to help fill some of the attribution gaps along the complex causal chain from budget support inputs to the impact of public service provision in the various dimensions of poverty.

Besides the fact that a large-scale evaluation of budget support was taking place in Zambia at the same time as our research, there are a number of factors that make Zambia a particularly useful case for an in-depth study of the issues of interest in this research: they include neo-patrimonial structures, a scarcity of resources and a large number of external donors influencing the course of politics. As Chapter 5 argues, these features taken together may to some extent be regarded as those of a “typical” sub-Saharan African country. It may therefore even be possible to establish some degree of external validity of findings on the potential for efficiency gains, which could be useful in the formulation of recommendations in similar country contexts.

Three sectors have been selected for in-depth studies of determinants of operational inefficiency: infrastructure/roads, education and health. These three sectors were chosen for various reasons: they are all included in the evaluation of budget support in Zambia,<sup>15</sup> which increased the potential for our research to make synergetic contributions to that evaluation. Furthermore, all three sectors have been identified as priority areas in Zambia's national development strategy (Fifth National Development Plan, FNDP) and play a particularly important role in poverty reduction and the achievement of the Millennium Development Goals (MDGs) in Zambia.

A thorough analysis of the sectors chosen suggests that an even narrower focus on particular subsectors is appropriate to the approach envisaged for this research, since very distinctive planning and budgeting systems and service delivery procedures exist within each sector. We therefore selected subsectors in the health, education and road sectors for an in-depth analysis of determinants of inefficiencies in PFM related to service delivery. They are basic health care, primary education and rural road maintenance.

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15 In addition to infrastructure, health and basic education, the budget support evaluation covers agriculture.



### 3.2.3 District case selection

This section outlines the initial approach envisaged for case selection, while Section 3.3.2 describes the changes that became necessary during the empirical research. To select meaningful cases, i.e. good and bad performers in service delivery, an appropriate measure of “relative” efficiency had to be identified. That measure needed to establish a relationship between a representative output or performance measure and the resources employed to produce the output. For performance measures of service delivery in the three sectors, using administrative data seemed straightforward. Ideally, they would be the same data as used in the sector studies for the joint budget support evaluation. Determining the level of resources employed was expected to be more challenging owing to the possibly wide variety of sources and mechanisms for the funding of public service provision.

In total, four comparable districts were to be selected during the field trip, a number we deemed reasonable in view of the available time and human resources. To identify determinants of inefficiencies, the principal approach adopted was to compare good and bad performers to find out what factors might explain the difference in performance. To keep external and systemic factors as constant as possible, districts situated within the same province and of roughly the same size and topography were to be chosen.

Two strategies for the selection process seemed possible during the desk study phase. One would have been to select districts which perform significantly better or worse than others in all three of the subsectors selected. Depending on the empirical data, this approach might have necessitated the development of a procedure for combining efficiency measures for the three subsectors to form one aggregate measure. A second option was to identify good and bad performers in each of the three subsectors and select those who exhibited enough overlap with at least one other sector so that the case number might be reduced to four (two good and two bad performers).

The first approach seemed less appropriate for our case selection primarily for two reasons: first, aggregating the efficiency indicator across three subsectors increases the risk of selecting districts that perform especially well or badly owing to unobserved confounding factors that affect efficiency uniformly across sectors and are not the prime interest of our research (e.g. geographical or climatic factors). Second, a further risk inherent in a selection strategy of that kind is that good and bad performers who differ sig-

nificantly in only two of the three subsectors will be compared. Little or no insight could then be gained into non-systemic determinants of inefficiencies in the third subsector.

Consequently, the preferred selection strategy was to look for sufficient overlap of performance in at least two (separately assessed) subsectors so as to reduce the number of cases to four (i.e. two good and two bad performers). We were aware that the feasibility of this strategy depended on the availability of data in Zambia. The plan was therefore to complement quantitative data with expert interviews in the various sectors.

### 3.2.4 Qualitative identification of non-systemic determinants

After a set of good and bad performers has been selected, differences in efficiency should be examined in detail with a view to distinguishing systemic from non-systemic determinants.

Distinguishing between systemic and non-systemic determinants, however, poses an analytical challenge. It can be done only by systematically tracing the causal chains leading to observed inefficiencies and assessing qualitatively the extent to which the underlying causes are systemic or non-systemic as we have defined these terms. It can thus be argued that qualitative in-depth case studies constitute the most appropriate approach to the identification of non-systemic determinants of inefficiencies in service provision.

The constraint pattern that Leiderer et al. (2007) identified in their study of local PFM in Malawi (lack of resources, lack of coordination, lack of capacity, lack of commitment) served as a starting point for this analysis, with the option of incorporating additional constraints in the analysis on the basis of the empirical findings.

As the constraints identified can be expected to impact on the efficiency of PFM at every stage of the budget cycle (planning, implementation, control), we envisaged identifying causal links for inefficiencies observed at each of these stages. The qualitative approach to establishing this causality has proved appropriate in similar research contexts<sup>16</sup> and is described in detail in Annex 1.

### 3.3 Empirical challenges

From mid-February to April 2010 we undertook field research in Lusaka and in four districts (Chadiza, Katete, Mkushi and Mumbwa). The plan was to carry out the empirical research in two phases. During the first phase of field research we envisaged collecting administrative data and conducting interviews at central level (mainly with government officials of the various line ministries and donor representatives) with the aim of selecting cases for comparison. The second step entailed qualitative in-depth case studies, mainly consisting of interviews with different stakeholders at central, provincial, district and community level in the selected cases. The interviewees included politicians and administrative staff at the various government levels and staff of multi- and bilateral donor agencies and NGOs.

During the research, two major adjustments to the original approach had to be made in both phases. The underlying factors that made these adjustments necessary are considered to be relevant findings in themselves. The following sections therefore give a detailed description of the challenges faced during the case selection process and the in-depth case studies and of the adjustments made.

#### 3.3.1 Challenges in the case selection

During the research process, the strategy originally planned for the case selection had to be revised because of several (data-related) challenges. The initial research phase at central level in Zambia revealed that it was not possible to select cases for an in-depth case study as rigorously as an ideal framework using quantitative methods might have suggested. In every sector analysed for this study certain conditions made it impossible to establish a relative efficiency measure with which to identify good and bad performers for comparison. Even though the prerequisites are slightly different in each sector, some general restrictions on establishing an efficiency measure obtain in all three sectors.

Firstly, funding flows from central to district level are often complex, making a clear attribution of resource input to a certain service, such as learning and teaching materials, impossible. Secondly, in many cases not enough

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16 See, for example, Ashoff et al. (2008) or Leiderer et al. (2007).

reliable performance data are available to measure the output level, and data collection seems to concentrate far more on outcome and impact levels of service delivery than on financial inputs and outputs, i.e. quality and levels of services provided. Thirdly, such external factors as donor interventions could not be adequately controlled for owing to a lack of data at central government level. These factors made it impossible to establish a reliable efficiency measure that took account of resource input and performance output and so enabled districts to be compared. To make the difficulties more explicit, the challenges in each sector are briefly described in the following.

The first difficulty encountered in the education sector was in determining which funds were spent on which activities at district level. A large proportion of the funds are earmarked, but some are not designated for a specific activity. One example is the school grant, which can be spent on different educational inputs, such as textbooks, learning materials and the maintenance of school buildings. How the non-earmarked funds were used could not be determined from the data available at central government level. It was therefore difficult to define the input aspect of our efficiency measure.

In addition, some of the data made available seemed unreliable. Thus the absolute number of school books in a district fell in one particular year, only to rise steeply again the following year. However, funding designated for school books in the same district remained stable, yielding a negative efficiency value for textbook procurement for the year in which textbooks decreased and an extremely positive value for the following year. These major fluctuations made it impossible to compare efficiency in various districts with our efficiency measure.

Finally, external non-budget interventions by CPs or NGOs could not be kept constant owing to a lack of information on these activities at headquarters and of comprehensive data on CP interventions in the districts. This last point is also true of the health sector.

From the outset, establishing an efficiency measure for the health sector was not as straightforward as for the other sectors. This was mainly due to the large proportion of resources provided in kind by the central level for the districts. The most interesting and feasible indicator of efficiency seemed to be the drug delivery system. However, as drugs are procured at central level, it was not possible to measure money flows from the central level against the purchase of drugs at local level. The Health Management

Information System (HMIS) operated by the Ministry of Health was therefore consulted to identify suitable indicators of health sector output variables. As in the other sectors, the HMIS collects data mainly on outcome and impact indicators, such as disease prevalence rates. Such output indicators as the use of health centre drug kits and meeting the requirement to forward data for the HMIS did not vary significantly among the districts and could not therefore be used to identify good and bad performers.

In general, the team gathered data on releases of districts grants. Information was available on the ceilings imposed by central government, but not on how the funds were actually spent on such tasks as maintenance, construction or procurement of items. This makes the establishment of an efficiency measure difficult. Furthermore, central government had no overview of CP inputs. Only the districts themselves seem aware of the full allocations they receive from different funding flows. This made it impossible to check for non-governmental inputs at the time of case selection.

In the road sector, establishing a reasonable efficiency measure was hampered by the complex institutional system, which has led to a fragmented reporting system involving various institutions. Reporting from district to national level is incoherent, since it entails multiple reporting lines to different ministries and agencies, depending on the origin of the funding flow. Consequently, there was a lack of clarity among the institutions at central level about responsibility for evaluating data submitted by local government. Only one actor, the National Road Fund Agency (NRFA), was able to provide the team with data on rural road projects that have been carried out since 2002. The data we received are not exhaustive, i.e. they do not cover all past rural road maintenance projects, only those that have received funding from the NRFA. Information on other funding flows for rural road maintenance, from the MoLGH and RRUs, for example, could not be made available. It remained unclear if this was due to a lack of data, a lack of information on the availability of data from the relevant actors or unwillingness to provide an external research team with data. An additional constraint on the establishment of an efficiency measure in the road sector was the finding that, in the last eight to nine years, few districts have undertaken regular road maintenance work. Road work had been carried out in only four provinces during that period, and even in those four provinces not all districts benefited from projects implemented by the Road Development Agency (RDA).

### 3.3.2 Revised case selection approach

Faced with the challenges to our original approach to district case selection, we adjusted our initial strategy and developed a slightly different method of selecting case districts. As meaningful efficiency measures could not be established in all three sectors on the basis of quantitative data, we decided to use our alternative qualitative selection strategy, taking into account expert statements on the various sectors during interviews with government officials, NGOs and donors.

However, this qualitative approach turned out to pose just as many problems for the selection of comparable districts. Statements gathered during interviews in Lusaka on the efficiency of service delivery in the various sectors in individual districts always referred to the impact of such factors as immunisation rates in the health sector. No information could be obtained on the performance of districts at the operational efficiency level, even after extensive interviews with relevant actors at the ministries and non-governmental institutions. In all three sectors, the relevant governmental and non-governmental stakeholders were unable to provide information on operational efficiency owing to a lack of data on that level.

As both strategies used for case selection – the quantitative and the qualitative method – had failed, we were forced to revise the approach we had originally planned and find a new strategy to identify appropriate and relevant cases.

The new choice of selection criteria for the districts was based mainly on the premise that, while interesting cases should be found for each of the three sectors, it should be ensured there was sufficient overlap of possible cases for the case selection to be restricted to a total of four comparable districts. When selecting these four districts, we also sought to ensure a maximum degree of comparability in terms of size, population and degree of urbanisation. Moreover, as the provincial administrative level has its own management and coordination responsibilities, an important factor that can have an influence on the PFM system at local government level, we chose to select districts from only two provinces.

The first step was to identify interesting cases in each sector. However, as each sector has its own distinctive institutional set-up and organisation of financial flows, different selection criteria had to be applied to each: for roads this was done partly on the basis of an efficiency measure and partly on the basis of output indicators (kilometres of roads maintained). In the

education sector identification had to be based exclusively on output indicators (such as the schoolbook-to-pupil ratio or the number of classrooms constructed). In health, identification based on input indicators was possible owing to two on-going pilot projects introducing new approaches to drug distribution and performance-based staff remuneration in a number of districts.

Given these different characteristics of the three sectors, the need for sufficient overlap of sector cases required some compromise with regard to the comparability of the districts selected. In particular, the districts selected differed somewhat in terms of their links to the national road network (see Table 2).<sup>17</sup>

Precisely how these differences were identified in each sector is explained in the following.

### **Selection criteria roads**

From the data provided by the NRFA, we first identified those districts where rural road work had been carried out since 2002, reducing the sample to districts in four provinces. In two of them, Central and Eastern Province, significantly more projects had been carried out in a larger number of districts than in the other two provinces (Southern and North-Western). Moreover, Central and Eastern Province are similar in that they are both connected to an important trunk road. In the district selection process we therefore concentrated on these two provinces. With the data provided for the road sector we were able to construct an efficiency measure in line with the approach originally planned. This measure was constructed on the basis of the number of kilometres (output) worked on in each district since 2002 and the costs involved (input). Serious doubts about the reliability of this indicator remain, however, given the complex institutional system and resulting fragmented reporting system.

In addition, rural road maintenance is bound to involve significant fixed costs, since heavy machinery, for example, usually has to be moved to remote areas from the provincial capital or Lusaka. A comparison of unit costs between districts is therefore meaningful only in cases where similar

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17 Proximity to a trunk road can be expected to affect cost efficiency through the transport costs for material and supplies. This is of particular relevance to the road sector, since fixed costs increase when the machinery has to be transported to the construction site over long distances.

numbers of road kilometres have been covered. Indeed, a closer analysis of our efficiency measure revealed that, in most cases, costs per kilometre decreased with the increase in the number of kilometres covered in the district, indicating that the more work carried out, the greater the efficiency. This finding could, of course, simply indicate a more efficient use of resources; it is more likely, however, to be at least partly caused by the high fixed costs associated with road works. One indication in support of the latter explanation is that, as a rule, districts in close proximity to a main road seem to have been able to work on more kilometres at lower costs.

Nonetheless, two districts in Eastern Province provided interesting cases as regards the efficiency measure and seem to refute the argument concerning fixed costs: Chadiza maintained a comparatively large number of kilometres of road at a relatively high unit price, while Katete achieved an apparently low unit cost despite having maintained relatively few kilometres of road.

Unfortunately, no such cases could be identified in Central Province. Concerned about the reliability of data on inputs, we therefore decided to select districts in Central Province solely on the basis of the output indicator (kilometres of roads maintained). Here we selected the districts with the largest (Mkushi) and lowest (Mumbwa) number of kilometres maintained, in the hope of identifying the reasons for these differences and possibly assessing the relevance of fixed costs in this subsector.

### **Selection criteria health**

In the health sector, a lack of interesting output data – in the sense that there was no significant variation – made it necessary to adopt a different approach. Two districts were identified as interesting cases on the basis of input indicators, specific features distinguishing them from other districts. Mkushi in Central Province had been chosen as a pilot district for a new drug distribution system, and Katete in Eastern Province was a pilot for the performance-based financing of health services by the World Bank. This variation in input permitted the use of the original approach of comparing different approaches to public financial management rather than good and bad performers. In addition to the pilots, two other districts in the provinces concerned were chosen as cases without specific pilot projects for comparison with Mkushi and Katete, overlaps with the other sectors being sought.



## Selection criteria education

For case selection in the education sector it was decided to identify relevant districts by comparing their performance in supplying educational inputs, rather than comparing their relative efficiency in providing these inputs. As we were not able to establish reliable efficiency measures, it was decided to select districts with differing performance in service delivery and then to consider whether differences observed in operational efficiency might explain the difference in the performance of the districts. To this end, two output indicators were identified: the book-pupil ratio and the pupil-classroom ratio. The availability of textbooks and that of classrooms were seen as two important aspects of service delivery in basic education.

As the group of potential districts had already been narrowed down with the selection criteria adopted for the road sector to districts in two provinces, all districts within Eastern and Central Province were analysed using the two selected indicators. In Eastern Province the two districts of Katete and Chadiza were found to have book-pupil ratios for grades 1 to 7 in 2008 of 3.34 and 2.58, respectively, meaning that more books were available per pupil in Katete than in Chadiza. Similarly, Katete had a lower ratio of pupils to permanent classrooms (112:1) than Chadiza, where the average ratio was 167 pupils to one permanent classroom.<sup>18</sup> In Central Province the two districts of Mkushi and Mumbwa had book-pupil ratios for grades 1 to 7 in 2008 of 2.20 and 2.09, respectively. Although there was no great difference between the book-pupil ratios in the two districts, the numbers of pupils per permanent classroom differed substantially. At 138 pupils per permanent classroom, the figure for Mkushi was considerably lower than that for Mumbwa (171). As the four districts were also interesting cases in the other sectors and as the districts differed significantly as regards their performance in service delivery as measured by the two indicators selected, they were seen as suitable for an in-depth case study of the education sector.

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18 The numbers of pupils per permanent classroom presented here are very high for two reasons. Firstly, more than one class uses a classroom each day, classes being taught in two shifts, one in the morning, the other in the afternoon. Secondly, pupils are also taught in temporary classrooms. However, in these statistics the total number of pupils in a district is given in relation to the number of permanent classrooms.

After the cases had been chosen for each sector, overlaps were identified and four districts selected for in-depth case studies: Mumbwa and Mkushi in Central Province and Katete and Chadiza in Eastern Province.

<b>Table 2: District profiles</b>					
<b>District</b>	<b>Province</b>	<b>Size in km<sup>2</sup></b>	<b>Constituencies</b>	<b>Wards</b>	<b>Population</b>
Mkushi	Central	14,608	2	15	125,575
Mumbwa	Central	23,800	3	20	234,762
Katete	Eastern	3,877	3	28	182,498
Source: Own compilation based on District Development Plans (2006-2010)					

### 3.3.3 Challenges to the identification of non-systemic determinants

A second challenge encountered during the research concerned the identification of non-systemic determinants. Differences in output performance in the various sectors could not be attributed to differences at the level of operational efficiency, since differences between PFM systems could not be identified at district level. Health was the only sector where differences in operational efficiency were observed in one area of health service delivery, drug distribution. This identification was based on a comparison of the pilot district with the districts using the conventional drug distribution system. For roads and education and for the health sector excluding drug distribution, however, a comparative approach was not feasible since differences in output performance could not be attributed to differences at the level of operational efficiency.

As a result, a comparative approach failed to reveal whether systemic or non-systemic factors were the underlying determinants of inefficiencies. A modified strategy therefore had to be developed to identify non-systemic determinants. Instead of a comparative approach, we decided to use a descriptive-analytical approach to identify determinants of inefficiencies. This approach was operationalised by qualitative methods, consisting mainly in interviews, observations and a document review.

The interviews followed semi-structured guidelines adjusted to the individual interviewee. In addition to interviews, data were gathered through the

collection and review of official documents and grey literature in and outside government agencies at all administrative levels. Data gleaned from a number of non-participatory observations, such as field trips with council staff to observe road works, and informal conversations complemented the information gained from interviews and documents.

The data were subjected to an analysis based on qualitative methods (see Annex 1). Apart from the triangulation strategy, theoretical coding was used on the basis of the four analytical categories identified (capacity, commitment, control, coordination).

Before the focus turns in Chapters 6, 7, and 8 to the specific situations in the education, health and road sectors in Zambia, the next two chapters give some country background information (Chapter 4) and a description of the PFM system in Zambia (Chapter 5), so that the reader may have an overview of general systemic PFM conditions.

## **4 Background information on Zambia**

This chapter serves to provide some historical, economic and political background information on Zambia. It is divided into four sections describing Zambia's history until its transition to democracy in 1991, the political system, the administrative set-up and the country's socio-economic development. The chapter continues with an overview of Zambia's Fifth National Development Plan (FNDP) and ends with some information on budget support in Zambia.

### **4.1 Historical background**

After Zambia gained independence from the United Kingdom in 1964, it experienced a short period of multi-party democratic rule known as the First Republic. A Westminster-style parliamentary system was adopted, featuring an elected national assembly and party pluralism. However, the Constitution granted the President extensive executive powers, which left little room for parliamentary or judicial control. In his initial years in office, Kenneth Kaunda formulated a socialist and anti-colonial ideology aimed at forging a national identity under the slogan "One Zambia – One Nation". Kaunda's concept of "Zambian humanism" sought to create a

community of mutual support and cooperation so that tribal fragmentation might be overcome (Burnell 2001, 245). The First Republic came to an end because of Kaunda's failure to form broad-based coalitions. To safeguard his presidency against the coalition formed by the United Progress Party (UPP) and the African National Congress (ANC) in 1971,<sup>19</sup> Kaunda proclaimed a one-party state in December 1972 and banned all political parties apart from the United National Independence Party (UNIP). Officially, the Second Republic was known as a "one-party competitive system". In the literature it is commonly referred to as a "mild dictatorship" or a "weakly authoritarian state" (Erdmann / Simutanyi 2003, 4). Although Zambia was formally a one-party state, all executive power was vested in the Office of the President rather than the Party's Central Committee. In addition, the President's personalised style of decision-making, the absence of democratic control mechanisms and the arbitrary use of force against regime critics generally discredited the government's rhetorical use of the term "participatory democracy".

With the oil crisis of the 1970s and the fall in world-market copper prices by around 50 per cent in 1975, Zambia experienced a continuing period of economic decline, which lasted until the mid-1990s (Gahrman, 11). The government's inability to resolve the economic crisis led to mounting social unrest and protests in Zambian society.<sup>20</sup> The Copperbelt Province, where trade unions had called strikes since the mid-1980s, proved to be a political powder keg (Bratton 1999, 553). In 1990, leaders of the Zambia Congress of Trade Unions (ZCTU) and former UNIP members founded the Movement for Multiparty Democracy (MMD) to push for democratic change, which, after a constitutional amendment re-introducing a multiparty democratic system, led to the Third Republic. In the following parliamentary and presidential elections in October 1991 the MMD secured nearly 75 per cent of the votes cast, taking its leader, the trade unionist Fredrick Chiluba, into the Presidential Office.

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19 The ANC had won around 30 per cent of the votes in the 1964 and 1968 parliamentary elections and agreed to a coalition with the UPP, a party mostly composed of former UNIP members.

20 Urban protests against the abolition of food subsidies led Kaunda to pull out of the IMF Structural Adjustment Programme (SAP) in May 1987.

## 4.2 Zambia's political system

Zambia's transition to democracy was celebrated as a model for peaceful democratic change on the African continent (Bratton 1992, 81). After the introduction of general and free elections in 1991, Zambia developed a multi-party system. In the early 1990s the party landscape was largely unstable as different parties appeared, merged and disappeared (Burnell 2001). It is only since the last three elections that there has been a trend towards a more stable and lasting multi-party system. Political parties often lack a solid financial basis and local recognition (Erdmann / Simutanyi 2003, 75).

Until 1991, UNIP under its leader President Kenneth Kaunda was the most prominent political party. In 1991 the opposition party MMD won a majority in parliament and has since led the government. With the emergence of the Patriotic Front (PF) as the second largest party when it won nearly 39 per cent of the votes in the 2006 parliamentary elections, the Zambian party system changed significantly. Drawing on urban opposition to the MMD's neo-liberal reform policy, the PF won the majority of votes cast in urban areas<sup>21</sup> (Larmer / Fraser 2007, 611). The trend towards a more stable party system has continued since the last elections.

The regime that has emerged in Zambia since its democratic transition in 1991 cannot be regarded as a completely liberal democracy, because a considerable array of civil liberties have not been introduced. It has been described as an "unconsolidated democracy" (Simon 2005, 200) and as an "authoritarian regime that did not completely reverse the transition into a democratic regime and oscillates between democracy and dictatorship" (Erdmann / Simutanyi 2003, 2). Although the 2009 Freedom House Index<sup>22</sup> classifies Zambia as an electoral democracy with such democratic institutions as competitive, multi-party elections, universal adult suffrage and access of political parties to the electorate through the media and through generally open political campaigning, Zambia is rated as being only "partly

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21 PF strongholds are the Bemba-speaking areas of Northern Province, Luapula Province, Copperbelt Province and Lusaka.

22 The Freedom of the World Report is an annual report published by the US-based Freedom House. It attempts to measure degrees of democracy and political freedom worldwide. The scores represent the levels of political rights and civil liberties on a scale from 1 (most free) to 7 (least free). Depending on the scores they achieve, nations are then classified as "free", "partly free" or "not free".

free” in terms of political rights and civil liberties (Freedom House 2009). Following the democratic transition in 1991, it was rated as “free”, but its scores fell sharply between 1996 and 2002 to the pre-transition scores of the mid-1970s (Freedom House 1996-2002). Election irregularities, violations of political rights and civil liberties before elections and weak enforcement of laws granting political rights and civil liberties characterised the 1990s. The Zambian regime became far less repressive under President Mwanawasa. This has been interpreted as a “result of a more genuine different orientation of the new power-holder, or alternatively as a result of weakness of the new President against the background of a strengthened civil society and a stronger opposition in Parliament that does not allow him to resort to authoritarian practices” (Erdmann / Simutanyi 2003, 77). There is evidence that this trend was not entirely sustained under Rupiah Banda, who became President after the death of Levy Mwanawasa in August 2008 during his second term of office (Freedom House 2009).<sup>23</sup>

### 4.3 Administrative and institutional set-up

Zambia is divided into nine provinces: Eastern, Central, Luapula, Northern, North-Western, Copperbelt, Western, Southern and Lusaka Provinces. Within these provinces there are 72 local authorities or councils, comprising four city councils,<sup>24</sup> 14 municipal councils and 54 district councils.

There are 22 ministries at central level, each minister being appointed by the President. Closest to the ministers are the politically appointed deputy ministers and civil service-appointed permanent secretaries (PS). These are the top-ranking administrative leaders, and they are assisted by the directors of the various departments (Commonwealth of Nations 2010, 243). The secretary to the cabinet is the head of the government administration and guides the Cabinet Office, which has supreme authority over the management and coordination of the public service (Republic of Zambia 2002a, 8).

The Zambian administrative structure can be described as centralist, although a process of decentralisation has been initiated. The degree of

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23 In elections held in September 2011 and widely accepted as fair and free, Michael Sata was elected President of the Republic.

24 To simplify matters, the study will henceforth refer to councils as local government, comprising district, city and municipal councils.

decentralisation and the challenges to the implementation of a decentralisation policy are described in Section 5.3.

As the research team assumes that budget implementation is not entirely efficient and that determinants of inefficiencies will be identified, paving the way for improvement, it is important to highlight potential reasons for inadequate service delivery that are rooted in the overall institutional set-up. The literature indicates several apparently plausible determinants of inefficiency:

- **Mismatch between responsibilities and funds:** Local authorities currently have a “myriad of responsibilities” and yet do not receive sufficient funds to perform their functions (Simutanyi 2007, 10). Consequently, service delivery in the districts is deficient, and council staff are highly vulnerable to corruption.
- **Lack of trust in public authorities:** There is apparently a lack of public trust in local authorities and a low level of participation in local government elections (Chikulo 2009). The public make no distinction between local government and central government agencies, which are both present at local level. This is likely to be a result of the politicisation of public servants in the 1980s, which blurred the lines of competencies between elected councillors and administrative staff (Simutanyi 2007, 10).
- **Political patronage:** The role of Members of the National Assembly in the control at council level of funds transferred from national level is a highly political issue: Members of Parliament (MPs) apparently often use these funds to further their political careers to the detriment of other, more useful projects (Mukwena 2001).<sup>25</sup>
- **Coordination challenges:** Another explanation for the inadequacy of service delivery is the lack of integrated planning and management at district level, which is due to the fact that there is currently no legally appointed overall coordinator of development at national, provincial or district level (Republic of Zambia 2002a, 10).

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25 This seems to be especially true of the Constituency Development Fund (CDF), which is an en-bloc transfer granted to every constituency through the Ministry of Local Government and Housing (MoLGH).

- **Lack of capacity and political will:** The lack of capacity at local level is the reason given in the FNDP for the delay in the implementation of further decentralising policies (Republic of Zambia 2006a, 243). The official explanations for this delay may, however, be joined by another factor, a lack of political will: the resistance to decentralisation may be partly due to the fear of losing control and political influence over the districts (Simutanyi 2007, 12). This situation became even more problematical after the 2006 elections, when the opposition won the majority of local government seats. As a result, the implementation of the Decentralisation Implementation Plan (DIP) is likely to be seen as central government handing over power directly to the opposition. There has consequently long been little incentive to implement the plan (Simutanyi 2007, 18). In the autumn of 2009, however, after years of scrutiny and negotiation, the Zambian Cabinet approved the DIP. It remains to be seen how expeditiously and thoroughly the DIP will be implemented.

#### 4.4 Economic situation in Zambia

Despite its mineral wealth and its considerable agricultural resources, Zambia is one of the poorest countries in the world today. Per capita income sank as low as US\$ 365<sup>26</sup> in 2006 (much lower than at the time it gained independence in 1964), and it ranked 165th of the 177 countries included in the UN Human Development (HDI) Index for 2007-08. While Zambia's income level was still 75 per cent above the African average and four times that of East Asia in 1964, its per capita income today is below the African average and only a quarter of East Asia's (World Bank 2008b, 7).

However, after decades of declining standards of living, Zambia's economy has recently improved its performance as measured by major macroeconomic indicators. Over the past few years, Zambia's economy has experienced positive and stable growth, its gross domestic product (GDP) rising by around 5 per cent a year from 2000 to 2006 (ILO 2008, 21). In 2007, the GDP growth rate was as high as 6.1 per cent, before falling back to 5.5 per

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26 In constant US\$ 2000; in comparison, the GDP per capita (in constant US\$ 2000) of other countries in the region in 2006 was as follows: Malawi, US\$ 145; Angola, US\$ 1,069; Mozambique, US\$ 330; and Botswana, US\$ 4,423. Germany's GDP per capita in 2006 was US\$ 24,475 (World Bank 2008c).



cent in 2008 (African Economic Outlook 2009b). Compared with other countries in the region, Zambia's growth rate is not an outlier on either the low or the high side. Malawi's annual growth rate between 2000 and 2008 averaged 3.8 per cent, while Botswana's economy grew by 5.1 per cent annually during the same period. Mozambique and Angola, on the other hand, achieved annual GDP growth rates between 2000 and 2008 of 7.5 per cent and 12.4 per cent, respectively (World Bank 2008c).

Traditionally, the Zambian economy was heavily dependent on copper exports. As international copper prices started to fall sharply in the 1970s, the economy entered a deep economic crisis, which led to public expenditure cuts and liberal economic reforms initiated later (ILO 2008, 21). While copper is still a major export product today, Zambia has managed to broaden its production and export base. Between 1980 and 2004 the country increased the number of export products by nearly 100 per cent and so broke away from the group of least diversified economies in sub-Saharan Africa. A particular contribution to the diversification of the economy has been made by the greater variety of agricultural exports, including non-traditional produce<sup>27</sup> (World Bank 2008b, 10).

Despite structural changes in the economy, high GDP growth rates during the last decade were fuelled mainly by the mining and construction sectors. Growth in the construction sector has exceeded 10 per cent in recent years. The strong growth in the mining sector was driven by the favourable development of international copper prices, which peaked in 2007. The value of copper exports amounted to almost US\$ 3 billion in 2006, prices in that year being on average more than 80 per cent higher than those in 2005. In 2006 this development led to a surplus on the current account of the balance of payments equal to 1.6 per cent of nominal GDP (ILO 2008, 22). Table 3 presents selected aggregate indicators.

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27 The total gross value of agricultural output rose by over 50 per cent between the mid-1990s and 2001-2004. Cotton and tobacco have contributed to export-led growth. Cassava, sweet potato, cotton and groundnut production has also increased (World Bank 2008b).

Table 3: Selected economic indicators for Zambia (2000–2009)										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>GDP growth</b> (annual per cent)	3.6	4.9	2.7	5.7	5.4	5.2	6.3	6.2	5.7	6.3
<b>GDP per capita (US\$)</b>	309	339	339	390	473	610	890	937	1,165	986
<b>Population growth</b> (annual per cent)	2.6	2.4	2.3	2.2	2.2	2.3	2.4	2.4	2.5	2.5
<b>Inflation</b> (annual per cent)	26.0	21.4	22.2	21.4	18.0	18.3	9.0	10.7	12.4	13.4
<b>Exports of goods and services (% of GDP)</b>	27.1	28.0	27.7	28.7	38.3	34.7	38.5	41.6	35.8	29.8
<b>Copper price</b> (US\$ per metric ton)	1,815	1,580	1,560	1,779	2,864	3,677	6,731	7,132	6,964	5,165
<b>Exchange rate</b> (ZMK / US\$)	3,111	3,611	4,399	4,733	4,779	4,464	3,603	4,003	3,746	5,046
Source: de Kemp / Faust / Leiderer (2011) based on WDI and IFS										

Generally improved performance in external balances was accompanied by rising levels of investment as investors' confidence in the economy rose. Since 1996 investment has steadily grown, reaching almost 28 per cent of GDP in 2006. Moreover, short-term inflows on the stock exchange have experienced unprecedented growth over the past few years (ILO 2008, 23). However, portfolio investment declined again in 2008 as investors' confidence waned because of the global financial crisis (African Economic Outlook 2009a). The purchasing power of the Zambian Kwacha improved as inflation levels fell from a maximum of around 184 per cent in 1993 to 8.2 per cent in 2006 (ILO 2008, 23). But inflation rose again to 16.6 per cent in 2008, mainly as a result of rising food prices (Ministry of Finance and National Planning 2009a, 12).

#### 4.5 Incidence and distribution of poverty in Zambia

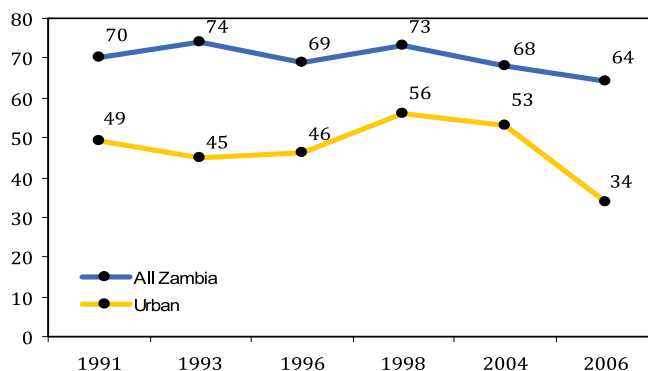
Despite improvements in the country's macroeconomic performance and a robust and stable growth trend in recent years, the well-being of many Zambians has not improved. Aggregate poverty rates in Zambia have declined no more than marginally and generally remain high, with 64 per cent of the population living below the overall poverty line in 2006 (World Bank 2008b, 13). This comprised 51 per cent of the population classified as extremely poor (living below the food poverty line) and a further 13 per cent categorised as moderately poor, living between the core (food) and overall (basic needs) poverty lines<sup>28</sup> (ILO 2008, 38).

Poverty data indicate that Zambia's poverty rate fell from 74 per cent in 1993 to 64 per cent in 2006 (Figure 4). When the rural and urban poverty rates are considered separately, it can be seen that rural poverty is significantly higher than urban poverty. In 2006, 80 per cent of the rural population were poor, compared to only about a third of the urban population (ILO 2008, 39). As more than two thirds of Zambia's population live in rural areas, this means that the vast majority of the poor live in rural areas (World Bank 2008b, 13). Besides being more prevalent, rural poverty is also far more intense than

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28 Two poverty lines are currently used in Zambia: the food poverty line, which is a minimum level of food consumption below which households are characterised as extremely poor; and the basic needs poverty line, which is the minimum level of consumption necessary to meet all basic needs (ILO 2008, 36).

**Figure 4: Trends in overall poverty (1991–2006, percentage)**



Source: Authors' own compilation based on ILO data (2008)

urban poverty. In 2006, the rural poor experienced an average shortfall or 'poverty gap'<sup>29</sup> of 45 per cent of the overall poverty line, whereas the average poverty gap among the urban poor was only 13 per cent (ILO 2008, 39).

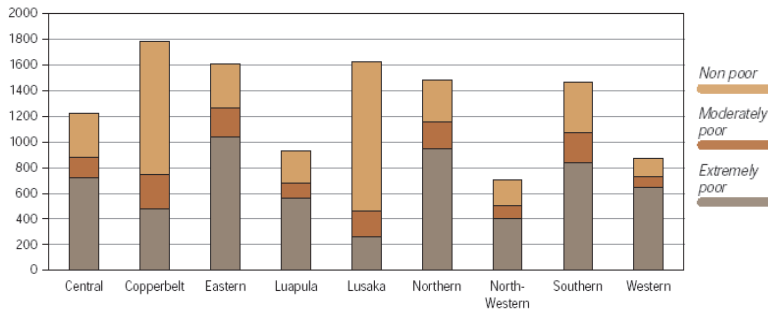
With regard to the distribution of incomes in Zambia, the LCMS 2004 shows high income inequality in the general population. The Gini coefficient for the entire population in 2004 was 0.57. Individuals in the top two income deciles account for 45 per cent of national per capita incomes, those in the bottom two deciles for only 4 per cent (ILO 2008, 31).

Besides high levels of poverty and high income inequality, Zambia has been faced with numerous other development challenges, among them a high prevalence of HIV/AIDS, increasing child malnutrition through the 1990s and the lowest life expectancy in the world in 2007 (World Bank 2008b, 13). As mentioned above, Zambia still ranks among the lowest countries in the Human Development Index, and, despite stable growth of GDP per capita

29 The poverty gap ratio is defined as the ratio of the average income (or additional consumption) needed to raise all poor people on the poverty line to the mean income (or consumption) of society as a whole. Thus, the poverty gap ratio not only includes the poor (as is the case with the poverty headcount ratio), but also takes account of the degree of poverty by considering all the resources needed to lift the poor above the poverty line (Ray 1998, 255).

since the second half of the 1990s, its HDI has not improved (ILO 2008, 33). The next section therefore presents the FNDP, which outlines Zambia's general strategies for tackling its main development challenges.

**Figure 5: Distribution of the poor within Zambia's provinces in 2006 (thousands)**



Source: ILO (2008)

## 4.6 The Fifth National Development Plan (FNDP)

### 4.6.1 Establishment of the FNDP formulation and its priorities

Zambia's development goals are set out in two central documents. The long-term development objectives are presented in *National Vision 2030*, which states that "Zambia's vision for 2030 is to become a prosperous middle-income country by the year 2030" (Republic of Zambia 2006b), while its medium-term strategic development goals are set out in the Fifth National Development Plan (FNDP), the successor document to the first PRSP (2002-2004). The FNDP covered the period from 2006 to 2010 and represented the first step towards the achievement of the National Vision.

As the efficient implementation of the FNDP under the national budget is crucial for the efficient delivery of public services in Zambia, the research team focused on the implementation of the FNDP in the relevant sectors to determine whether budget implementation is efficient. This section therefore outlines the Fifth National Development Plan.

The FNDP is embedded in the wider National Vision 2030. This long-term development plan was prepared as a background to the five-year development plans and to bring an end to the “fragmented character of development efforts in the past” (Republic of Zambia 2006b, 7). Zambia's long-term socio-economic development objectives as set out in the National Vision are (Republic of Zambia 2006b, 10):

- to attain and sustain annual real economic growth rates of between 6 and 10 per cent
- to attain and maintain a moderate inflation rate of 5 per cent
- to decelerate the annual population growth rate from its 2005 rate of 2.9 per cent to a rate of less than 1.0 per cent over the next 25 years
- to reduce the national poverty head count to less than 20 per cent of the population
- to reduce income inequalities to a Gini coefficient of less than 40
- to provide secure access to safe potable water sources and improved sanitation facilities for 100 per cent of the population in both urban and rural areas

The Vision is to be operationalised through the implementation of five national development plans, beginning with the FNDP covering the period 2006 to 2010.

The FNDP is divided into nine parts, beginning with a review of social and economic developments and an analysis of poverty trends. The second part defines the goals and outlines the government's strategic focus during the plan period. The third and fourth parts present the government's plans for the economic and social sectors, respectively, while the fifth covers government administration. The sixth part concerns public safety issues while the seventh subsumes such cross-cutting issues as government, HIV/AIDS, environment, gender, food and nutrition. The eighth part is devoted to regional development, and the last part considers the financing, implementation, monitoring and evaluation framework and presents the assumptions and strategies for financing the plan, thus highlighting priority expenditure over the period 2006 to 2010. It also defines the institutional framework within which the FNDP is to be implemented and its performance monitored and evaluated. It is estimated that implementing the FNDP will cost a total of ZMK 62,623.22 billion over a period of 5 years, to be mobilised by the GRZ and CPs.

The theme of the FNDP is “broad based wealth and job creation through citizenry participation and technological advancement”, with the strategic

focus on the development of economic infrastructure and human resources. The FNDP also acknowledges the principles of good governance – political, administrative and fiscal accountability – as indispensable prerequisites for achieving its goals.

The FNDP identifies two critical areas on which public spending should be focused if growth is to be accelerated and broadened. They are (1) strengthening the relevant economic and social infrastructure, especially roads, schools and hospitals and (2) enhancing agriculture and rural development (Republic of Zambia 2006a). In line with our research strategy, the formulation of the expenditure priorities stresses the importance of roads, education and health as crucial sectors for the achievement of the FNDP objectives.

A brief overview of the FNDP goals and strategies for the sectors chosen for this study is given below (Table 4).

<b>Table 4: FNDP - priority sector overview</b>			
<b>Sector</b>	<b>Vision / goal</b>	<b>Priority areas</b>	<b>Expenditure planned</b>
Health	To give all Zambians equal access to cost-effective, quality health care as close to the family as possible	Human resources, drugs and supplies, infrastructure and equipment	US\$ 255 m p. a., 3.6 % of GDP by 2010
Education	To achieve innovative and productive lifelong education and training accessible to all by 2030	Recruitment of teachers, procurement of educational materials, construction of classrooms and teachers' houses	5.3 % of GDP by 2010
Road infrastructure	To improve the share of roads in maintainable condition from 51 % in 2005 to 90 % in 2010	Road infrastructure development and maintenance, special focus on feeder roads	2.8 % of GDP by 2010
Source: GRZ (2006)			

According to civil society organisations (CSOs), civil society groups participated actively in the drafting of the FNDP. Yet there are several structural weaknesses, a vulnerable legal framework and continuing weak participatory capacities that still limit the involvement of civil society. This is especially true when it comes to the implementation of the plan (VENRO 2008, 3).

#### 4.6.2 FNDP mid-term review

The FNDP mid-term review was published by the Ministry of Finance and National Planning in October 2009 (Ministry of Finance and National Planning / PRBS Group 2009b). It revealed that some progress had been made towards macroeconomic stability, the GDP growth rate having improved from 5.2 per cent in 2005 to 6.2 per cent in 2006 and 6.3 per cent in 2007. In 2008, however, GDP growth fell to 5.7 per cent and inflation rose from 8.9 per cent in 2006 to 16.6 per cent at the end of 2007 (Ministry of Finance and National Planning / PRBS Group 2009b, 10).

In the priority sectors, the GRZ endeavoured to keep budgetary releases to health, education, energy, agriculture, infrastructure and water and sanitation above 95 per cent of budgetary allocations. In the review period, 91.8 per cent of the approved budget was released to the priority sectors. However, releases for infrastructure averaged only 71.3 per cent, well below the FNDP target (Ministry of Finance and National Planning / PRBS Group 2009b, 10). Poverty levels remained high at 64 per cent of the total population. This is ascribed in the report to the increase in the incidence of rural poverty. The poverty levels in rural areas rose from 78 per cent in 2004 to 80 per cent in 2006, whereas urban poverty fell marginally (Ministry of Finance and National Planning / PRSB Group 2009, 11).

One of the major challenges identified by the MoFNP is the inability of many sectors to report on their selected indicators. Effective monitoring and evaluation was therefore difficult to achieve. Apart from the monitoring and evaluation challenges, the report revealed that almost all sectors had been underfunded as compared to annual budget plans. The review therefore comes to the conclusion that there is a need to align the annual government budget with the provisions of the FNDP so that the plan may become an important developmental programming tool. The report also expresses concern about the unsatisfactory alignment with the FNDP of such key working instruments as the MTEF, Annual Budget, Ministerial Work Plans and



Strategic Plans. The absence of an oversight body, in the form of the currently non-functioning National Development Coordination Committee (NDCC), is considered to be one explanation for that bottleneck (Ministry of Finance and National Planning / PRSB Group 2009, 156).

A Joint Annual Review (JAR) of Poverty Reduction Budget Support (PRBS) conducted in 2007 identified a disparity between FNDP priorities and budget execution on several occasions. Thereafter, the relationship between the priorities set in the FNDP and budget execution in the sectors varies significantly depending on the ministries responsible. The review also recommended that the PAF indicators be assessed on a more permanent and regular basis and that the assessment procedures build on the underlying sector processes (Gerster / Chikwekwe 2007, 4).

## **5 The Public Financial Management system in Zambia**

This chapter outlines the structure and functioning of Zambia's public financial management (PFM) system at central and decentralised levels. It begins by explaining the relevance of PFM to modern statehood and its importance for both development and democracy. A brief overview of the budget cycle, the core process of any PFM system, is also given. To place the Zambian PFM system in its regional context, the set-up and background of PFM systems in sub-Saharan Africa are then described. This is followed by an appraisal of the current state of PFM systems in the region based on technical literature and the most recent assessment frameworks. Finally, the features and current state of the Zambian PFM system are described in greater detail.

### **5.1 The formal PFM system in Zambia**

The previous chapter pointed to PFM features and constraints that countries in the region have in common. This chapter will focus on the Zambian PFM system at central government level, since it forms the overarching framework for the management of public finances at the sector level. This serves as a background to the general procedures that characterise the Zambian PFM system, which will be useful in the later analyses of the financial management procedures in the three sectors of particular interest to this study.

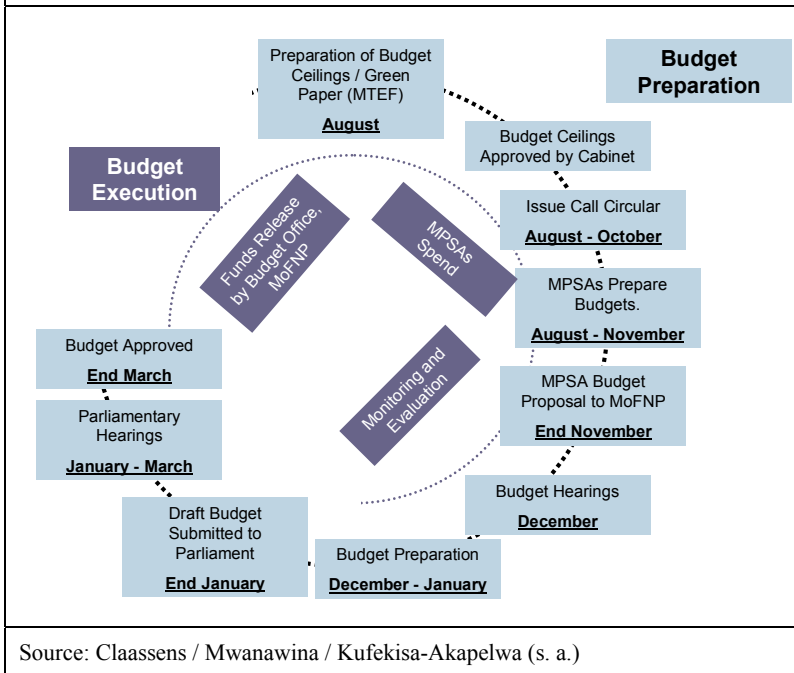
Firstly, the core PFM process, the budget cycle, will be used to give an insight into the Zambian PFM system. The current state of the PFM system in Zambia, as revealed by the findings of the PEFA 2005 and 2008 assessments, will then be described. This last section contains a summary of the 2005 and 2008 PEFA assessments and a description of the Public Expenditure Management and Financial Accountability (PEMFA) reform programme, before the key challenges to the Zambia PFM system are explained.

### 5.1.1 The budget cycle

The process of budget preparation starts with budget planning months ahead of the fiscal year, continues throughout the year of actual budget execution and ends with the budget review and control procedures undertaken by the Auditor General and the parliamentary Public Accounts Committee (PAC). *Ex-post* scrutiny of an elapsed financial year must occur by law within 24 months of the end of that financial year. The Auditor General must issue his report within 12 months of the end of a financial year, and the PAC must complete its review of that report within 12 months of receiving it. In the past, the Auditor General's budget review process often took longer than prescribed, leading to substantial delays. In recent years, however, the AG has been able to improve the pace of his reviews considerably, and he has kept to the constitutional deadline for several years (Republic of Zambia 2008, 33).

With the end of the 2009 financial year, a substantial change took place in the budget preparation procedures. Previously, budget preparation did not end until March of the following financial year with the adoption of the budget by Parliament. Budget expenditure in the months from January to March in the on-going financial year were made possible by Provisional Presidential Warrants (Republic of Zambia 2008, 35). This procedure, which is in accordance with the Zambian Constitution, but is inconsistent with PFM best practice, was changed for the preparation of the 2010 budget.

Since the budget cycle was not reformed until 2010, it will not be possible for this study to make any significant observations on the impact of the reform. Instead, it will focus on the efficiency of budget allocations in the financial years before 2010. The following describes the budget timetable in effect until the 2009 financial year. An overview of the budget timetable from 2010 on will then be given.

**Figure 6: The budget cycle in Zambia**

### 5.1.2 Budget planning and formulation

Every year before the preparation of the annual budget begins, the Cabinet meets to approve the Medium Term Expenditure Framework (MTEF), or the “Green Paper”, as it is known in Zambia. The MTEF is a rolling three-year budget planning instrument that was first used in Zambia for the 2004 budget estimates (Mudenda / Ndulo / Wamulume 2005). The fiscal framework outlined in the Green Paper includes all sources of revenue, all categories of expenditure and the financing of the deficit in the medium term (i.e. the coming three years) (Republic of Zambia 2008, 18).

At the beginning of the annual budget process, the MoFNP sends to the line ministries the Call Circular, a document outlining the budget ceilings for the individual budget heads. Upon receipt of the Call Circular, the line ministries prepare their sector budgets by costing their activities in the coming

financial year. They then submit the total expenditure estimates to the MoFNP. Until 2009, the Call Circular was issued between August and October each year, and the line ministries submitted their budget estimates by the end of November (Claassens / Mwanawina / Kufekisa-Akapelwa s. a., 23).

After receiving the budget estimates, the MoFNP holds individual budget hearings with the line ministries, at which their estimates are adjusted, if necessary, to the MoFNP's budget ceilings. The MoFNP also outlines the revenue targets for the coming financial year (Mudenda / Ndulo / Wamulume 2005, 3). It then prepares and submits for the Cabinet's consideration a Memorandum on the Budget, which includes proposals for fiscal measures to generate the revenue necessary to implement the budget. The Cabinet discusses the draft budget at length, giving each minister the opportunity to defend his ministry's estimates. During this process, various figures may be reduced, increased or even, on occasion, removed altogether (Mudenda / Ndulo / Wamulume 2005, 3).

The MoFNP's budget hearings and the Cabinet's approval of the draft budget take place in December. At the end of January the draft budget is presented to Parliament by the Minister of Finance who, under Article 117(1) of the Constitution "shall cause to be prepared and shall lay before the National Assembly within three months after the commencement of each financial year estimates of the revenues and expenditure of the republic for the financial year" (Republic of Zambia 1992). The Budget Speech, as the Minister's presentation of the Budget to Parliament is traditionally known, is an event of major political significance and the subject of great interest to the public and the development cooperation partner community alike (Claassens / Mwanawina / Kufekisa-Akapelwa s. a., 19).

After presentation of the draft budget, Parliament's Expanded Estimates Committee undertakes a detailed scrutiny of the budget over a period of fourteen days. The Expanded Estimates Committee was created in 2000 in the course of the parliamentary reform process (Claassens / Mwanawina / Kufekisa-Akapelwa s. a., 18). It is composed of the chairmen and vice-chairmen of all the parliamentary committees. The committee calls on various stakeholders, including civil society, to provide it with analyses of the various budget heads. On completion of the stakeholder hearings, the Committee produces a budget report, which is laid before the Committee of the Whole House (i.e. the plenary). The latter organises the discussion and scrutiny of all budget line items in the House, which takes about two

months, and until 2009 was concluded with the passing by the plenary of the Appropriation Act at the end of March. Following parliamentary approval, the budget is published as the “Yellow Book”.

The fact that, in the past, Parliament did not approve the draft budget until March of the current financial year meant that the President had to issue Provisional Presidential Warrants for budget execution from January to March of every financial year. These warrants authorised supplementary budgets, which often did not correspond to the original allocations for which the Yellow Book had provided for the first three months of the financial year. Instead, the main items financed would be consumption and overhead expenditure of the MPSAs, without prior parliamentary control or approval. This procedure was sadly lacking in transparency and often not open to *ex-post* control. Furthermore, the supplementary expenditure was sometimes approved by Parliament only years later, making effective parliamentary oversight almost impossible.

### 5.1.3 Budget execution

Following parliamentary approval of the draft budget, the MoFNP’s Permanent Secretary for the Budget, who apportions the funds available among the line ministries’ budget units, issues the Treasury Authority to the line ministries’ budget officers, authorising them to begin spending their allocations. The MoFNP can then start releasing allocations to the budget units that undertake the activities spelt out in the budget (Mudenda / Ndulo / Wamulume 2005, 6). Cash budgeting was introduced in Zambia in 1993. Under this system, budget allocations to the line ministries are limited by cash availability, meaning that the amounts available for the MPSAs to spend are subject to the actual cash allocations they receive from the MoFNP (Claassens / Mwanawina / Kufekisa-Akapelwa s. a., 10).

At the beginning of every financial year the MoFNP prepares a cash flow forecast, which is updated quarterly on the basis of actual expenditure and revenue. Each quarter, the MPSAs profile their monthly cash flow requirements for the quarter and submit these to the MoFNP for decisions on cash releases. Treasury funds from the MoFNP to the MPSAs are released on a monthly basis. In practice, there have often been difficulties due to the MoFNP’s failure to communicate the ceilings (Republic of Zambia 2008, 23). Furthermore, releases from the MoFNP to the MPSAs have regularly

been subject to serious delays, preventing the MPSAs from financing their programmes on schedule. A common practice has been to release funds only in the last quarter of a financial year, overstretching the MPSAs' capacities and making orderly and timely spending impossible. As a consequence, planned programmes were frequently not implemented.

#### 5.1.4 Budget control: Internal control and audit, external audit

Budget control is an integral part of the budget cycle. The functioning and characteristics of both internal and external budgets in Zambia are described below.

##### **Internal control**

The Zambian government has established a decentralised Financial Management System (FMS), which includes the review of such aspects as revenue, commitment control, financial management and programme/expenditure profiling. All transactions from the MPSAs' accounting records are entered in the FMS and submitted to the MoFNP every month. The MoFNP then analyses and reconciles the data. However, as the FMS is not an integrated system and as the various line ministries often use different account-recording systems, there are difficulties in reconciling the data in a timely manner (Republic of Zambia 2008, 30). An Integrated Financial Management Information System (IFMIS) had been under development as part of the PEMFA reform programme (an IFMIS blueprint has already been developed (Republic of Zambia 2008, 41), but the project seems to have been halted for reasons unknown.

There is some concern about the accuracy of some ministries' accounting reports, one example being the highly decentralised Ministry of Education (Republic of Zambia 2005, 39). Furthermore, MPSAs that receive substantial amounts of external pooled sector financing are usually unable to distinguish these funds from GRZ-funded expenditure in their accounting. This makes it difficult to carry out an effective evaluation of budget resource appropriation (Republic of Zambia 2008, 31).

An automated Payroll Management and Establishment Control (PMEC) system is in operation; it matches personnel data to payroll data to ensure consistency of civil service salaries and monthly reconciliation. Wages and salaries for about 132,000 central government employees are processed by

the PMEC – not included are non-central government employees, defence and security personnel and employees of the National Assembly, the Electoral Commission of Zambia and the Human Rights Commission. Although personnel records and payroll data are generally updated monthly for those in the system, some serious flaws exist. Considerable delays, sometimes of more than a year, have occurred in personnel record updating, resulting in payments to persons who were no longer entitled to benefit, such as pensioners and suspended or deceased employees. This has resulted in undue payments and financial losses for the government (Republic of Zambia 2008, 25).

Following the recent reforms, internal audit units in MPSAs have received a considerable boost in the form of both operational resources (vehicles and office equipment) and skills training. This has increased the coverage and quality of internal audits in numerous government entities. Internal auditing is now operational in all central government institutions. The management response, however, varies across MPSAs, and there is always a delay before the controlling officers take action, even on major issues. Audit Committees (ACs) responsible for follow-up on audit reports are to be established in all ministries. By 2008, 15 of these ACs were operational (Republic of Zambia 2008, 28). It is currently unclear, however, how the ACs are composed and how well they are able to perform their functions.

### **External control**

All government accounts for the financial year are usually closed on 31 December. Following the closure of the accounts, all MPSA accounting units are required to submit their accounts (statements of revenue and expenditure) to the Accountant General's Office in the MoFNP within four months after the end of the financial year. The Accountant General then assembles these statements in the consolidated annual Financial Statement (also known as the Blue Book), which includes, with few exceptions, full information on revenue, expenditure and financial assets and liabilities. Grant-aided institutions, such as parastatals and local government entities, are included only to the extent that the Accountant General's report lists the amounts granted to them, but does not include their financial statements (Republic of Zambia 2005, 39; Republic of Zambia 2008, 32).

Once completed by the Accountant General, the Financial Statement is submitted to Parliament (Republic of Zambia 2008, 32). Since 2002, the government has succeeded in meeting the statutory requirement of submitting the Financial Statement within nine months after the end of the financial year (Republic of Zambia 2005, 35).

Based on the Financial Statement the annual government accounts are – after submission to Parliament – audited by the Office of the Auditor General (OAG) within 12 months after the end of the financial year, as required by the Constitution. The Auditor General's mandate is defined in the Public Audit Act and the Public Finance Act 2004: he is entitled to audit the accounts and records of all government ministries, parastatals and other statutory bodies. The OAG is further required to produce annual reports on the audited organisations within 12 months after the tabling of the Financial Statement in Parliament (Republic of Zambia 2005, 40). The OAG's mandate covers only those institutions which receive funds from central government, responsibility for local audits resting with the local councils. Since 2004, the OAG has regularly succeeded in submitting its audit reports by the deadline set in the Constitution (Republic of Zambia 2008, 33).

Once it is completed, the Auditor General presents his audit report to the President, who is required to submit the report to Parliament not later than seven days after receiving it. The parliamentary review is undertaken by the PAC and is completed within 12 months after it is received. The PAC hearings and scrutiny, which includes the summoning of the budget officers of the MoFNP and line ministries to give details of the allocations spent in their respective areas, are completed within six months. The PAC subsequently submits the reports on the hearings to the House, which draws up recommendations to the Executive based on findings contained in the PAC's report. The latter report is sent to the GRZ through the Secretary of the Treasury (Republic of Zambia 2008, 36).

A Public Accounts Sub-Committee (Government Assurances Committee) is appointed each year to monitor the Executive's follow-up on all issues addressed in the PAC's report. The Executive is expected to comment on the PAC's report within 60 days. However, responses from the Executive are frequently delayed, and implementation of recommendations is often neither time-bound nor conclusive (Republic of Zambia 2008, 36).

## 5.2 Performance and reform of Zambia's PFM system

### 5.2.1 PFM performances

In 2005 the Government of Zambia, assisted by various cooperating partners (CPs), assessed the country's public financial management systems using the Public Expenditure and Financial Accountability (PEFA) assessment framework. As that assessment was repeated in 2008, there have so far been two



PEFA assessments in Zambia. The PEFA framework is a tool used internationally for the periodic assessment of the effectiveness and efficiency of public financial management systems (Republic of Zambia 2008, ii).

The PEFA framework assessed the performance of the Zambian PFM systems by evaluating 28 indicators grouped in six core categories: 1) credibility of the budget, 2) comprehensiveness and transparency of the budget, 3) policy-based budget, 4) predictability and control in budget execution, 5) accounting, recording and reporting, and 6) external scrutiny and audit (Republic of Zambia 2005, 5). An extra category, 7) donor involvement, assesses CP practices related to the public financial management systems in Zambia with the aid of three additional indicators (Republic of Zambia 2005, 43).

The 2008 PEFA assessment noted that steady, yet in some areas only modest progress across all core categories had been made since 2005, with 18 indicators receiving a better grade than in 2005, ten remaining at the same grade and the performance of three indicators being downgraded (Republic of Zambia 2008, 56). The 2008 report explicitly refers to the lack of predictability of resource allocations to MPSAs as a key challenge to satisfactory management of public finances. The timetable of the budget process is identified as another major obstacle: until 2009, the preparatory budget process was not completed until March, when the new financial year was already three months old, since the financial year begins in January (Republic of Zambia 2008, viii). Since the preparation of the budget for the 2010 financial year, the planning process has been changed, with the adoption of a new budget calendar, and is now concluded before the beginning of the financial year.<sup>30</sup>

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30 Since the 2010 financial year, the budget calendar has been substantially reformed; the Call Circular is now issued in June (in June 2009 for the 2010 financial year). The line ministries then prepare their budget estimates in June and July, and the Yellow Book is compiled in August. Not later than October, the Cabinet approves the Yellow Book and the Minister of Finance gives the Budget Speech before Parliament, which scrutinises the Yellow Book and approves the Draft Budget by the end of November. This optimised process allows the budget to come into effect before its actual execution starts, rendering Provisional Presidential Warrants unnecessary. As 2010 was the first year in which the new budget calendar was applied, it remains to be seen whether the introduction of this procedural reform achieves the expected results.

### 5.2.2 The PEMFA reform programme

Zambia's Public Expenditure Management and Financial Accountability (PEMFA) reform programme is one of the three pillars of the government's Public Sector Reform Programme (PSRP). With a view to achieving the goals set out in the Fifth National Development Plan, the PSRP's overarching policy goal is to improve service delivery to Zambian citizens and to make Zambian institutions highly efficient in reducing poverty. As part of the FNDP, the PEMFA reform programme seeks to enhance the government's capacity to mobilise and utilise public resources effectively and efficiently and so to improve public expenditure management. A second goal is to strengthen overall financial accountability (Republic of Zambia 2008, 40-41).

The PEMFA reform programme was launched in January 2005 and is coordinated by the MoFNP. Several other public institutions are involved in the reform programme, including the Ministry of Justice, the Office of the Auditor General, the National Assembly and the Zambia National Tender Board (ZNTB). A number of CPs jointly support the programme. Various measures have so far been taken under the PEMFA reform programme, including the drafting of new financial regulations, the development of a cash flow framework and its introduction into the FMS and the publication of financial reports on the internet (Republic of Zambia 2008, 41).

The PEMFA reform programme ran for four years (from 2005 to 2009). It is not yet clear whether and to what extent it will continue in the future. For an overview of the PEMFA's components and achievements so far, see Annex 5.

### 5.2.3 Reform progress and remaining challenges

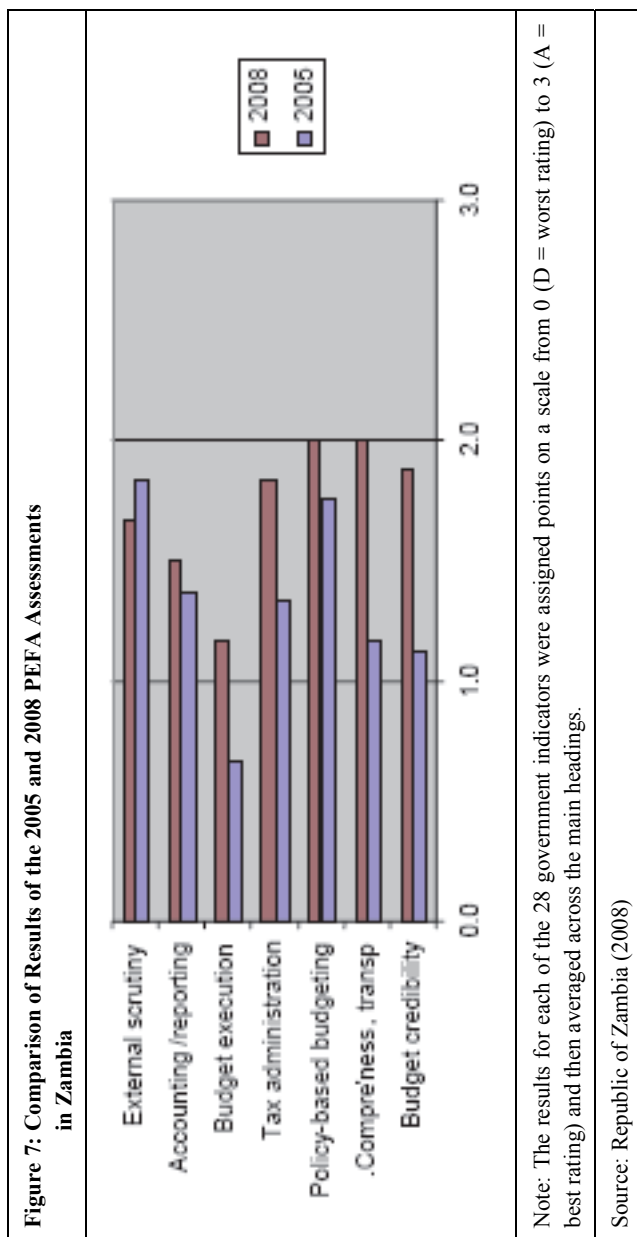
In its comparison of the 2005 and 2008 PFM data, the 2008 PEFA recognises that some progress has been made in the Zambian PFM system (and hence, by the PEMFA programme). It welcomes the improvement in overall expenditure controls (and the lack of new payment arrears) and attributes this primarily to the satisfactory implementation of the MTEF framework and improvements in the MoFNP's role in commitment control. Internal control is praised for having improved such practices as the reconciliation of bank accounts and the MPSAs' preparation of the annual financial statements. The PEFA commended the generally greater comprehensiveness of fiscal information. Capacity-building in the OAG and Parliament for external budget scrutiny is also welcomed (Republic of Zambia 2008, viii-ix).

A number of serious challenges remain. Some of the examples mentioned in the 2008 PEFA assessment are the unpredictability of transfers of resources from the MoFNP to the MPSAs, a lack of civil society participation in external budget scrutiny and the problematical budget calendar in place until 2010 (Republic of Zambia 2008, viii). As depicted in Figure 7: Comparison of results of the 2005 and 2008 PEFA assessments in Zambia, the PEFA 2008 assessment observes in summary that the Zambian PFM system is better than it was: “... *some improvement in PFM performance is evident. The main areas showing improvements have included budget credibility (improvements in clearing the stock of arrears), comprehensiveness and transparency (greater information in the budget and fiscal reports), and controls in budget execution (improved internal audit and more transparent procurement procedures)*” (Republic of Zambia 2008, ix)

In general, there is a need to clarify whether and to what degree all the reforms planned in the various components of the PEMFA have been successfully implemented, especially at decentralised level. As the PEFA assessments generally present a mixed picture of progress in Zambia’s PFM performance, it is likely that not all the PEMFA reforms have been completed satisfactorily.

In their overall appraisal of the Zambian PFM system, the PEFA assessments thus reach mixed conclusions. Although some progress has been achieved in recent years, there is still considerable room for improvement. While some of the weaknesses of PFM at national level, such as the unpredictability of the supply of resources by the MoFNP to the MPSAs, may provide an explanation for operational inefficiencies, a detailed examination of each case sector is indispensable if it is to be determined precisely which mechanisms lead to inefficiencies in service provision at local level.

Both general and finance-related conditions in the education, health and road sectors are analysed in Chapters 6, 7 and 8. This is preceded by an overview of the general functioning of PFM in Zambia at local level.



### 5.3 Decentralisation and PFM at local government level

In order to address the research question whether budget allocations are translated efficiently into the provision of public goods and services, the research team focused on variance in service provision at subnational level. This section therefore seeks to describe the PFM system at local government level in Zambia, which needs to be understood before the efficiency potentials and challenges within the system can be analysed. The first step is to describe the state of the current decentralisation process. This is followed by an overview of the institutional set-up of the relevant actors involved in PFM at all government levels. The section continues with a brief description of the budget cycle at local government level and of revenue and expenditure management by the district administration.

#### 5.3.1 The decentralisation process in Zambia

Before the on-going decentralisation reforms in Zambia are described, a brief introduction to the terms used is given. It is common practice to differentiate between four forms of decentralisation: according to the degree to which authority and responsibility for public functions are transferred from central government to subordinate or quasi-independent government organisations or the private sector, a distinction is made between delegation; deconcentration; and devolution *or* administrative decentralisation; fiscal decentralisation; and political decentralisation (e.g. WBI 2000).

##### **Box 3: Forms of decentralisation**

Delegation means the transfer of tasks to semi-autonomous authorities at a lower level, such as parastatal agencies. However, all decision-making power is retained by the higher levels of government.

Deconcentration means the transfer of certain tasks to government institutions at lower levels, often including the transfer of public servants from higher levels of government to lower-level arenas or local offices of central agencies. These local offices remain accountable to the respective central institutions at higher levels, thereby enabling the central authority to control local levels more effectively. As a consequence, deconcentration tends to constitute increased centralisation rather than decentralisation unless it is accompanied by devolution or fiscal decentralisation.

Fiscal decentralisation implies that higher government levels grant agencies at lower levels the authority to decide autonomously on the use of financial resources to which they have access and to raise local revenue. In most developing countries central government transfers are often an important element of the financial resources at the disposal of local government owing to the low economic potential at local level.<sup>31</sup>

Devolution describes the transfer of decision-making power, responsibilities and resources to lower government levels. The bodies at the lower levels are independent from higher-level authorities and are usually democratically legitimated to some degree. Accountability relations are mainly downwards to local constituencies.

Source: Compilation based on Leiderer et al. (2005); World Bank (2000)

The current decentralised system in Zambia can be described as an amalgam of deconcentration, delegation and devolution, the strengthening of the field administration and the development of district and provincial government units as a deconcentration of functions. The delegation of functions partly applies to the representatives of ministries at district and provincial level, who report to ministerial superiors at different levels.<sup>32</sup> The principle of devolution means, in some cases, the transfer of authority to subnational actors in an attempt to bolster the role of the multi-purpose council-led local authorities (Mukwena 2001, 2). While deconcentration tends to strengthen central government's influence at local level, devolution reduces its influence and increases the authority of local government as resources and authority are transferred to the local level (Simutanyi 2007, 2).

The World Bank regards Zambia as one of several sub-Saharan African countries where decentralisation has not resulted in the centre relinquishing much control and where no clearly defined division of functions between central and local government in different areas has been developed (Dauskardt 2004, 333).

The decentralisation process in Zambia forms an integral part of the national development strategy defined in the Public Service Reform Pro-

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31 For a more detailed description of fiscal decentralisation, see Box 4.

32 There are, however, significant differences between the degrees of decentralisation within the particular sectors described in greater detail in the chapters devoted to them.

gramme (PSRP) launched in 1993, its aim being to improve service delivery at local levels. The currently poor state of service delivery is ascribed by the FNDP to a number of factors (Republic of Zambia 2006a, 242):

- inadequate budget allocations from central government;
- inadequate and late disbursement of funds;
- delays in the implementation of the decentralisation policy, particularly fiscal decentralisation;
- inadequate capacity in planning, budgeting, revenue collection and expenditure management.

The PSRP's aim is therefore to support the decentralisation process, i.e. to provide a decentralised public service, to strengthen and empower councils with significantly more public service functions and new administrative and financial responsibilities. The crucial role of local authorities in local development is also acknowledged in the FNDP (2006-2010). The plan recognises that local government must be the focal point for development and service delivery planning and implementation.

However, until 2002 decentralisation efforts made little progress, authority remained vested in central government, and intergovernmental transfers were rarely released and were unpredictable, leading to inefficiencies in local service provision (Hampway 2008, 350). The government reacted by launching the decentralisation policy (2002) with a view to achieving “a fully decentralized and democratically elected system of governance characterized by open, predictable and transparent policy making and implementation process, effective community participation in decision making, development and administration of their local affairs while maintaining sufficient linkages between the centre and the periphery” (Republic of Zambia 2002a, 18).

In 2004, during President Mwanawasa's term of office, the decentralisation policy was approved as part of the PSRP. A draft Decentralisation Implementation Plan (DIP) was subsequently elaborated, but not approved by the Cabinet for another five years, the decision to adopt the plan finally being taken in December 2009. The official and frequent explanation for this delay is the inadequacy of the capacities at local government level that are, in the government's view, a precondition for further decentralisation.

As the recent approval of the DIP is considered a major step forward in the achievement of decentralisation in Zambia, the contents of the plan and possible challenges to its implementation are briefly summarized below.

### **The Decentralisation Implementation Plan (DIP)**

The aim of the DIP is 'to achieve a fully decentralised and democratically elected system of governance characterised by open, predictable and transparent policy making and implementation processes, effective community participation in decision-making, development and administration of their local affairs while maintaining sufficient linkages between the centre and the periphery' (Ministry of Local Government and Housing 2009).

To achieve this aim, the main policy objectives of the DIP are:

- to devolve decision-making authority, functions and resources from the centre to the lowest level with matching financial resources in order to improve efficiency and effectiveness in the delivery of services;
- to design and introduce mechanisms to ensure a “bottom-up” flow of integrated development planning and budgeting from the districts to central government;
- to enhance political and administrative authority so that services may be delivered to the lowest level effectively and efficiently;
- to promote accountability and transparency in the management and utilisation of resources;
- to develop the capacity of councils and communities for development planning, financing, coordinating and managing the delivery of services in their areas;
- to build capacity for development and maintenance of infrastructure at local level;
- to introduce an integrated budget for district development and management;
- and to provide a legal and institutional framework for promoting autonomy in decision-making at local level.

The guiding principle of the DIP is devolution. Local government is to be strengthened through the reactivation of mandates and the transfer of addi-



tional responsibilities with matching resources. A redefinition of mandates in the service delivery chain will clarify the roles of the institutions at the various administrative levels. In brief, the GRZ will be in charge *inter alia* of overall policy-making, while the provincial level will serve as an extension of the GRZ and take responsibility for coordination, monitoring and ensuring compliance with GRZ policies. Local government bodies will take on board the functions to be devolved, and their mandates will be widened, the plan being to transfer financial resources directly from the MoFNP. At subnational level, Area Development Committees (ADCs) will be established in all districts to mobilise resources, to collect revenue, to sensitise the community and to prioritise projects for inclusion in the district strategic development plans.

The plan comprises nine components: (1) sensitisation and civic education, (2) legal and regulatory reforms, (3) institutional and human resource capacity-building, (4) local development planning and budgeting, (5) financial management and accounting, (6) fiscal decentralisation and revenue mobilisation, (7) sector devolution, (8) infrastructure development and service provision and (9) monitoring and evaluation. Implementation is to be nation-wide and based on a “capacity-ladder approach”, which will entail the assessment of districts to see if they have the capacity to perform devolved functions commensurate with their graded status (city, municipality or district). If a district has a certain capacity, it will assume responsibility for devolved functions and resources. The implementation timeframe provides for most elements of the DIP to be completed by 2013.

The funding for the implementation of the plan is to take various forms. The GRZ will mobilise funds for councils with a fiscal transfer formula to be developed by the Decentralization Secretariat. The greater part of the finances is expected to accrue from a realignment of existing GRZ funds disbursed to line ministries to support their service delivery activities. Various fiscal transfer formulae are to be developed for such sectors as health, education and roads to suit their specific implementation requirements. The funds will be disbursed from the MoFNP directly to councils. In addition, councils are to generate their own revenue, and the private sector, donors, NGOs and local communities are to be encouraged to participate.

At national level, various institutions are involved in the implementation of the plan. The Cabinet Office will ensure that all ministries comply with implementation requirements, and the Ministry of Justice will be responsi-

ble for reviewing and reforming the legal framework for decentralisation. At a later stage, a Decentralisation Implementation Committee is to be set up as a steering body consisting of 'carefully selected high-level officials' at PS level, who will be in charge of implementing the plan. The Ministry of Local Government and Housing (MoLGH) will retain overall responsibility for overseeing the process on behalf of the GRZ. It also houses the Decentralization Secretariat, which is to spearhead, plan, coordinate, facilitate and monitor the implementation of the decentralisation policy.

In the case of devolution, the sector ministries are to set up Ministerial Devolution Task Forces to articulate the functions to be devolved and to prepare and manage the ministries' devolution plans. For the implementation of the components mentioned above, Technical Working Groups (TWGs) are to be established to oversee the business of each component collectively. The members of each TWG will be drawn from the relevant implementing ministry and the institutions that will benefit directly from the outputs of the DIP component, and they will be joined by public- and private-sector experts in the various fields.

The successful implementation of the DIP must, however, overcome some major challenges, which are described in the plan itself. One of the more serious consists in the persistent opposition to decentralisation among government officials and a lack of political commitment. Resistance is still frequent, usually veiled by claims that a lack of capacity is an obstacle to further decentralisation. A second challenge lies in the creation of harmonised implementation and sector coordination with the aim of avoiding duplication. This is of major importance for the involvement of the line ministries in the implementation of the plan. The line ministries were meant to finalise the sector devolution plans, but had not yet done so at the time of the research. The process was beginning to stall during the first half of 2010 owing to the long consultative processes within the Cabinet, which had caused the line ministries to lose interest.

A third major challenge is the funding situation: the mobilisation of finances to enable the plan to be implemented and financial and technical resources to be supplied to local government bodies is still slow. The councils are consequently operating in a funding situation that is not in keeping with the functions they are meant to perform, which makes it extremely difficult for them to deliver services efficiently.

### 5.3.2 Current structure and functions of the decentralised system

In this section, the set-up of the relevant actors involved in PFM at the various administrative levels is described. The administrative system in Zambia operates at four levels: national, provincial, district and subdistrict.

1) At **central level**, the GRZ performs its constitutional functions and is responsible for policy-making and regulatory tasks, such as setting quality standards and ensuring nation-wide coordination (Simutanyi 2007, 24). The supreme authority for the management and coordination of the public service is the Cabinet Office. The Secretary to the Cabinet is the Head of Government Administration, comprising sector ministries and statutory bodies, provincial and district administration (Republic of Zambia 2002a, 8). He is also expected to coordinate development activities through the National Development Coordinating Committee (NDCC). His authority is exceeded only by that of the president, who performs central functions: for instance, he appoints the Provincial Deputy Ministers and the District Commissioners. He also appoints the line ministers, who in turn appoint representatives to department agencies at provincial and district level. The ministries embrace a range of organisational units, which have their own offices in the provinces and districts. These offices receive their budgets directly from their ministry and are accountable to it. Further information on the degree of decentralisation in the various sectors will be provided in the sector chapters.

2) At **provincial level**, the Provincial Deputy Minister (PDM) heads the Provincial Administration Headquarters and is assisted by a Permanent Secretary. The PDM's task is to coordinate, monitor and ensure compliance with government policies at district level (Simutanyi 2007, 24). The PDM acts as the President's representative at provincial level. In addition, Provincial Heads of Department (PHDs) represent the various line ministries at provincial level. The actors of interest to the study at this government level are the Provincial Health Officer (PHO), the Provincial Education Officer (PEO), the Senior Engineer of the Road Development Agency (RDA) and the Rural Roads Unit (RRU). Though accountable to their line ministries, the PHDs are, for administrative purposes, supervised by the Permanent Secretary. A Provincial Local Government Officer (PLGO) is appointed to the Provincial Local Government Office, where he supervises the District Administration (Mukwena 2002, 6).

3) At **district level**, the structure is similar to that at provincial level. The District Commissioner (DC) represents the President and heads the District Administration. As at provincial level, there are sectoral ministerial departments in the districts that report to their respective Provincial Heads of Government. The departments relevant to this study are the District Education Board (DEB), the District Health Management Team (DHMT) and the council's works department, which is responsible for rural road maintenance.

The specific characteristic of the district level is the function of the council, which takes one of three forms: city, municipal or district council. The MoLGH is responsible for controlling the council administration, which is accountable to and employed by the council secretary, who is appointed by the elected district councillors. The council is composed of elected councillors, Members of Parliament (MPs) and two representatives appointed by tribal chiefs. It is elected every five years and acts as the primary body for planning and development activities at district level (Chikulo 2009).

The councils are to provide the 63 services listed in section 61 LGA. Their core functions are restricted to: (1) general administration (law and order, and ensuring national security); (2) advertisements (to prohibit and control their display); (3) agriculture; (4) community development; (5) public amenities; (6) education; (7) public health; (8) public order; (9) registration (properties, persons, births, deaths, marriages, etc.); and (10) sanitation and drainage (Ministry of Local Government and Housing 2006a, 20).

4) At **subdistrict level** there are no formal structures for local representation and community participation (Simutanyi 2007, 25). In some districts Area Development Committees are already in place. The DIP's aim is to set up these committees in all districts, with the intention of improving community participation and facilitating dialogue at local level on development matters (Ministry of Local Government and Housing 2006a, 116).

At the three levels, national, provincial and district, Development Coordination Committees (DCCs) have had to be set up to take charge of improving the coordination of strategic planning, project implementation and monitoring (Mukwena 2002, 9). At provincial level, the Provincial Development Coordination Committee (PDCC) is headed by the Provincial Permanent Secretary (Mukwena 2002, 9). At district level, the District Development Coordination Committee (DDCC) is chaired directly by the District Commissioner (DC). As the DDCCs provide the platform for coordination at

local government level, the study took a closer look at this institution and its role in efficient service delivery in the sectors studied. The findings will be discussed at greater length in Chapters 6 to 8.

### 5.3.3 PFM at local government level

This section gives an overview of the formal local budget process in Zambia, which includes planning, funding, expenditure/budget execution and controlling activities. The description of each of these processes is considered to be an important background for understanding the functioning of PFM at local level, since potential inefficiencies can occur at every step of the budget process.

Before the description of local PFM begins, Box 4 provides some general background information on how decentralisation, and especially fiscal decentralisation, can affect efficiency in service provision both positively and negatively in developing countries.

#### **Box 4: Decentralisation and PFM in developing countries**

Intergovernmental fiscal relations and fiscal decentralisation concern the manner in which public expenditure is handled by different levels of government and the manner in which it is financed. Fiscal decentralisation thus constitutes the public finance dimension of decentralisation in general, defining how expenditure and revenue are organised by and across different levels of government. The precise nature of intergovernmental fiscal relations and fiscal decentralisation policy in any given country depends on how subnational government and administration are organised (UNDP 2005, 2).

By moving decision-makers closer to the grass roots, it is generally assumed that decentralisation enhances the opportunities for public participation, improved transparency and greater accountability of decision-makers to the citizens. It is hoped that this will improve the effectiveness and efficiency of public service delivery and support poverty reduction. As such, fiscal decentralisation is an important cross-cutting thematic area with major implications for poverty reduction and the achievement of the Millennium Development Goals (MDGs).

However, fiscal decentralisation also makes the processes of budget planning, execution and control far more complex, multiplying coordination requirements and possibly overburdening scarce human and technical capacities in developing countries (Mikesell 2007, 17). According to UNDP, what local government offers

will lead to pro-poor services and outcomes only if: (i) local government does what it is best suited to doing (and not what it is ill-equipped to manage or deliver); (ii) it has access to the fiscal resources with which to finance local public service delivery; and (iii) the financial resources needed by local government are made available in equitable and non-regressive ways (UNDP 2005, 7).<sup>33</sup>

The core functions of local fiscal administrations can be grouped under five headings, although they are closely interrelated: budgeting, accounting, cash management, debt management and revenue administration. The local budget process lies at the core of local fiscal administration. It entails budget planning, budget formulation, budget execution and budget control (Mikesell 2007, 27).

A crucial point in the local budget process is that, as planning efforts are linked to the budget, medium-term budget frameworks are used in various countries to achieve harmony between medium-term planning and budgeting. As a rule, a budget consists of separate estimates of recurrent and capital spending. The recurrent expenditure budget goes to such regular service operations as salaries, whereas the capital or operational budget is concerned with long-term operations, such as roads and schools (Garzon 2007, 23). This duality can lead to problems in developing countries, where capital operations are often largely funded by donors. The lack of coordination among the various budgetary paths has often led to fiscal problems in a number of African countries (Mikesell 2007, 29).

Financial reporting and audits are another crucial part of local budgeting. Financial reporting is intended to ensure public accountability and control and a balanced budget, to report compliance with revenue and expenditure responsibilities, to evaluate performance and to assess the level and financial condition of local services and programmes (Garzon 2007, 29). Audits are conducted internally and externally at different government levels by supreme audit institutions and lesser agencies. In practice, however, external audits are conducted randomly (Garzon 2007, 31). Public participation may serve as another control function, as described above. It may occur at every stage of the process, although it appears that budget processes in developing countries have not, as a rule, been citizen-friendly in the past (Andrews / Shah 2005).

Source: United Nations (2005); WBI (2000); Mikesell (2007); Garzon (2007); Andrews / Shah (2005)

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33 It is also important to note that fiscal decentralisation is not enough by itself to truly empower local communities and to achieve pro-poor outcomes. While local power over the purse is important, successful fiscal decentralisation goes hand in hand with political and administrative decentralisation.

Since district planning became a part of the local budget cycle, citizens and MPs are meant to participate in the preparation process. According to the MoFNP's district planning guidelines (Ministry of Finance and National Planning 2004, 7), the objectives of district planning are (1) to put in place a coordinated policy framework for the district, which can direct investment in development activities that result in poverty reduction and assist the population to manage risk better; (2) to ensure the most efficient use of the scarce resources available to the district, which are to be spent on the priorities identified; (3) to attract investment to the district, which includes the mobilisation of local resources; (4) to improve the participatory process in planning with a view to improving coordination among all stakeholders; (5) to ensure local accountability for development decisions; (6) to provide a framework for monitoring and evaluation.

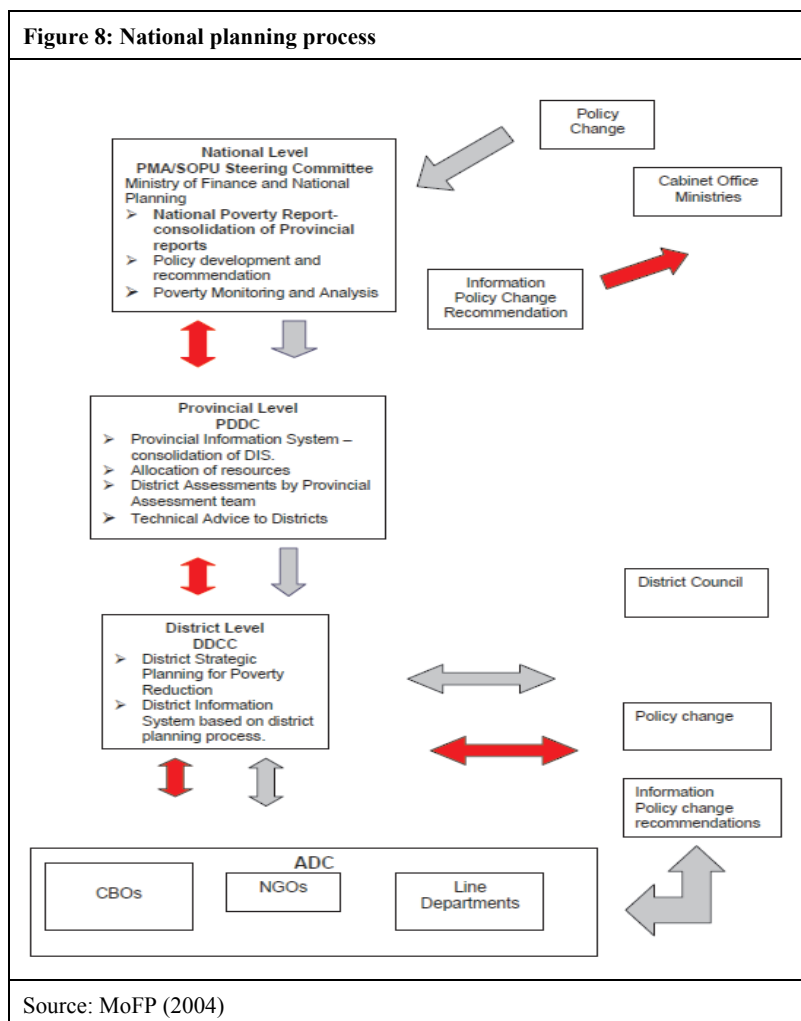
A five-year District Development Plan (DDP) is drawn up for every district by the DDCC and by the District Planning Officer (DPO). It covers activities under the direct authority of the council and sector-specific activities to be undertaken by the deconcentrated units in the district.<sup>34</sup> The DDPs of all districts are incorporated in the National Development Plan. The DDP also serves as a basis for the development of the Annual Development Plan (ADP). At this stage, the district has to decide which priority activities to fund during a particular year, depending on the funding available from various sources. The DPO is required to present to the DDCC a comprehensive breakdown of funds available to the district in a particular year in the categories of discretionary and non-discretionary funds. Discretionary funds comprise capital money which the district can spend at its own discretion and which in Zambia is derived mainly from the Constituency Development Fund (CDF).<sup>35</sup> Non-discretionary finance is the money spent in the district, though not controlled at district level, such as NGOs-operated projects, donor projects through line ministries, the Provincial Capital Expenditure Programme and programmes funded by the GRZ through government departments. The DDCC and the District Planning Sub-Committee (DPSC) cannot plan for these funds until fiscal decentralisation is completed (Ministry of Finance and National Planning 2004, 77).

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34 The planning processes in each sector are described in detail in chapters 6, 7 and 8.

35 As will be described in Section 5.3.4, there is some evidence, however, that the CDF is in practice spent at the discretion not of the councils, but rather of the MPs.

Figure 8 shows how the planning process from district to national level is meant to take place. It is essentially intended to be a back-and-forth process, involving district, provincial and central government level.





There is evidence, however, that this ideal format is not followed in most districts.<sup>36</sup> One of the main reasons for this failing is that the Development Coordination Committees (DCCs) do not, as a rule, function efficiently at all levels (Republic of Zambia 2006a, 242). A coherent definition of national priorities ensuring that the administrative machinery works efficiently in applying them is, however, hardly achievable without the DCCs. In the absence of a functioning coordinating apparatus to harmonise the planning functions at central government and district level, “it appears that government agencies instead of complementing one another excel at undermining one another” (Mulikita 2000). As deconcentrated units conduct their own planning processes with their respective line ministry, the district planning process with the council is not binding for them.

The old budget cycle, which was not abolished until 2009, enabled local government bodies to obtain some idea of the probable size of the grants they would receive from the Call Circular, which was usually distributed between August and October. Approved grants were normally similar to those predicted (Republic of Zambia 2005, 24). Occasionally, as in 2005, Parliament authorised higher amounts, and local authorities had to prepare new budgets after the beginning of the fiscal year (Republic of Zambia 2005, 24). This information given to the Councils indicated the “ceilings”, the maximum amounts of money councils were likely to receive as grants during the financial year.

The district’s budget is drawn up by the district administration on the basis of the estimates it is given and then handed over to a Finance and General Purpose Committee (FGPC), which submits the budget to the council for its approval. The approved annual estimates are then forwarded to the MoLGH for ministerial approval at least 60 days before the beginning of the financial year (Roy / Stuart 2004, 8).

### 5.3.4 Funding for local development – sources of revenue

There are two primary sources of revenue at district level in Zambia: internal, locally generated revenue (such as rates, fees and charges) and external revenue, i.e. fiscal transfers from central government in the form of grants, loans and funds, and other external resources, such as donor funding.

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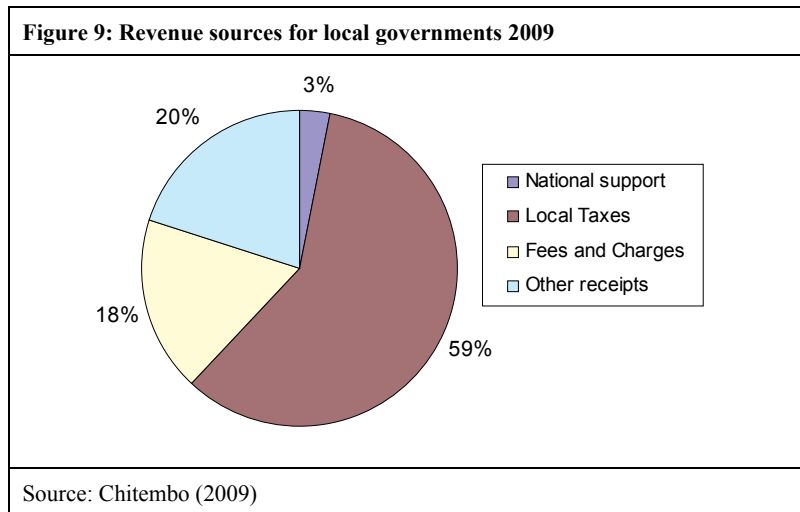
36 cf. Republic of Zambia (2002a, 10) and personal communication from EAZ.

Where internal revenue generation is concerned, the GRZ decides what taxes are payable at national and local level and allows the district councils to collect the taxes identified. Revenue collection at local level is centralised in the local Department of Finance (Hampway 2008, 355). The GRZ has the authority to change the way taxes are collected and can, for instance, decide to pass a by-law permitting a district council to begin collecting revenue. District councils also have the authority to pass by-laws (cf. Local Government Act (LGA) 76(1); (2)), although they require the approval of the MoLGH. The GRZ can subsequently refuse to approve a council by-law for various reasons (Ministry of Local Government and Housing 2006a, 80). It may also decide to withdraw a council's authority to collect certain taxes, which contributes to the erosion of the local government revenue base.

The most important source of revenue in the districts is tax. In Zambia, this includes rates, levies, fees and charges. The possibility of generating revenue at local level is considered to be very limited and unequal to the task of delivering the mandated services (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 11). A number of past GRZ decisions have led to this decline in revenue. Mention should be made in this context of a study that analyses the attitudes of district councils in Zambia and Tanzania towards expenditure. It comes to the conclusion that the more the budgets of local government bodies benefit from local taxes, the more services they produce. The revenue from the centre increases the proportion of local budgets consumed by employee benefits and administrative costs (Hoffman / Gibson 2005).

**Intergovernmental fiscal transfers** – or the transfer of national resources to local level – are of the utmost importance for financing the provision of public services at local level. Article 322 of the *Zambian Draft Constitution* stipulates that “equitable financial and fiscal allocations [are] to be appropriated to the National Government, the provinces and local authorities”. Intergovernmental fiscal transfers are to serve as a means of equalising imbalances between expenditure responsibilities and revenue sources (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 10).

In Zambia, however, transfers from the central government level account for only a small part of local government revenue (Republic of Zambia 2005, 24).<sup>37</sup> Figure 9 shows the revenue sources for Zambian local authorities, indicating that in 2007 district councils received on average only three per cent of their revenue in the form of central government transfers. It remains unclear, however, what exactly is included in the category “national support” and what “other receipts” are.



In the 2010 budget, the system of capital and recurrent grants was renewed (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 13).<sup>38</sup> A fiscal decentralisation working group in Zambia, led by the MoFNP and including representatives of the Cabinet Office, the MoLGH and the Decentralisation Secretariat had been helped by the World Bank in 2005 to establish a new Intergovernmental Fiscal Architecture (IFA), which

37 In addition, transfers from central level between 2002 and 2006 never exceeded one per cent of central government expenditure (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 34).

38 No indication could be found as to when or why this system was abandoned.

now includes three grants, namely the recurrent grant, the capital grant and the restructuring grant, which are to form the backbone of successful decentralisation in Zambia (LGAZ 2005).

The IFA was used for the first time for the 2010 budget allocation: the GRZ allocated ZMK 135 billion as grants to local authorities for the year 2010, of which ZMK 69.348 billion was provided in recurrent grants, ZMK 22 billion in restructuring grants and ZMK 22 billion in capital grants. Each grant is further subdivided (see Table 5). The restructuring grant is to be paid only once and is meant to restore local government solvency by paying off debts. It includes ZMK 16.6 billion to compensate 65 councils for loss of revenue following the abolition in 2009 of the crop levy paid to councils by the GRZ. The recurrent grant is to be used to help weak councils and ensure stable operations. The capital grant is for infrastructure-deficient councils (largely in the newly created districts) to enable them to construct basic administrative centres from which to operate and Lusaka City Council to continue the peri-urban drainage project. In addition, councils receive a 'Grant in Lieu of Rates', which is a transfer by central government intended to compensate the councils for government buildings in the district being exempt from paying property rates (Times of Zambia 2009/12; Fischer s. a.).

Another source of revenue for local government is the Constituency Development Fund (CDF), which is meant to help local government to finance micro-community poverty reduction projects. The CDF is also regarded as part of the Intergovernmental Fiscal Architecture.<sup>39</sup> Its resources are allocated annually to all constituencies making up the local MP's ward. As section 45(1) of the Local Government Act states, Constituency Development Grants are to be used "for the discharge by the Council of any of its functions". They are intended to serve as resources for capital projects and are added to the donor funds that usually support such projects. The CDF is therefore to be included in the councils' capital budget (Ministry of Local Government and Housing 2006a, 1).

The CDF was increased in 2010 to ZMK 100 billion in total, which is shared equally among all constituencies (i.e. ZMK 666.666 million per con-

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39 In the FNDP 2006-2010, the CDF is listed under the programme "Transfers to Local Authorities (IFA) including CDF" (Republic of Zambia 2006a, 246).

stituency), the remainder being spent on monitoring by the MoLGH (Times of Zambia 2009/12).

The CDF is administered and controlled by the MoLGH,<sup>40</sup> which receives it from the national treasury at the MoFNP (Roy / Stuart 2004, 8). It is channelled through the DDCC and evaluated by the District Planning Officers or Units. It is allocated by the Constituency Development Committee (CDC) on the basis of project proposals from subdistrict development structures on behalf of communities (Ministry of Local Government and Housing 2006a, 1). The CDC consists of the area MP, two councillors, one representative of the tribal chiefs, one director of works/director of engineering and four community leaders (Republic of Zambia 2006a, 1). According to the “Guidelines on management and utilisation of the Constituency Development Fund” (Ministry of Local Government and Housing 2006b), only projects that have been appraised and approved by the council are to be funded. The funds are disbursed by either bank transfer or cheque to CDF accounts held by the councils (Ministry of Local Government and Housing 2006b, 4).

However, there is some evidence that funds are being politicised, projects being largely selected not on the basis of any technical evaluation by DPOs (...) as a result of efforts by local politicians to appease party cadres and other local elites” (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 49). The CDF is accordingly perceived rather as part of a political patronage system, and the signs are that the fund is not an effective tool for improved local infrastructure development (Mukwena 2002, 14). The findings of this study support this perception, as will be shown in Chapter 8.

In addition to these grants, loans and investment can be used as a source of revenue for capital projects in the districts listed under Head 20 of the ‘Yellow Book’ (annual budget estimates of the GRZ). In 2010, ZMK 551.423 billion was entered under this head, the bulk of it being donor-financed and most (though not all) earmarked for projects implemented by councils or their commercial water and sanitation utilities (Pain 2009).

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40 Evaluation reports on 2010 budgetary performance were to be submitted by local authorities to the MoLGH by 31 March 2011 (Times of Zambia 2009/12).

<b>Table 5: Intergovernmental fiscal transfers in the 2010 budget</b>					
Grant	Components	Amount in ZMK billion	Purpose	Allocation formula	
Recurrent grant	Institutional component	27	Contribution to basic operating expenses	Block figure of ZMK 500 million to be released in four quarterly instalments of ZMK 125 million, to each of the 54 district councils	
	Service delivery component	25.727	To be spent exclusively on the councils' service delivery function – pursuant to section 61 Local Government Act 1991	Disbursed to all 72 councils, the allocation to each district being based on its population weighted by five district "deprivation" indices using data from the 2006 Living Conditions Monitoring Survey (LCMS)	
	Crop levy compensation component	16.62	Compensation for abolition of crop levy by the President in 2009	Compensation according to the districts' budgeted and actual crop levy revenue for 2007, 2008 and 2009	
Capital grant	Infrastructure development grant	12	For the 12 most infrastructure-deficient councils (largely in the newly created districts) to construct basic administrative centres	1 billion to each of the 12 councils	

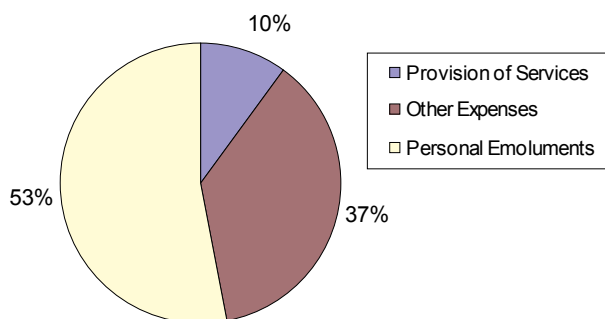
<b>Table 5: Continued</b>				
	Urban drainage grant	10	Urban drainage project	Lusaka Council
Restructuring grant	First and second components	22	To help councils to clear their financial liabilities	First component for Livingstone City Council and the 14 municipal councils; second component for the more “financially challenged” district councils
Grant in lieu of rates		22	Grant in lieu of rates to compensate for property rates not paid on government buildings	Pro rata basis according to the value of government property in each district
CDF		100	Funding for development projects	ZMK 666.666 million per constituency
Other transfers		551.423	Mostly for projects implemented by councils or their commercial water and sanitation utilities	
Source: Pain (2009)				

## Implementation

Local government expenditure can be subdivided into three categories (Hoffman / Gibson 2005, 8): (1) personal emoluments, i.e. salaries and other direct employee benefits; (2) administrative costs, i.e. supplies, maintenance and vehicles; (3) public services, i.e. expenditure on improvements in the area. The sum of the first two categories is the total recurrent costs or government consumption, which forms the greater part of local government expenditure. Capital expenditure on development projects is comparatively low unless the projects are financed by external donor agencies (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008). Most councils provide minimal local services, those they do provide, are largely for people living in the immediate vicinity of the council (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008).

Even though the MoLGH sets a 40 per cent target to be spent annually on service delivery in the districts, evidence suggests that councils set little store by service delivery (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 7). On average, they spent only 10 per cent of their budget on service provision in 2007, the remaining revenue being consumed by personal emoluments and other expenses, i.e. administrative costs (cf. Figure 10).

**Figure 10: Local government expenditure**



Source: Ministry of Finance (2008)



This inadequate service delivery is explained by several factors. Some difficulties result from the fact that the services to be provided by the district councils as listed in section 61 LGA are not mandatory and that, as the withdrawal of funding sources from local authorities in recent years has led to a mismatch between finance and functions, it is for the district councils to decide which functions they will perform.<sup>41</sup> Several service delivery functions are performed by deconcentrated units. The consequent dual structure is another factor influencing service provision at local level.

Nor is it clear which services are delivered or at what cost. A study of the revenue base of district councils conducted in 2008 was unable to identify in all but one district what services were provided or how much expenditure went on the emoluments of personnel involved in service delivery (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 6).

Another factor influencing service delivery at local level is the poor financial state of most district councils. The typical district has a debt stock roughly equivalent to the size of its annual income, i.e. a debt to income ratio of 100 per cent, of which 90 per cent consists of personnel costs (Ministry of Finance and National Planning / Ministry of Local Government and Housing / *Zambian - German Development Cooperation* 2008, 45). Furthermore, local governments have discretion only over funds they collect from their own constituencies, because external transfers from CPs or the GRZ are earmarked for specific items of expenditure (Hoffman / Gibson 2005, 8).

Taking the example of Ndola City, one study points out that 70 per cent of district expenditure was allocated to salary-related commitments, only about 30 per cent of the council's funds being spent on such non-salary related mandates as service delivery. The reasons given in the study are capacity constraints, especially in the areas of financial management, planning capacity and community-based development (Hampway 2008, 356).

Knowledge of the implementation of district plans at local level in Zambia is very limited. What little literature there is on that stage of the budget

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41 Nevertheless, even though the provision of several services has been withdrawn from the councils, the public perceives them as the rightful and approachable source of such services, especially where they concern water and roads (MoFNP 2008, 8).

process is usually confined to advice on how to implement such plans. This lack of information could be due to the fact that most of the activities included in the District Plans are undertaken by the deconcentrated units responsible, which report back to their respective line ministries.<sup>42</sup>

## **Control**

Budget control is exercised at the three different levels – local, provincial and national – with additional control exercised by the citizens.

At district level an internal audit has to be carried out by the Finance and General Purpose Committee (FGPC) set up by the council (Section 31(2) LGA). The FGPC is required to ensure that all expenditure incurred is authorised and properly recorded and that accounts are properly maintained (Ministry of Local Government and Housing 2006a, 85).

At least once every quarter the district administration reviews the council's performance on the basis of budgetary reports received from the treasurer and the various departments. Revenue monitoring reports are prepared monthly by each revenue source. Vote books are maintained to guide responsibility centre managers on funds available for various items and to show, on a cumulative basis, expenditure incurred, commitments made and the uncommitted balance available (Ministry of Local Government and Housing 2006a, 88).

However, the Local Government Act does not provide a basis for local government auditors to carry out spot checks using benchmarking: the GTZ's Local Government Support Project (LOGOSP) developed a score guide to check the financial management of district councils, which has been introduced in all districts in Southern Province. Nonetheless, there is no legal basis for benchmarking that compels councils to act and to report (GTZ 2003, 16).

At central government level, the MoLGH has the constitutionally mandated responsibility of overseeing local councils. The LGA also requires the MoLGH to appoint a public officer or other person to be the council auditor (LGA 52(1)) to determine whether all revenue collected has been applied to purposes for which it was intended and in conformity with laws, rules and regulations. Section 60 LGA permits the MoLGH to direct at any

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42 More details on this finding are provided in the sector chapters.

time that an extraordinary audit of all or any of the accounts of commercial undertakings is to be conducted.

Every local authority must maintain financial records in a manner and format prescribed by the MoLGH. The provincial level also plays a role in auditing, since accounts are to be submitted by the district councils to the Provincial Local Government Officer (PLGO), who then arranges an audit with the Minister.

However, although the MoLGH has the constitutionally mandated responsibility for overseeing local councils, there is evidence that no active monitoring is undertaken. Nor does the MoFNP usually perform its function of monitoring the fiscal position of councils (Republic of Zambia 2005, 25).

**Citizens** have the option of becoming involved in monitoring budget implementation: under section 29(1) LGA, all council meetings must be open to the public, except in some special circumstances: councils may exclude the public from the whole or any part of proceedings if publicity would be prejudicial to the public interest owing to their confidential nature (LGA 29(2)).

Public monitoring is also potentially supported by the requirement in section 39(5) LGA that a council's annual estimates be open for inspection by interested persons, including members of the public. However, evidence suggests limited public interest in local government; the turnout for local government elections is low, since citizens tend to mistrust local administration and councils (Simutanyi 2007, 7).

To sum up, the current decentralised PFM system in Zambia features several weaknesses that may explain the inefficiency of service delivery at subnational levels. As this study focuses on three sectors that still have their own decentralised or deconcentrated structure, the characteristics and empirical findings for each sector are described in the respective sector chapters.

## 6 The health sector in Zambia

The overarching research question of this study concerns efficient public financial management at local level in Zambia. This chapter presents information on the health sector, which has been identified as a relevant case for our research for several reasons: for one thing, it is one of the sectors cho-

sen for the joint evaluation of budget support in Zambia (de Kemp / Faust / Leiderer 2011), for which our research was intended to generate background information. For another, it has some specific features that make it worth researching: firstly, the GRZ has singled out health as a key sector in the FNDP (Republic of Zambia 2006a, 160). Secondly, CPs agree with the GRZ in recognising health as a priority sector deserving substantial on- and off-budget support. Thirdly, health is a crucial sector in the achievement of the Millennium Development Goals (MDGs) and therefore highly relevant to poverty reduction.

Within the health sector as a whole, the research team decided to place the emphasis on basic health care. A review of the literature during the desk study phase had revealed that the Basic Health Care Package (BHCP) is a strategic focus of the government and that most discussions in the health sector revolve around it. One reason given for the government's focus on basic health care is the assumption that most diseases in Zambia can be prevented at this level. In the course of the field study it became clear that the BHCP has not yet been launched and that actors at present seem unable to agree on its composition. However, basic health care is the main – and often only – level of care in the districts, especially in rural areas without higher-level facilities. As the study concerns efficient public financial management at local level, basic health care was considered appropriate as the focus of this research.

The following section provides detailed information on the health sector and basic health care to clarify the background to the sector-specific empirical findings. To this end, relevant background information on challenges in the sector is given and strategic goals and priorities of the GRZ are presented. The administrative set-up is also described and relevant reforms are explained to give an overview of structures and actors in the sector, which is important for an understanding of the processes described in our findings. In this context, decentralisation as a major component of health sector reforms is explored to shed light on processes at subnational level. Health expenditure in Zambia is then analysed, and budgeting and planning processes are explained, with the focus particularly on budgeting and service delivery at district level. Finally, the conceptual findings on the sector and examples of efficiency challenges are presented.

## 6.1 Sector background

Zambia's health expenditure per capita is similar to that of its middle-income southern African neighbours, but its health indicators are the same as Tanzania's or Malawi's, countries that spend less money on health (ODI / Mokoro 2009, 7). Improving budgeting and planning processes is thus necessary to ensure better health outcomes and is all the more crucial in a sector that has been described as being "*in a state of crisis*" (Picazo / Zhao 2009, xvi). Evidence in support of that assessment can be found in the FNDP, which lists a worsening human resource crisis, increasing maternal mortality rates, continuing malnutrition and a growing disease burden as current trends in the sector. While malaria is a major public health problem in Zambia, tuberculosis (TB), HIV/AIDS and such other diseases as worm infestations and diarrhoea also contribute to the disease burden (Republic of Zambia 2006a, 161 - 164). Not surprisingly, life expectancy in Zambia is, at 42 years for men and 43 years for women, one of the lowest worldwide. The infant mortality rate was 102 per 1000 live births in 2006, the second highest ratio in southern Africa, exceeded only by Angola. The under-five mortality rate is 182 per 1000 live births for both sexes, only Angola again having a higher mortality rate in the region (WHO 2009). However, the 2009 mid-term review of the FNDP states that the under-five mortality rate was reduced to 119 per 1000 live births in 2007. This number already exceeds the target set by GRZ for 2010, which was 134 per 1000 live births (Ministry of Finance and National Planning 2009b, 84).

Opinions on whether Zambia is on track to achieve the health-related MDGs differ. While some authors (ODI / Mokoro 2009, vii) believe the country will achieve the HIV/AIDS targets and has the potential to meet the targets for child and maternal mortality (and those for water and sanitation), others suggest that the sector is lagging well behind (Picazo / Zhao 2009, 1). Yet the 2009 FNDP mid-term review states that MDG 5 (reduction of maternal mortality rates) will be achieved (Ministry of Finance and National Planning 2009b, 84).

HIV/AIDS is a major health problem in Zambia and contributes to the enormous disease burden. The prevalence rate for 2007 was around 14 per cent for adults aged 15 to 49, according to the Zambia Demographic Health Survey. At 18 per cent, the infection rate was higher among women, in line with the increasing feminisation of the disease in Africa. The prevalence of HIV

is also much higher in urban districts, 22 per cent in Lusaka and 20 per cent in the Copperbelt, for example (Republic of Zambia 2006a, 85). Generally speaking, AIDS rates in sub-Saharan Africa must, however, be treated with some caution.

Health service delivery in Zambia is currently severely affected by the ineffectiveness of the health system. Two major concerns in this respect are the human resource crisis in the sector, with 69 per cent of professional positions unfilled and wide gaps in the number and distribution of health facilities – a far cry from the target. For example, only 20 of 3000 planned health posts have been commissioned (Picazo / Zhao 2009, 15-16). There have been some improvements in health service delivery, however, owing to increased flows from basket funds and the process of decentralisation to the districts (ODI / Mokoro 2009, 11).

Currently, the crisis in the health sector is being exacerbated by a major corruption scandal in the Ministry of Health (MoH), which has led to the withdrawal of funds by CPs. Sweden and the Netherlands have delayed funding, which, according to the Minister of Health, has affected district health centres and hospitals in particular. The ministry lacks ZMK 24 billion each month as a result of the scandal, which is having a serious impact on the sector (Times of Zambia 2009). According to CP statements, key donors are undertaking audits at present and seem willing to recommit funds in the future.

This overview shows that the sector faces severe challenges. The FNDP mid-term review 2009 stresses that the main causes of concern are health care personnel, health infrastructure, HIV/AIDS and TB, gender-mainstreaming in service delivery, child health, the implementation of the health management information system (where effective monitoring is still hampered) and the lack of a procurement management system (which produces many anomalies) (Ministry of Finance and National Planning 2009b, 90 - 92). Another cause of government concern is the challenges posed by the high number of external CPs in the sector, raising problems associated with duplication, coordination, harmonisation and alignment, especially as the growth of revenue is not having an impact on the budget of regular organs of the health delivery system (Ministry of Health 2007).

## 6.2 Goals, priorities and strategies for the health sector

Two documents are important in the context of the national health policy: the FNDP and the National Health Strategic Plan 2006 – 2010 (NHSP), the fourth in a series of sector plans. The FNDP's goal is to ensure "equitable access to cost effective and quality health care by 2030" in order to improve the health status of the Zambian population and so contribute to economic development (Republic of Zambia 2006a, 167). The FNDP will soon be replaced by the Sixth National Development Plan (SNDP), which was compiled by health sector actors in the course of 2010. The NHSP has identified twelve national health priorities, which include seven public health interventions and five systemic interventions. Again, the aim of the strategy is to guarantee "equity of access to assured quality, cost-effective and affordable health services as close to the family as possible" (Ministry of Health 2005, 2-3). According to the strategic plan, such significant challenges as the high disease burden, the HIV/AIDS epidemic, shortages of health personnel, a weak economy, inadequate funding and the continuous restructuring of the sector make it necessary to prioritise interventions and systems (Ministry of Health 2005, 1). The priorities are listed in Table 6.

The health strategy lists objectives, strategies, expected outputs and key indicators for public health interventions and for monitoring the implementation of the strategic plan. Among the key principles proposed in the document are equity of access, affordability, accountability, cost-effectiveness, partnerships, decentralisation and leadership (Ministry of Health 2005, 19). Particular emphasis is placed on improving the health of the poor. Consequently, one aim of the NHSP is to improve the targeting of resources at disadvantaged districts and populations, where the disease burden and poverty are most pressing (Ministry of Health 2005, 17). In terms of infrastructure the FNDP postulates a target of 3,000 health posts and 1,385 health centres and at least one first-level hospital in each district. So far reality has not caught up with planning, however (Republic of Zambia 2006a, 160).

The GRZ has focused on primary health care as the main vehicle for delivering health services. The underlying assumption here is that most of the diseases plaguing Zambia can be prevented or treated at a primary health care level. A Basic Health Care Package (BHCP) has therefore been developed, offering selected services free or on a cost-sharing basis. After an analysis of the factors that cause the greatest burden of disease and highest

<b>Table 6: National health priorities</b>		
S/N	Intervention / system	Objective / main targets
<b>A</b>		
<b>Human Resource Crisis</b>		
1	Human Resources	To provide a well-motivated, committed and skilled professional workforce who will deliver cost-effective quality health care services as close to the family as possible.
<b>B</b>		
<b>Public Health Priorities</b>		
2	Integrated Child Health and Nutrition	To reduce the under-5 MR by 20 per cent from the current level of 168 to 134 per 1,000 live births by 2010 and to improve nutrition significantly.
3	Integrated Reproductive Health	To increase access to integrated reproductive health and family planning services that reduce the maternal mortality rate (MMR) by one quarter, from 729 to 547 per 100,000 live births by 2010.
4	HIV/AIDS, STIs and Blood Safety	To halt and begin to reverse the spread of HIV/AIDS and STIs by increasing access to quality HIV/AIDS, STI and blood safety interventions.
4	Tuberculosis	To halt and begin to reverse the spread of TB through effective interventions.
5	Malaria	To halt and reverse the incidence of malaria by 75 per cent and mortality due to malaria in children under five by 20 per cent.
6	Epidemics Control and Public Health Surveillance	To improve public health surveillance and control of epidemics significantly, so as to reduce morbidity and mortality associated with epidemics.



<b>Table 6: Continued</b>		
7	Environmental Health and Food Safety	To promote and improve hygiene and universal access to safe and adequate water, food and acceptable sanitation, with the aim of reducing the incidence of water- and food-borne diseases.
C	Support Systems Priorities	
9	Essential Drugs and Medical Supplies:	To ensure availability of adequate, quality, efficacious, safe and affordable essential drugs and medical supplies at all levels, through effective procurement management and cooperation with pharmaceutical companies.
10	Infrastructure and Equipment	To improve the availability, distribution and condition of essential infrastructure and equipment significantly so as to improve equity of access to essential health services.
11	Systems Strengthening (M&E, HMIS, FAMS, Procurement and R&D)	To strengthen existing operational systems, financing mechanisms and governance arrangements for efficient and effective delivery of health services.
12	Health Systems Governance: (Governance and Health Care Financing)	To provide a comprehensive policy and legal framework and systems for effective coordination, implementation and monitoring of health services.
Source: Ministry of Health (2005)		

incidence of death, ten priority areas for health services have been included: child health and nutrition, integrated reproductive health, HIV/AIDS, TB and sexually transmitted infections (STIs), malaria, epidemics, hygiene, sanitation and safer water, human resources, essential drugs and medical supplies, infrastructure and equipment, and systems strengthening (Republic of Zambia 2006a, 162). Strategies for achieving the objective of providing basic health care services as defined in the BHCP (Republic of Zambia 2006a, 167) include:

- finalising the BHCP for all levels;
- developing and distributing guidelines, logistics and supplies for the provision and coordination of essential clinical services;
- strengthening the provision of the essential package of care at primary, secondary and tertiary level,<sup>43</sup> as required;
- strengthening the referral system to support the implementation of the BHCP;
- developing the capacity of health providers through the pre-service and in-service training of health workers in essential clinical services.

The purpose of the essential health package is to identify and deliver cost-effective health services. The Zambian BHCP was developed together with representatives of the districts, their active participation meaning that planning started from the lowest level. It appears that this methodology has also been used in management training courses for District Medical Officers (Jeppson / Okuonzi 2000, 280). However, the package as a whole has not been fully implemented, particularly at the first and second referral levels (Picazo / Zhao 2009, 11). Interviews with stakeholders at central level indicated that the BHCP is still the subject of fierce debates. It has yet to be agreed which interventions should be included in the package, the inclusion of cancer treatment being one contentious issue. In general, tension seems to exist between what affluent urban citizens want and poor rural populations need, making it difficult to match the priorities of different groups. It was pointed out by Ministry of Health officials that ARV treatment was to have been included in the BHCP, but this would have absorbed about one third of the total basic health care budget. Furthermore, so far the propos-

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43 See section 6.3.2

als lack an economic analysis and have not been costed. A report on the BHCP has been drafted, but has yet to be approved. There is some indication that stakeholders are unwilling to implement the package at present. As a focus of analysis, it has therefore been replaced by basic health care in general.

Apart from seeking to ease the disease burden, the FNDP identifies other main challenges in the areas of procurement, infrastructure, equipment, gender and HIV/AIDS mainstreaming. It provides for 27 programmes, objectives and strategies in different areas of intervention, including such monitoring tools as the Health Management Information System (HMIS) and the Financial and Administration Management System (FAMS) and also a procurement management system. In the area of policy and planning, the following strategies have been proposed by the FNDP to mobilise resources and ensure their efficient use (Republic of Zambia 2006a, 170):

- promoting the adoption of the health financing policy as a long-term guide for financial reform;
- developing new tools for costing and budgeting and allocation criteria for all levels of care;
- improving the targeting of exemptions from cost-sharing;
- improving the coordination of various health sector financing mechanisms and expanding the basket-funding mechanism to cover all levels of health care, budget lines and statutory institutions;
- coordinating resources from bilateral, multilateral and global initiatives to ensure efficient use of external resources;
- promoting the use of national health accounts as a tool for planning and resource allocation;
- strengthening health systems research through improved coordination and the establishment of a research committee;
- setting up a national health ethics committee.

The GRZ has developed key performance indicators to measure the progress and success of the proposed strategies. These indicators have also been adopted in the CPs' Performance Assessment Framework (PAF) for the assessment of Zambia's performance with regard to budget support. The key performance indicators are (Republic of Zambia 2006a, 372):

- percentage of births assisted by midwives, nurses, doctors or clinical officers;
- percentage of fully immunised children under one year of age in the 20 worst performing districts;
- malaria case fatality rate among children under 5 (fatalities per 1,000 admissions);
- use of PHC facilities;
- percentage of MoH releases to district level.

Apart from the main strategic documents on the health sector, two policies are worth mentioning in this context. One is the Public Service Reform Programme, which led to the partial restructuring of MoH headquarters in 2002. The other is the National Decentralisation Policy, which calls for the channelling and control of resources at district level, with the provincial level serving as the necessary intermediate level of coordination and supervision. The NHSP therefore accepts the need to define the roles and responsibilities of the provincial level in the restructuring process (Ministry of Health 2005, 14).

### 6.3 Administrative architecture of the health sector

The following section describes the health sector architecture currently in place in Zambia and outlines major reforms. This information serves as background to the empirical findings presented at the end of the chapter.

#### 6.3.1 Health sector reforms

In 1992, the GRZ embarked on a health sector reform programme aimed at transferring the planning and provision of health services to district level and focusing on preventive rather than curative care (Republic of Zambia 2006a, 160). In the course of the reforms, two parallel, but intentionally complementary structures were introduced: popular structures (boards and committees down to community level) were to ensure public involvement in the decision-making process, while technical and management structures (management teams) were responsible for the provision and management of health services (Ministry of Health 2005, 8). In 1995 the National Health Services Act split the MoH into provider and purchaser institutions to cre-

ate internal markets. The Central Board of Health (CBoH) was created as the MoH's service provider and mandated to commission a network of hospital and district health boards (Jeppson / Okuonzi 2000, 276). However, these reforms were never really completed, and in 2005 the government decided to repeal the National Health Services Act. Accordingly, the CBoH and the district and hospital boards were abolished in 2006, since the GRZ realised that a costly duplication of structures had been created. As a consequence, decision-making was recentralised and popular participation reduced. Summing up the reforms in the health sector, a study undertaken by ODI and Mokoro identified decentralisation, the introduction of the BHCP, harmonisation, including the introduction of a SWAp and a district basket, mechanisms for popular participation and the introduction of cost-sharing as key components of the reform process (ODI / Mokoro 2009, 7–8).

### 6.3.2 Structure of the health system

From the reforms described in the previous subsection it can be deduced that, since those reforms were launched 14 years ago, most measures have been reversed, including user fees, which were abolished in rural areas in 2006.

The 2008 Social Budget Review by the International Labour Organization (ILO) states that decentralised health care is delivered at three levels, central, provincial and district: *“The MoH is in charge of policy, strategic planning, coordination, monitoring and evaluation, and overall health system oversight, at central level. The central level is also responsible for procurement and distribution of medical supplies, capital investment and staff allocations for all levels of the system. Below the MoH headquarters are the provincial health offices, which have a less operational role but serve as liaison between districts and the national MoH headquarters. The third tier is the District Health Management Team (DHMT). The DHMT is responsible for service delivery at district level and also runs the district hospitals and a satellite of health centres and health posts within the district. Parallel to DHMTs are higher-level referral hospitals run by Hospital Management Boards”* (ILO 2008, 113).

Jeppson and Okuonzi (2000, 277) suggest that district councils have little say in district health activities and that the sector has been de-linked from provincial administration and from the local district authority. Research at district level has confirmed this observation. The councils are responsible

for public health services, i.e. waste management, water and sanitation. All aspects of health service delivery are managed by DHMTs, and the council generally has no insight into decisions taken by the teams, apart from the information shared at DDCC meetings. One source suggests that “the reorganisation of the health system with the centralisation of all health functions in the Ministry of Health and the dissolution of the Central Board of Health as a provider may have enhanced the operational effectiveness of the sector” (ILO 2008, 144). Yet there is evidence at district and central level that the board system provided greater freedom at district level for decisions on priorities in the use of funding to meet the districts’ needs. Interviewees suggested that this degree of flexibility increased the efficiency of health services, whereas the present situation leads to the MoH setting priorities that often bear no relation to priorities on the ground. There was also some evidence that the abolition of the boards has reduced the transparency of expenditure control and the acceptance of health services by the population. A number of sources indicated that the reverse of the health sector reforms can be attributed to a certain unwillingness to relinquish power and control at central level rather than considerations of effectiveness.

The MoH is not the only provider of health care services in Zambia. Other public facilities are operated by the Ministry of Defence and the Ministry of Home Affairs. Private facilities can be divided into not-for-profit operations (managed by mining companies or faith-based associations) and some private for-profit hospitals, clinics, pharmacies and traditional healers (ODI / Mokoro 2009, 8). The system of facilities run by the MoH is presented in the box below.

**Box 5: Health facilities in Zambia**

- **Health Posts:** Intended to cater for populations of 500 households (3,500 people) in rural areas and 1,000 households (7,000 people) in urban areas, or to be established within a 5 km radius of sparsely populated areas. The target is to have 3,000 health posts, but so far only 20 have been commissioned;
- **Health Centres:** These facilities include Urban Health Centres, which are intended to serve a catchment population of 30,000 to 50,000 people, and Rural Health Centres, servicing a catchment area having a radius of 29 km or a population of 10,000. The target is 1,385, but the current total is 1,210 (973 rural, 237 urban);

- **1<sup>st</sup> Level Referral Hospitals:** These are found in most of the 72 districts and are intended to provide a population of between 80,000 and 200,000 with medical, surgical, obstetric and diagnostic services, including all clinical services for health centre referrals. Currently, there are 74 1st Level Referral Hospitals;
- **General Hospitals:** These are 2nd level hospitals at provincial level and are meant to cater for a catchment population of 200,000 to 800,000, providing services in internal medicine, general surgery, paediatrics, obstetrics and gynaecology, and dental, psychiatric and intensive care. These hospitals are also intended to act as referral centres for the 1st level institutions, by providing technical back-up and training functions, for example. Currently, there are 19 2nd level hospitals. Two provinces, Southern and Copperbelt, have five and three 2nd level hospitals, respectively. The distribution of these facilities needs to be rationalised through right-sizing;
- **Central Hospitals:** These are for catchment populations of 800,000 and above, and have sub-specialisations in internal medicine, surgery, paediatrics, obstetrics, gynaecology, intensive care, psychiatry, training and research. They also act as referral centres for 2nd level hospitals. Currently, there are five such facilities in the country, three of which are in the Copperbelt Province. Again, the distribution of these facilities needs to be rationalised.

Source: Ministry of Health (2005, 9)

More recently, the FNDP mid-term review states with regard to infrastructure that 4,466 health facilities will be required, but only 1,563 are in place at the moment. The construction of health posts was suspended in 2007, when the emphasis was placed on 1st level hospitals. Currently, five districts do not have 1st level hospitals, which raises the question of equity in distribution. On a more positive note, 33 of 58 health posts targeted were completed during the first half of the FNDP period (Ministry of Finance and National Planning 2009b, 88).

### 6.3.3 Degree of decentralisation

As stated above, decentralisation is a key component of health sector reforms in Zambia, as the current strategic plan also stresses. The description of the repealed Health Act shows, however, that important functions have been recentralised in recent years.

In a study published in 2003, Bossert et al. (2003, 358) concluded that the decentralisation of health management in Zambia had been a combination of deconcentration to district health officials within the structures of the central public health system and delegation of authority to the CBoH and, to a lesser degree, to district and hospital management boards. As the CBoH has been abolished in the meantime, the system now operates through deconcentrated government units at district level. The study mapped the degree of what Bossert et al. call “decision space” or “choice” for the district level, embodied in the DHMTs. According to them, DHMTs have limited choice over sources of such additional revenue as local taxes, they are not accountable to local government, and they have no say in salaries and governance structures at local level. Districts (DHMTs) enjoy moderate discretion with respect to expenditure, fees, hiring and firing, contracts with private providers, local health office organisation and community participation. They have a wide choice when it comes to prepayment schemes, payment mechanisms and contracting short-term personnel. District councils are not represented in DHMTs, which are, on the other hand, almost totally dependent on central allocations. Bossert et al. (2003, 359-360, 365) therefore conclude that *“Zambian decentralization has not transferred an excessive amount of responsibility and authority to the districts (...)”*. Our research has confirmed the findings of this study, which paints an accurate picture of the current degree of decentralisation.

In late 2009 those responsible for the Decentralisation Implementation Plan (DIP) agreed that there should be some latitude for pushing forward devolution efforts in Zambia. All sectors have developed sector devolution plans, and work plans for individual sectors are being drawn up. In the course of this process the health sector is preparing to devolve and transfer responsibilities to the district councils, which will take over the functions of the DHMTs. As this process is time-consuming and has stalled several times over the years, it is unclear when full devolution will be achieved. Until then deconcentrated units (DHMTs) will continue to be the MoH's service delivery bodies at district level, bound by decisions taken at central level.

Interviews with various stakeholders suggest that opinions on decentralisation are divided in the Zambian health sector. At central level concern is typically expressed about the capacity of councils and the ring-fencing of health expenditure is deemed necessary. Evidence at district level, however, suggests that most DHMT staff are in favour of decentralisation and call for a more



holistic view of health sector development that takes account of the positive externalities that improvements in one sector may produce for others.

## 6.4 Expenditure, planning and budgeting in the health sector

### 6.4.1 Health expenditure

Zambia's annual series of National Health Accounts (NHAs) enables health expenditure trends over the past ten years to be analysed. Even though the GRZ's financial contributions to health have fallen in relative terms, total health expenditure in absolute terms rose between 1995 and 2004. This was mainly due to a massive increase in basket funds and CP projects managed by the GRZ (Picazo / Zhao 2009, 17,19). A large share of CP funding in the sector is off-budget, however, and therefore helps to fragment health funding. Only the European Commission and DFID have taken the decision to give sector budget support (ODI / Mokoro 2009, vii-viii).

The GRZ's health budget in 2008 was ZMK 974 billion, or 11.2 per cent of the discretionary government budget (ODI / Mokoro 2009, 9). On average, health expenditure accounted for 10 per cent of national resource allocation in the past three years. The FNDP allocation to health was ZMK 4,034.4 billion, of which ZMK 2,350.9 was financed by the government and ZMK 1,638.5 billion by cooperating partners (Ministry of Finance and National Planning 2009b, 83). CPs transfer around 58.7 per cent of their funding for the health sector to the government for it to feed into the sector budget. They are thus the main contributors to the sector, while household out-of-pocket expenditure has fallen owing to the abolition of user fees in rural areas. Household expenditure amounts to 28.4 per cent of total health expenditure; no data could be obtained on the percentage of user fees included in this figure (ILO 2008, 144). In general, three sources of financing (GRZ, CPs and households) account for 94 per cent of total expenditure in the health sector. In this context, a dramatic increase in CP expenditure has been observed. During the last 10 years the CPs' share of health expenditure has grown by double digit numbers, from 15 per cent in 2000 to over 40 per cent in 2004. Household spending is mostly out-of-pocket and goes on user fees at health facilities (in urban areas) or the purchase of drugs from pharmacies (ILO 2008, 118). The dramatic increase in CP funds, and especially the emergence of global disease initiatives in the late 1990s and early 2000s, coincided with a stagnation of government health spending and shaped the pattern of the

sourcing of health expenditure, which has resulted in the fragmentation of health service financing (Picazo / Zhao 2009, 21). This is noticeable, for example, in the case of HIV/AIDS: CPs have provided substantial funding for HIV/AIDS programmes in recent years, but tracking these resources is a challenge, since the government does not have a budget code for HIV/AIDS, making it difficult to trace resources used for HIV/AIDS-related measures in other ministries (Ministry of Finance and National Planning 2009b, 125).

In his 2010 budget address, the Minister of Finance announced that he had allocated ZMK 1,363.5 billion to the health sector, equivalent to 8.2 per cent of the total central government budget (see Box 6). Disbursements were expected to be lower than budgeted for in 2009, however, as CPs had recently withdrawn their funds because of a corruption scandal.

As regards service provision, the Public Expenditure Review for the health sector (Picazo / Zhao 2009, 25) identified several points worth mentioning:

- The role of government financing in service provision (percentages of total expenditure) has been rather varied. After reaching 75 per cent in 2002, it later stabilised at around 41 per cent;
- The government has greatly increased resources for district health services, which accounted for 65 per cent of total government spending on service provision in 2004;
- On another note, private for-profit hospitals have attracted a rising share of health expenditure, from 18 per cent at the end of the 20th century to 30 per cent in 2004. Mission hospitals, on the other hand, accounted for only 1 per cent of total health expenditure, while traditional healers now provide 15 per cent of services.

**Box 6: Examples of budgeted allocations in 2010**

ZMK134 billion for continued construction, expansion and rehabilitation of 16 district hospitals and staff accommodation

ZMK 83.8 billion for drugs and medical supplies

ZMK 33.7 billion for prevention and treatment of HIV/AIDS

ZMK 20 billion for procurement of essential medical equipment

Source: Musokotwane (2009)

Nearly one third of all health expenditure is consumed not by service provision but by sharply rising allocations to administration (Picazo / Zhao 2009, 24,26). This has been attributed mainly to the costly split of the MoH and CBoH, which resulted in expensive duplication, and to increasing transaction costs in managing donor projects. Of health expenditure in 2006, 43.2 per cent was allocated to wages, while non-wage costs added up to 42.1 per cent, drugs to 6.3 per cent and capital spending to 8.4 per cent. Over half of this budget is spent at district level (ODI / Mokoro 2009, 11). With regard to the financing of health care, discussions in Zambia have focused, among other things, on requirements for the delivery of the basic health care package rather than on the actual use of resources. The fragmentation of funding – through CP interventions and the reverticalisation of service delivery through the restructuring of MoH provider institutions described above – has resulted in further neglect of effectiveness considerations in the allocation of resources, which could lead to less cost-effective service delivery mechanisms (Picazo / Zhao 2009, 3, 4).

#### **Box 7: Basic Health Care Package (BHCP)**

For the financing of a basic health care package, differing estimates have been presented by various sources. A short overview of the debate is presented at this point, while the implications for financing the package at district level will be discussed in the subsection on district expenditure (6.4.3). According to Picazo / Zhao (2009, 21), Zambia's per capita health expenditure now slightly exceeds the level that the WHO's Commission of Macroeconomics and Health has deemed sufficient to finance a basic health care package (US\$ 33 per capita). A recent evaluation of health sector budget support, however, puts per capita spending (by government and all CPs taken together) at only US\$ 23 in 2007, still short of the Commission's goal of US\$ 33 (ODI / Mokoro 2009, 10). The 2008 Social Expenditure Review by ILO (2008, 144), on the other hand, suggests that per capita spending by government did not exceed US\$ 13.1 in 2006, whereas US\$ 37.7 is recommended to cover the cost of the BHCP and the provision of antiretroviral therapy. Whatever the calculation, it is unlikely that the package will be financed as things stand in the sector, since the growing bureaucratisation of health services seems to be straining service delivery capacities. Nor has any costing yet been undertaken for the new BHCP.

In line with the NHSP priorities, districts have also chosen to increase allocations to primary care (Bossert / Chitah / Bowser 2003, 366). An average of US\$ 30 per capita was spent on health services in 2004, but most of this was private out-of-

pocket expenditure, which means that the poorest regions spent far less than US\$ 30. Notwithstanding the general debate on the financing of a basic health care package and the different estimates of government expenditure, it is clear that the BHCP is, in any case, too expensive for the districts under existing conditions. Despite this, it is potentially a good tool for the prioritisation of health interventions at local level, as proposed in the NHSP. As a consequence, a mismatch exists between responsibilities and resources in the districts, which have been mandated to deliver the BHCP, but have not received enough funding to do so and no power to decide what will be included in the finalised BHCP (Bossert / Beauvais 2002, 24).

Source: Authors' own compilation

## 6.4.2 Budgeting, planning and flow of funds

Formally, the budget process in Zambia's health sector follows a bottom-up planning approach to the setting of priorities. The MoFNP forwards the overall budget guidelines to the MoH around July of each year. The MoH then passes them on to the Provincial Health Offices (PHOs) and DHMTs. The formal planning process then begins with a meeting between the DHMTs and community representatives in late July, after which the communities discuss health priorities until early August, when they present draft proposals at the district health centres. In early September all health centre proposals are aggregated and presented at a meeting with the DHMT, whose reactions are then added. The DHMT is required to finalise the resulting draft in an action plan in early October. In late October or early November the DHMTs submit their action plans to the PHOs in early November. The PHOs review the plans and add their comments. Any necessary changes must therefore be made by late November, since the final plan has to be submitted to the PHOs in early December and passed on to the MoH (Picazo / Zhao 2009, 37). The MoH produces planning guidelines for the districts, which the district staff appear to find very useful. However, there is evidence that planning tools change frequently, and staff at facilities find it difficult to adapt to new systems.

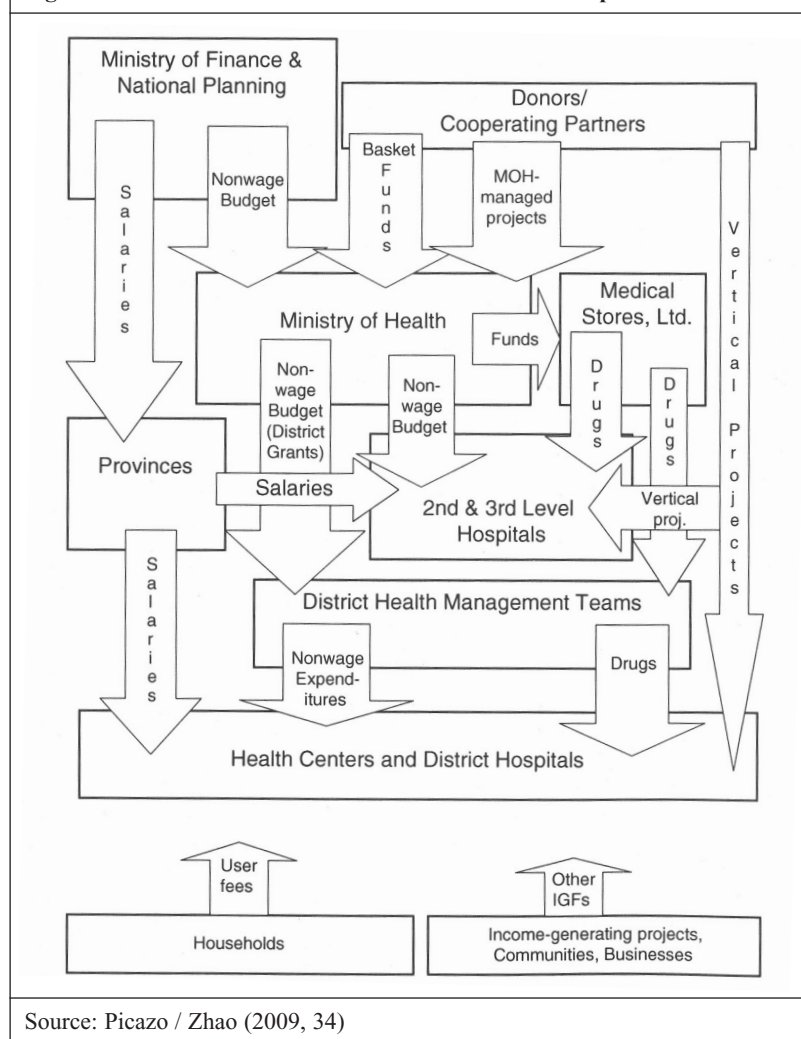
The aforementioned ODI study claims that MoH budgets are relatively transparent and form part of the process of preparing three-year rolling operational plans, which are guided by the budget ceilings allocated by the MoFNP in the MTEF and Call Circular. Yet the budget calendar has so far been the main problem, MoH budget planning occurring before a ceiling has been agreed

and plans therefore having to be adjusted afterwards. With the change in the budget calendar in 2010, this situation is expected to improve. As the annual action plan was meant to implement the NHSP, programme activities are drawn from this strategy to guide districts in drafting their plans. In addition to the annual action plan, the Ministry prepares a three-year rolling MTEF and an annual activity-based budget, which states what is to be allocated to the health sector (ODI / Mokoro 2009, 9).

It seems that the MTEF is succeeding in bringing greater stability to government expenditure. Three budget cycles have been prepared on the basis of carefully projected revenue, with the result that the discrepancy between planned spending and actual disbursements has apparently narrowed recently (ILO 2008, 121). In 2007, however, actual expenditure in the social sectors – especially health – was lower than planned. Although 10.7 per cent of total expenditure had been allocated to health, only 7.5 per cent was actually spent. Overall, actual expenditure in 2007 was 10.9 per cent lower than budgeted releases (ILO 2008, 135). This is inconsistent with the FNDP mid-term review 2009, which claimed that the annual budget allocations from 2006 to 2008 were as planned and releases reached almost 100 per cent (Ministry of Finance and National Planning 2009b, 83). Owing to the corruption scandal, releases in 2009 were erratic, and the DHMTs received only a small proportion of their allocations. There is strong evidence that, while the DHMTs received only about 60 per cent of what was budgeted in 2009, funding was stable in earlier years.

Generally speaking, the cash budgeting system (intended to keep actual spending in line with available resources) seems to work well. Releases are said to be predictable and punctual, but variations do occur in some types of budget items, capital expenditure being the most erratic (Picazo / Zhao 2009, 41). The MoH channels funds directly to the districts (DHMTs and hospital boards). However, as Figure 11 shows, the flow of funds is complicated and fragmented, since different agencies disburse salaries, drugs and resources for other recurrent expenditure (Picazo / Zhao 2009, 34).

**Figure 11: Flow of funds and other resources in Zambia's public health sector**



In addition, numerous vertical projects run by CPs and the funds generated internally by facilities (e.g. from user fees, prepayment schemes and medical fees, which are an important source of income for health facilities, even after their formal abolition for lower-level facilities in 2006) are not well documented and follow other channels than the usual flow of funds (Picazo / Zhao 2009, 35, 50). Some sources claim that CP initiatives have had a hugely negative impact on the system by causing fragmentation through off-budget funding, duplication and high transaction costs (ILO 2008, 121).

For the research project this has posed a significant challenge, as various sources of financing and the route it takes to service delivery are very difficult to identify. To give but one example, drugs come in-kind as drug kits and bulk supplies, and vertical projects provide in-kind resources that cannot be monetised. It is also hard to determine what proportion of DHMT resources goes specifically to facilities requesting an imprest system (Picazo / Zhao 2009, 54). This complicated funding scheme made it impossible during the field phase to calculate the actual amount each district receives. The Ministry of Health has no data on vertical funding by CPs or on internally generated funds. The only data that can be obtained at central level therefore concern releases to districts from the sector basket. This thwarted any attempt to monitor resource inflows in the case selection process for the health sector.

When it comes to the actual use of budgeted health resources, a large proportion is earmarked for labour costs, despite the high vacancy rates. This is probably due to an increase in the wage bill. In general, the labour costs of private for-profit and MoH facilities differ significantly. Furthermore, one fifth of resources are spent on drugs, while expenditure on transport varies with the level of care provided, the primary level spending the highest proportion on transport (7 per cent), most probably because of the frequent referrals to higher-level facilities and outreach programmes. Other recurrent expenditure accounts for 18 per cent of resources in primary clinics, 11 per cent in secondary hospitals and 14 per cent in tertiary hospitals. This expenditure covers the operational costs of DHMTs and health facilities (e.g. food for patients, fuel for transport, referral system, maintenance, cleaning detergents for hospitals, etc.). Recurrent departmental charges can be used to hire non-professional staff, while medical staff is recruited at central level. Finally, capital expenditure on repairs and construction, for example, accounts for 2 to 4 per cent of the budget. It is important to note

in this context that expenditure on drugs has declined by 15 per cent, mostly in the districts, while capital expenditure has increased enormously (39 per cent) and expenditure on wages and non-wages has risen by a modest amount (Picazo / Zhao 2009, 31,35). Although the district grant is subject to ceilings, they are not always respected. To give an example: by law DHMTs are entitled to use a maximum of 4 per cent of their district grants to stock up on drugs (usually for such emergencies as epidemics), but in some cases they have risen well above that threshold. This becomes necessary when the central level does not procure enough drugs or (as seems to happen at times) no drugs at all for the district and the districts need to procure their own supplies. As a rule, the districts spend the 4 per cent on making up for the inadequate supplies procured at central level, leaving nothing spare for emergencies, which poses problems if an epidemic occurs.

Where monitoring and control are concerned, the Health Management Information System (HMIS) and the Financial Administrative Management System (FAMS) are mentioned as major tools for data collection in the NHSP. Monitoring is undertaken monthly, quarterly, annually and bi-annually depending on the indicators evaluated. The MoH is required to produce quarterly activity and financial reports for all levels of the system for presentation at SAG meetings. To this end, action plans are reviewed and reasons for failure to implement investigated. All 72 districts, 2<sup>nd</sup> and 3<sup>rd</sup> level hospitals and statutory boards report to the MoH quarterly. According to Ministry officials, disbursements are very rarely stopped and stakeholders make an effort to resolve any irregularities so that the money can be disbursed. This has led to improvements in financial reporting. For the quarterly SAG report each province compiles reports and assesses them; it is the provincial health director's task to monitor districts and secure their funding.

An Annual Performance Review Report is compiled every May to assess the performance of the system against annual plans and output targets (Ministry of Health 2005, 4). This joint annual review is undertaken by the MoH, other line ministries, CPs, NGOs, CSOs and district and provincial staff (ODI / Mokoro 2009, 9). According to the FNDP mid-term review in 2009, several FNDP targets relating to the monitoring of performance had already been achieved in the first half of FNDP implementation: a Health Sector Performance Monitoring Framework had been compiled and assessment tools had been developed to monitor the implementation of various interventions; the HMIS had also been introduced to capture health indicators.



In addition, key performance indicators had been identified for the measurement of sector performance, such as the utilisation rate of primary health care facilities (Ministry of Finance and National Planning 2009b, 89). However, the financial reporting systems for the implementation of plans are weaker than the processes for the budget, since the MoFNP and MoH continue to use different accounting systems. A government-wide Integrated Financial Management Information System (IFMIS) is being introduced as part of PFM reforms, but at the moment the capacity to undertake financial reporting is limited, and the performance of the sector linked to the budget is not therefore being monitored (ODI / Mokoro 2009, 9). The IFMIS has still not reached all districts, and the internet is needed if the system is to be used appropriately, a requirement many districts have yet to meet.

The Ministry of Health is currently responsible for procurement. Every two years a body of medical experts – the Zambia National Formulary Committee (ZNFC) – issues “Standard Treatment Guidelines” (STGs) that define what is needed to cure illnesses. On the basis of the STGs, the ZNFC also develops a needs-based “Essential Drugs and Tracer List” (EDTL), which includes the drugs and medical supplies necessary for the treatment of the most common illnesses in the country. The Essential Drugs and Tracer List is reviewed every two years and presented to the MoH as a recommendation; it is a “wish list” of what the GRZ should deliver in order to reduce the incidence of the most common illnesses. However, limited resources do not allow the entire list to be approved. This results in certain drugs running out. A challenge in this sphere is to involve the districts in the development of the lists, which has yet to be achieved. This is expected to change with the implementation of the DIP.

Such medical supplies as drugs and gloves are purchased at central level and then distributed to the districts (Ministry of Finance and National Planning 2009b, 90). Medical Stores Ltd (MSL) is the parastatal in charge of storing drugs and distributing them to DHMTs in the form of drug-kits or in bulk. At the second and third level of service delivery there is a mixture of supply and demand systems (Picazo / Zhao 2009, 35). MSL is not responsible for procurement, but acts as a mere distribution agent. In 2010 various pilot versions of new drug delivery systems were tested in 16 districts across Zambia with a view to making drug delivery more efficient. One of these pilots is soon to be adopted nation-wide, which will modify the supply (or “push”) system and allow facilities to place more specific

orders to meet their needs.<sup>44</sup> This pilot will be discussed in greater detail in the section on findings.

To judge from statements in the mid-term review, procurement is still causing concern: there are *“no efficient, cost-effective, transparent and accountable procurement services to all levels of service delivery, resulting in anomalies associated with procurement frailties”*. The mid-term review clearly states that this issue must be resolved, since Parliament, too, has continuously raised the matter with the Ministry (Ministry of Finance and National Planning 2009b, 92).

This assessment is confirmed by our findings. There is evidence that procurement at central level does not meet the districts' needs and that the current state of management of procurement at central level poses a problem for planning and implementation at lower levels.

#### 6.4.3 Budgeting, planning and service delivery at district level

In 2006 and 2007 62 and 14 per cent, respectively, of all MoH financial releases went to district level; FNDP targets were exceeded in both years. The massive reduction was due to the revision of the formula for district budgets, which now excludes funds for centrally purchased medical supplies. These are sent directly to the districts after central procurement, as explained in the previous section (Ministry of Finance and National Planning 2009b, 89, 90).

Since 1993 districts have received limited direct funding, which is now channelled through a basket funding mechanism that distributes government and untied CP funding. The basket supports the implementation of annual district health plans, which are developed jointly by health facilities, communities and the district health system (Lake 2000, 5). This funding is disbursed as a direct grant from the MoH for non-wage and non-drug recurrent spending. A study by Bossert et al. (2003, 366) found that the distribution of district grants to the districts is relatively equitable and that the grants constitute the largest source of revenue for the districts. However, the 2008 World Bank expenditure review states that allocation and releases of district grants are difficult to establish, since financial report-

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44 Interview with MoH officials, February 2010.

ing at lower levels is weak. It seems that timing is predictable, but delays occur in the release of district grants to facilities. Officially, DHMTs release funds to facilities once a month, but very little reliable data exist on whether full amounts are released on time. The study found that only 50 per cent of the health centres reviewed received full allocations. As the study sample was quite small, however, further research in the form of expenditure tracking is needed to identify the occurrence of and reasons for possible delays in distribution. One reason for delayed disbursements could be the imprest system used because of the absence of banks in many districts (Picazo / Zhao 2009, 44, 45).

Per capita allocations to districts are based on a formula consisting of four variables: population weighted against (1) price of fuel, (2) incidence of epidemics, (3) population density and (4) presence of a bank. However, as only 18 per cent of the total government and basket budget in 2006 was subject to distribution in accordance with the district grant formula, the ability of the instrument to enhance equity is questionable (Picazo / Zhao 2009, 38). The GRZ's underlying reason for developing a needs-based resource allocation formula was that resources will not be sufficient in the medium term to deal with all the problems facing the sector. Lower levels of care should therefore receive increasing resources, and poorer districts should receive comparatively more. But, according to the ILO's 2008 expenditure review, the *“road to equitable allocation and social protection is going to be long and winding”*. One reason for this is that rural districts do not attract sufficiently qualified health staff, and they are usually less capitalised and underfunded (ILO 2008, 124). Interviews in Zambia have also suggested that the application of the formula is a sensitive topic, since its aim is to redistribute resources at a time of scarcity.

In some districts, rural health centres have in the past received revolving petty cash funds for maintenance and supplies, but as funding bottlenecks have been found to occur at district level, facilities do not have control over resources (Bossert / Beauvais 2002, 20). These bottlenecks are due to the fact that the MoH provides DHMTs and second and third level hospitals with funds to cover their running costs, and DHMTs in turn provide health centres and district hospitals under them with drugs and running costs (Picazo / Zhao 2009, 35). According to Picazo and Zhao, it is easy to find information on amounts allocated, the predictability of releases and differences in the allocation and uses of resources received at central level and

within facilities. Resources from central level can be traced to the districts, and their use in health facilities can also be determined. What happens within the DHMTs during the allocation process, on the other hand, remains obscure. The DHMTs are therefore labelled a “*black box*” of information or the “*weak link in the fiscal information chain*” (Picazo / Zhao 2009, 33). There has also been evidence of drug diversion, with facilities receiving more or fewer drugs than the DHMTs claim they distributed (Picazo / Zhao 2009, 67). As part of our own study, we did not conduct detailed expenditure-tracking and therefore have no idea where money or drugs are diverted to. However, there is some evidence that facilities resort to selling drugs received through the central distribution system. DHMT members must monitor consumption closely to see if an unusual amount of medical supplies has been used in a certain facility.

With regard to planning at district level, district councils have little say in sector activities since the health sector has been de-linked from the provincial administration and the local authority in the districts (Jeppson / Okuonzi 2000, 277). Instead, district health offices receive direct transfers to their own bank accounts and can develop and manage budget plans with central approval (see Section 6.4.2). Central guidelines specify limits on administrative and capital investment spending for the districts (Bossert / Beauvais 2002, 20). Districts need to complete and submit quarterly reports, and planned activities need to be undertaken before a district can receive funding; DHMTs must prepare a quarterly statement that comprises a financial report (income and expenditure for the quarter) and a progress report (activities that have been carried out, constraints encountered and solutions proposed). Expenditure is approved at different levels; the larger the amount, the higher the authority needed to approve the funds (Gavi Alliance not dated, 9). However, resource planning is apparently not undertaken universally by DHMTs to determine their resource needs. Some DHMTs just re-use the same numbers for the different programmes in their budget without reflecting on changed needs; and in some instances no budget is allocated for certain health services (Picazo / Zhao 2009, 39).

As for planning and budgeting for drugs, the Pharmaceutical Services Unit (PSU) at the MoH produces “Annual Quantifications”, a pre-printed list of drugs and medical supplies based on the essential drugs and tracer list. The PSU provides the health facilities with the annual quantifications and informs them of the budget ceilings they have been allocated in the Yellow

Book (about 65 per cent of the allocations in the Yellow Book are intended for the districts). The facilities must then choose from the annual quantifications the drugs and medical supplies they want to order without exceeding their budget ceilings. This means that districts can shop around within the national prioritised list, but will not necessarily receive everything they need. Hence the need for prioritisation, since making essential medicines available is a challenge for the Zambian health system. The districts must include quantification sheets in the District Action Plan so that drugs and supplies are included in the planning at an aggregated level. The Provincial Health Offices then consolidate the facilities' requests at provincial level and produce nine sheets to be passed to the MoH for each province. On the basis of the Provinces' consolidations, the MoH decides what quantity of drugs and medical supplies each Province will receive, applying an equity-enhancing formula similar to the grant formula. The MoH's procurement unit invites tenders for drugs and medical supplies. The drug system in Zambia is not at present decentralised: the pharmaceutical unit generates the information on needs and then makes recommendations with due regard for the available budget, the PS approves the recommendations, and the procurement unit invites tenders. Another element of this centralised drug procurement and planning system is the health centre kit: in addition to the drugs and medical supplies ordered by facilities, central level delivers health centre kits to the health centres every month via the DHMTs. Health centre kits include uniform provisions of basic drugs, antibiotics, etc. The kit conforms to a supply system based on a standard list of items and is not part of district planning.<sup>45</sup>

As regards service delivery, it was found that districts and facilities vary significantly in the quality of service they provide. However, further analysis of this aspect has yet to be carried out. With respect to decentralisation, no study has so far considered whether health sector outputs per dollar change when decentralisation policies are introduced, i.e. if decentralisation leads to better health results. Studies that do map variations in the service delivery provided by facilities have not so far produced any robust data and have not attributed inequities to certain factors (Bossert / Beauvais 2002, 26). The differences in service delivery are usually explained by the fact that rural and remote areas lack facilities, personnel, tools etc. (Picazo / Zhao 2009, 11).

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45 Interview with MoH officials, Lusaka, February 2010.

Another problem for service delivery, according to Nanda (s. a., 7), is that medical staff are demoralised by constantly having to work without the drugs and medical supplies they need. Workers are frustrated by the shortage of funds needed to deliver the most basic drugs and services listed in their own needs-based health plans and budgets. This resource starvation, Nanda (s. a.) suggests, exacerbates any inefficiency or corruption existing in the system and could severely dampen the commitment of health workers.

The description of health delivery and budgeting at district level presented in this subsection makes it clear that the health sector faces several challenges at subnational level, among them the human resource crisis and the gaps in the number and distribution of facilities, which are severely hampering service delivery at district level. In this context, the growing bureaucratisation of health services mentioned in previous subsections leaves little in the way of actual funds to spend on service provision and thus further weakens service delivery in the districts. In general, the districts have little control over decentralised resources, and evidence of bottlenecks at provincial and district level (especially within DHMTs) is suggested by the studies cited.

## 6.5 Findings on the health sector

Within the conceptual approach of this study we have identified two general determinants of efficiency challenges in public financial management at local level in Zambia: a lack of resources for PFM and the concentration of control over resources and decision-making. This chapter has given an overview of the health sector and examples of these determinants in health service delivery at local level. The sector's lack of resources is most apparent from the human resource crisis: health service delivery and efficient public financial management are severely hampered because two thirds of professional posts remain unfilled. This is partly due to a lack of financial resources, which has been aggravated by a corruption scandal in 2009. Although health expenditure has risen over the past decade, the GRZ has reduced total budget allocations for health. The rise is therefore due to the massive increase in donor money for the sector. However, the majority of donor funds is provided through the vertical funding of projects or construction and is not available for recurrent expenditure, which is needed for monitoring tasks in public financial management. Furthermore, the corruption incident has led to the withdrawal of donor funds and the realignment

of GRZ expenditure. Although expenditure on the social sectors was protected, cuts were felt by all stakeholders, and erratic and insufficient funding at district level has become the norm during the past year. The concentration of control over resources and decision-making is evident from the reversal of the health sector reforms that had transferred more responsibility to District Health Boards. Since the abolition of the boards a certain recentralisation has been noticeable, making the central level responsible for policy development, recruitment of staff and decisions on allocations and in-kind resources. Procurement is a central task, and the districts' decision-making scope is generally limited. District health staff are bound by central guidelines and budget ceilings and need to seek headquarters' approval of flexible solutions.

The research team has further identified several constraints that act as conduits for efficiency challenges caused by the determinants. The constraints identified – affecting capacity, coordination, commitment and mobility – lead to a number of specific problems in efficient public financial management, which are described in the second part of this subchapter.

### 6.5.1 Conceptual findings on the health sector

In the course of our research the main constraints leading to inefficiencies in PFM at local level have been identified in the areas of coordination, capacity, commitment and mobility.

#### **Coordination**

A lack of coordination manifests itself both vertically and horizontally. Horizontally, it leads to a duplication of structures at district level and a lack of integrated district planning. It seems that different deconcentrated government units of various line ministries in a district do not coordinate their efforts sufficiently and that potential synergies are not exploited. Furthermore, the team found some evidence that DHMTs and councils do not cooperate satisfactorily, in the process of constructing health facilities, for example. This leads to a lack of coordination with regard to running and construction costs and may, in some cases, result in facilities not being recognised by the Ministry of Health. Apart from challenges within the district, difficulties occur in communication and coordination between deconcentrated units at district level and headquarters at central level. This is apparent from the remark that queries are not answered by higher levels and knowledge of guidelines is lacking at lower levels.

## **Capacity**

Challenges arising in the area of capacity can be grouped under two headings: human capacity and technical capacity. Where human capacity is concerned, the greatest strain on the sector is the human resource crisis. Most facilities are understaffed, and in many of the most basic facilities in particular only one employee is responsible for everything from planning to budgeting, reporting and service delivery. Efficient PFM therefore faces difficulties at all stages of the budget cycle. This lack of capacity is not solely a question of numbers: it also manifests itself in staff skills. Many positions in facilities and in the DHMTs are occupied by staff who do not have the necessary skills for the tasks that have to perform. This impacts, for example, on budget control when reports are not submitted punctually or not compiled correctly. As the district grant and new supplies of drugs are conditional on proper reporting, the lack of human capacity impacts on health service delivery. As regards technical capacity, there is strong evidence that all the districts reviewed lack appropriate infrastructure and equipment. This prevents DHMTs from performing their management tasks, since a lack of vehicles precludes supervision and drug delivery, a lack of communication equipment impacts on the ability to coordinate health services in the district, and a lack of computers and other office equipment strains reporting and alignment with higher-level policies and guidelines. There is evidence that facilities often lack appropriate infrastructure for service delivery, which leads to a substantial amount of funds being spent on referrals to other facilities. It was found that a certain lack of data collection mechanisms poses a problem for appropriate planning at district level. Planning is further impeded by the lack of human capacity, in both qualitative and quantitative terms.

## **Commitment**

Commitment is inherently difficult to measure. There is, however, some evidence that, to a degree, the civil service attitude prevails among DHMT staff. This finding should not obscure the fact that there was also evidence of extraordinary commitment by individuals even in adverse working conditions. Nonetheless, a certain lack of ambition and dedication was observed and suggested by interviewees not directly involved in government health services. According to our observations, this attitude is closely linked to a lack of flexibility and the absence of room for creativity. Interviewees suggested that this narrow scope for decision-making is a tremendous source of frustration, especially as some feel restricted by central level in their quest



for solutions to problems specific to the district and have the impression that their expertise and ideas are not recognised by headquarters. Generally, bad working conditions and a lack of incentive seem to be further reasons for the lack of commitment observed among government employees.

### **Mobility**

A lack of mobility is the fourth in the series of constraints in the health sector and can be regarded as a combination of a lack of technical capacity and of coordination among actors at district level. DHMTs face mobility challenges caused by a lack of funding and poor infrastructure hampering drug distribution, supervisory visits, outreach programmes and referrals. Thus a lack of mobility hinders service provision and impacts on efficiency of control in public financial management, for example. Efficiency could possibly be improved if coordination worked better. With coordination among district stakeholders improved, immobility would be caused only by a lack of capacity due to insufficient funding. The underlying reasons for the lack of mobility observed would be then halved, which should lead to enhanced mobility.

## **6.5.2 Empirical findings on the health sector**

This section illustrates some of aforementioned conceptual findings. Specific examples are given for the problems encountered, and the causal links between efficiency challenges, constraints and determinants are clarified.

### **Drugs and medical supplies**

The research conducted in four districts in Zambia identified the system of drug procurement and distribution as a major challenge to the efficient translation of budget allocations into service delivery. The current drug delivery system was judged by most interviewees to be problematical because it leads to shortages and surpluses of certain drugs and is not adapted to individual districts' specific needs. The MoH's procurement unit is responsible for purchasing drugs, which are then distributed by Medical Stores Ltd. Districts receive drugs either in the form of pre-packed health centre kits or as bulk supplies of essential drugs. Drug supplies are quantified centrally, and districts often receive large quantities of drugs that are not needed while running short of other essential drugs. As a result, the shelf life of surplus drugs expires, and districts use the 4 per cent drug ceiling of the district grant to buy additional essential drugs rather than for coping with emergency out-

breaks of disease. There was strong evidence of districts resorting informally to the redistribution of drugs among facilities and even districts, which aggravates the transport and fuel shortages that districts face when carrying out supervisory and implementation tasks (see below). The inflexible drug procurement system is therefore highly inefficient and prevents scarce resources from being used where they are most needed, while at the same time leading to wastage of drugs. This inefficiency cannot be simply attributed to one of the identified constraints. It seems that there is a lack of coordination and communication between central and district level, but capacity constraints in the procurement unit are also suspected. Discussions with stakeholders at local and central level in Lusaka revealed that there is reason to see both determinants – lack of resources and concentration of control – as underlying causes of constraints in the area of drug distribution. While a lack of resources is certainly responsible for the MoH's failure to procure every item on the essential drugs list, participants in the discussion strongly suggested that calculations at central level bear no relation to the districts' needs. This is underlined by the fact that districts taking part in the new drug distribution pilot scheme encountered almost no shortages or surpluses. In the 16 pilot districts facility staff filled in requisition forms themselves and chose drugs as they saw fit. The pilot essentially replaced the existing push system with a pull system that gave more responsibility to facilities. Concentration of control and decision-making at central level have therefore resulted in the current system being inefficient, while the transfer of decision-making freedom to local level has reduced shortages and surpluses and the need for the expensive redistribution of drugs. We found strong evidence that the drug distribution pilot currently being tested has worked much better than the push system.<sup>46</sup> However, mobility challenges persisted even in the drug pilot districts and are discussed below.

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46 The research team had proposed a modified push system as a first step towards a more efficient drug delivery system and a pull system as a second possible solution in the long term. During the presentation of the findings in Lusaka, however, it was revealed that the MoH has decided to roll out version B of the drug pilot countrywide. Two versions of the pilot have been tested. In version A the DHMT gathers together all the facilities' requests and sends one district request to MSL; MSL then sends the drugs to the DHMT, and district health staff pack up the drugs for each facility. In version B facilities place orders, the DHMT passes them on to MSL, which then distributes pre-packed drugs to each facility using the DHMT as a transshipment point. Both versions were reported to have worked well, but version B had produced fewer shortages.

## Mobility for drug delivery and supervision

Another example of constraints leading to inefficiencies in health service provision is closely linked to the issue of drugs and concerns constrained mobility. There is strong evidence that most districts do not have sufficient funding to service vehicles and pay for fuel. In addition, bad roads impede access to facilities and limit the mobility of district health staff.<sup>47</sup> Where the budget cycle is concerned, these two challenges lead to problems mainly at the implementation and control stages: drugs delivered to DHMTs by Medical Stores Ltd cannot be distributed to the health facilities in the districts. This has often led to drugs being held up – sometimes beyond their expiry date – in the district capital, leaving facilities with no drugs to administer to patients. DHMTs are also constrained in their ability to redistribute drugs between facilities or between districts if some facilities have surpluses of certain drugs while others have shortages. In the area of control DHMT accounting staff are unable to undertake supervisory visits or help with reporting duties. The constraint identified as leading to this lack of mobility is technical capacity in the form of unreliable vehicles and poor roads. The underlying determinants of this capacity constraint are twofold: the inability to service vehicles and buy fuel for drug distribution and supervisory visits can be attributed to a general lack of resources in the health sector. As an obstacle to the accessibility of facilities, poor roads are a capacity constraint that is also caused by the second determinant – concentration of control and decision-making. While there are certainly not enough funds to maintain all roads in the districts, concentration at central level leads to decisions being taken by the Road Development Agency in Lusaka which may not always be consistent with district priorities. This decision-making power at central level inhibits coordination at district level because the council is unable to coordinate with the health sector and to prioritise roads

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47 One very clear example of the magnitude of the mobility challenge in the health sector is the situation in Chadiza district in Eastern Province: Chadiza is particularly disadvantaged in terms of infrastructure. Roads are generally in a very poor state throughout the district, and the road linking the constituencies of Chadiza and Vubwi has become impassable because the bridge connecting them has collapsed. This means that the East of Chadiza district is accessible only via Malawi. Evidence suggests that it is very difficult for the DHMT to deliver drugs to health facilities in that area, since they have to cross the border with large amounts of medical supplies, which sometimes causes the border police some concern. Numerous facilities have therefore been regularly cut off from supplies.

to health facilities for maintenance. Instead, priorities are determined centrally and such considerations as access to health facilities are not always taken into account. The council has been appointed as the local road authority and should be permitted to prioritise the maintenance of rural roads according to the district's needs. This transfer of power to local level has not, however, been matched by a transfer of sufficient resources for these tasks to be performed, because main and trunk roads enjoy a higher priority at central level (see the section on roads). It can be argued that, even if the council had the necessary resources to work on rural roads, the division between the local authority and deconcentrated line ministry units would still make integrated planning difficult.

Our observations show that two possible solutions to the mobility problem at district level are conceivable. One is a technical solution that would change the conduit or constraint, in this case technical capacity. With the shortage of vehicles and fuel being a challenge for all districts, a mobility pool providing shared vehicles across sectors at district level might have synergy effects and produce efficiency gains. This synergy could possibly be exploited further if officials of different deconcentrated units set up a field visit schedule and, for example, visited schools and health posts (which are usually located next to each other). Sharing a vehicle for supervisory and control visits could save scarce resources and thus lead to efficiency gains. This technical solution at the constraints level may, however, be just the first step, since it solves only part of the problem described. The problem of poor roads and a lack of coordination in this respect necessitates a wider reform, which will require an approach that tackles the underlying determinant. If it was assumed that improved coordination in decision-making across sectors at district level would lead to an integrated district plan that considered roads before the construction of a health facility or prioritised roads leading to facilities, the systemic reform of decentralisation might lead to improved coordination and prioritisation, with all sectors taking joint decisions in the council.

### **Integrated district planning**

This systemic reform also seems necessary if the issue of district planning, which has been touched on above, is to be resolved. Evidence suggests a lack of integrated district planning and a duplication of structures at district level. The constraint causing this inefficient duplication is a lack of coordination between different actors at district level, and mainly between the

DHMT and the council and between the DHMT and other line ministries. This lack of coordination is rooted in the fact that deconcentrated units must obey their headquarters and adhere primarily to their sector plans. This means that if the priorities set by the Ministry differ from those agreed by district stakeholders at DDCC meetings, the Ministry's decision is binding on the DHMTs, and they are forced to align themselves with central plans rather than district plans. We argue that the underlying determinant of this lack of coordination is a strong tendency to concentrate control and decision-making at central government level. This eventually hampers efficient planning in the district. To give but one example: if the council and the MP responsible for the district decide to use the Constituency Development Fund to construct a health post, they often omit to coordinate this venture with the MoH, which sometimes refuses to staff and equip the resulting health post. DHMTs are then forced to move staff around to enable these unrecognised facilities to function. During our discussions with stakeholders, several of the latter suggested that it would be more efficient to take a holistic view of district development. Decentralisation and a concentration of decision-making power in the council might ensure that this holistic view was taken and lead to a more appropriate prioritisation of district needs. However, the question of ring-fencing expenditure for certain sectors needs to be discussed in this context, given the concern voiced about councils not having sufficient capacity to effect appropriate prioritisation and the fear felt by some health staff that the sector – being one of the better funded in Zambia – may suffer as a result of decentralisation if resources are targeted at other problem areas. On the other hand, there is evidence that development issues relating to infrastructure, education, agriculture and health are closely interlinked and that strengthening other aspects of development might also lead to better health outcomes.

### **Quality and timeliness of reports**

Some challenges to efficient health service delivery, however, seem to be more specific to the sector and not associated with poorly integrated district planning. A case in point is that of reporting. There is strong evidence that the quality and punctuality of reports are poor at district level. One example of the challenges faced in reporting is the inadequacy of data collection. As the staff of health facilities still have to draw up reports and compile data for planning after working a full shift, the quality of these reports is bound to suffer. Another example is the time it takes for health facilities remote

from the district centre to submit reports on the drugs they need, owing to the distances and transport problems involved. This leads to late delivery by MSL and causes shortages because the facilities concerned do not receive new drugs when they need them. As MSL makes bulk deliveries of drugs intended for several health facilities, it is not only the remote ones that face shortages, but also those closer at hand that have handed in their reports on time. These reporting problems are caused by various constraints. The poor quality of reporting and data collection is due to a lack of human capacity, where staff do not have the necessary reporting skills or have a heavy workload. This lack of human capacity is caused by the human resource crisis, which is responsible for understaffing and thus leads to inefficient control. The punctuality of reports is constrained by a lack of mobility, which has been identified as a challenge in itself and, in this case, acts as the conduit for inefficiencies in implementation. Both constraints can be ascribed to a lack of human and financial resources. It therefore seems difficult to suggest solutions for weak reporting. Reporting requirements could be reduced, but that might lead to a lack of control, which is in itself an important requirement for efficient PFM. The human capacity problem would also persist. This might be eased by support visits from DHMT accountants to help facility staff with reporting, but a lack of mobility would make such field trips difficult. A mobility pool at district level has been suggested as a means of overcoming that constraint. However, the human resource crisis persists and would in all likelihood still persist in a decentralised system. There is some evidence that the decentralisation of recruitment would allow district health services to attract more qualified staff and to prioritise recruiting, since they are in a better position to know what kind of health workers they need. Some evidence also suggests that headquarters deploys staff on the basis of outdated population numbers. Although the research team did not find much support for this contention, it would certainly be worth exploring the effect of decentralisation on the human resource crisis in greater depth.

## **Guidelines**

There is some evidence that guidelines from central level pose a problem for efficient planning at local level. Three main challenges were identified in this respect: firstly, some evidence suggested uncertainty about rules and guidelines or a lack of knowledge of guidelines and budget ceilings. Secondly, guidelines were found to be inadequate for the day-to-day provision

of health services and were said not to leave enough scope for flexibility. Thirdly, the guidelines seem to be misleading in some cases, and facilities do not adhere to them as they should. At facility level in particular, staff were found not to be sure whether they had received any guidelines, and it was sometimes felt that more guidelines were needed, especially as people were working in positions for which they had not been adequately trained. In some instances, there was evidence that guidelines limit DHMTs to coping efficiently with challenges and finding solutions they deemed fit for the situation. This was especially true of the recruitment of staff, which is a central level responsibility, DHMTs not being allowed to train their own staff even if they manage to find the necessary resources and suitable candidates in the district. This could point to a lack of flexibility in guidelines that inhibits approaches to solving the human resource crisis at local level. It certainly makes sense for certain standard staff recruitment requirements to be defined centrally. At a time of a worsening human resource crisis, flexible solutions might, however, be more appropriate and keep things running. As regards the question of misleading guidelines, there is some evidence of the central level altering planning guidelines frequently and of facility staff having difficulty adapting to changed formats. Districts have, in some cases, resorted to altering planning tools slightly to make them more comprehensible. It is said that this has improved planning processes at district level, and thought should therefore be given to allowing districts more leeway in planning processes. Alternatively, new planning tools, once introduced, need to be explained better to enable staff to work with them.

These challenges at planning level affect at least two conduits: human capacity and coordination. Facility staff are incapable of complying with guidelines fully, especially where posts are occupied by untrained personnel. At the same time, coordination and communication between central level and DHMT and between DHMT and facilities are constrained, as the lack of familiarity with guidelines shows. This lack of capacity of health staff is due to the human resource crisis, and the underlying determinant is therefore a lack of resources. The other challenges mentioned are caused by a concentration of control over resources and decision-making and manifest themselves in constrained coordination. As a short-term solution to the problem of altering the technical hinges of coordination and capacity, more and better staff training is needed, and the central level must rework its communication strategies where they concern planning guidelines. However, the underlying determinant “concentration of control” requires systemic reforms.

## **Staffing levels**

The challenge posed by staffing levels has already been mentioned in conjunction with other problems occurring in health service delivery, but it needs to be considered as a separate issue at this point, because we found very strong evidence that both DHMT and facility staff are forced to occupy positions for which they have not been appropriately trained. This is of particular concern with regard to pharmacists, who appear to have been hardest hit by the human resource crisis. Many DHMTs do not have a trained pharmacist. As a consequence nurses or hospital pharmacists have to take over the tasks of drug planning, distribution and reporting. In some cases staff have been trained by NGOs, but in general they receive no more than a brief introduction before taking on this responsibility. Health facilities, especially rural health centres and posts, do not have the required number of staff, lacking at least one or two trained professionals, such as clinical officers and environmental health technicians. We have observed several instances of rural health posts where a single nurse was required to perform all the service delivery tasks as well as planning and reporting. This leads to inefficiencies in planning, implementation and control, giving rise to inadequate action plans, faulty administration of drugs and resulting stock-outs, and late and incomplete reports. The constraint causing these problems has been identified as the lack of human capacity, which is mainly due to a lack of resources. Technical solutions to this problem have already been introduced by some DHMTs, which have, for example, freed up funds to pay an environmental health technician a salary top-up to take responsibility for two neighbouring facilities rather than one. These small solutions cannot, however, overcome the problem as a whole, which will require a massive increase in resources if the human resource crisis is to be resolved. However, as previously mentioned, there was evidence that the decentralisation of recruitment might ease the strain on human resources and at least make small, creative solutions easier to implement, since it would give the local level greater freedom of choice. On the other hand, this will require appropriate prioritisation by councils faced with many pressing needs competing for resources, such as teacher deployment in the education sector.

## **Communication between headquarters and deconcentrated units**

The research team found that communication between central and local level appeared to be a challenge in some cases. District staff do not receive answers to queries and do not know why they receive only some of the



funds they have planned for or why the central level sets different priorities. They seem to feel that planning and budgeting are enforced from the top and that it is very difficult to trace the flow of resources. There are clear signs of a lack of accountability in the budgeting process. Communication between provincial and local level also seems inadequate, as when the PHO announces workshops and training courses at short notice and DHMTs struggle to send appropriate people to them. Data suggest that poor communication also strains the planning process at community level. As funds are not forthcoming and no explanation is given, the community planning committees at health facilities become inactive and do not believe their input is appreciated. These problems make themselves felt in two ways: firstly, in a lack of coordination and, secondly, in a lack of commitment at community, facility and district level. Both constraints, in our view, have their roots in the concentration of control at central level, which apparently leads to poor top-down communication and results in local stakeholders feeling frustrated.

There is clearly a need for better communication strategies at central level to counterbalance constraints affecting commitment and coordination between different levels of service delivery. Commitment might improve if staff were given more responsibility and decision-making power over resources and priorities. A transfer of power to local level would restore district staff's feeling of importance and possibly boost commitment, especially as they could also be held accountable for mismanagement and failing to refer complaints to higher levels.

### **Equipment of facilities**

There is strong evidence that facilities and DHMT staff lack adequate equipment to fulfil their duties. This impacts not only on service delivery but also on efficient PFM. Some pharmacists do not have computers on which to write their reports and to calculate stock levels. Bookkeeping is thus done manually and, as a result, report sheets sometimes go missing. DHMT accountants are not able to use the internet and the newly introduced Integrated Financial Management Information System (IFMIS), but have to submit their reports to provincial level on paper. This makes it very difficult for mistakes to be corrected or information to be added after the reports have been sent. As well as challenges at the control level, the absence of equipment makes planning difficult, since there seem to be no

appropriate data collection tools. There were some signs of missing baseline data and therefore of planning not being carried out systematically.

The problems referred to above are all caused by the lack of technical capacity, which we believe to be ultimately due to a lack of resources. They manifest themselves mainly at the planning and control level, but also extend, of course, into the area of implementation, as explained in the section on drug delivery and its association with technical capacity. It seems that these issues do not lend themselves readily to technical solution, but simply require more or better targeted funding.

### **Funding flows**

The issue of erratic funding needs to be mentioned at this juncture. Like other sectors, health suffers from a general lack of funding, which has also become erratic in the recent past. This, of course, poses numerous challenges, as DHMTs are forced to accumulate debt, salaries and pensions are not paid, and the provision of health services in general is strained. Erratic funding also poses a huge challenge for efficient budget implementation. Districts are forced to re-plan several times during the year, always adjusting their action plans to what is meant to be released and what is actually released. This makes it impossible for planned programmes to be implemented: activities planned for a certain period have to be postponed, which then makes accurate reporting difficult. As funds needed by the DHMTs for the performance of their management tasks, such as money to service vehicles, are not forthcoming, effective control and supervision or assistance with planning and reporting are not possible. The transmission channel in this case is mainly technical capacity, supplemented by a lack of coordination and communication between central and district level. The lack of financial capacity is due to a lack of resources in general. Erratic funding in the health sector has been largely due to the withholding of donor funding in the wake of the corruption scandal at the Ministry of Health in 2009; it is said that funding was more predictable in earlier years. Another reason for the unpredictability seems to have been the old budget cycle, which was changed in 2010. Interviews with various stakeholders revealed that the predictability of funding is expected to improve with the new budget calendar.

One step towards the resolution of these issues has therefore already been taken with the recommitment of CP funding, and things should improve in the future. An important recommendation in this respect must be addressed

to the CPs. Leaving the 2009 scandal aside, it is still crucial that CPs improve the predictability of their disbursements and keep to their promised funding schedule, since delays in CP funding have a serious impact on service delivery at district level.

<b>Box 8: Examples of causal chains in the health sector at different stages of the budget cycle</b>				
<b>Determinant</b>	<b>Constraint</b>	<b>Budget Cycle</b>	<b>Challenge</b>	<b>Solution</b>
Lack of resources	Mobility	Implementation	Drug delivery hampered by lack of vehicles and bad roads	Mobility pool
Lack of resources/concentration of control	Coordination capacity	Planning	Drug supplies are inadequate for districts needs	Introduction of pull system
Lack of resources	Capacity	Control	Supervisory visits are not possible	Mobility pool
Concentration of control	Coordination	Implementation	Lack of integrated district planning	Decentralisation
Source: Authors' own compilation				

### 6.5.3 Conclusions for the health sector

Given the complexity and heterogeneity of the transmission channels identified, we believe that the challenges faced by the health sector require very different approaches if they are to be overcome. Some solutions can be found at the level of constraints and constitute more “technical” means of making improvements. Examples are the proposed mobility pool at district level for overcoming mobility constraints, better management at central level of information intended for the districts, and the introduction of incen-

tive schemes to boost the motivation and commitment of workers. Many of the small technical solutions for improving efficiency have already been introduced by districts, DHMTs and District Education Boards (DEBs) sharing vehicles on an informal basis, for instance. Staff at local level sometimes have to circumvent formal rules and bend guidelines to keep health services running. In one district, for example, mothers' shelters that were thought to be necessary were built at health posts, despite the formal rule that only health centres should have shelters. The reason given for building the shelters was that the health posts were expected to be upgraded to health centres at a later date.

Redistribution of surplus drugs between facilities and even districts is another example of local initiative, although it is not very cost-effective. One case district had even managed to mobilise support from the World Bank for introducing performance-based budgeting for health staff and assisted deliveries on its own initiative. The ability to attract CP and NGO interest in district health services has been observed in most districts. Some of them have found efficient ways to coordinate CPs and NGOs under the DHMT's roof.

Despite evidence that some technical solutions make for more efficient PFM at local level and others look promising for the future, it became clear during our research that technical solutions which overcome constraints will not develop enough potential to achieve major efficiency gains in the health sector. As many of the aforementioned challenges need to be dealt with at the level of their root causes (determinants), they require systemic rather than technical solutions. Decentralisation as a systemic reform might eliminate or at least mitigate some of the efficiency constraints at all stages of the budget cycle, especially those affecting coordination, mobility and commitment. The implications for decentralisation in Zambia and the challenges associated with it are discussed in the general conclusion of this report.

## **7 The education sector in Zambia**

The overarching research question of this study concerns the efficiency of translating budget allocations into service delivery with a view to implementing the Zambian FNDP efficiently. The purpose of this chapter is to

present information on Zambia's education sector and the findings of our analysis of inefficiencies in service delivery.

The education sector was identified as a relevant case for our research for several reasons: firstly, as it was included in the on-going joint evaluation of budget support in Zambia, further research in this sector would contribute to that evaluation. Secondly, education offers equality of opportunity for individuals to participate in local and national development, and it equips people with the skills needed to drive economic and social development. The GRZ therefore identifies education in the FNDP as a key priority for socio-economic development (Republic of Zambia 2006a, 146). Thirdly, the education sector's performance is highly relevant to poverty reduction, as is evident from the fact that two of the MDGs concern education.

The education sector in Zambia consists of several subsectors, each of which has its own institutional and administrative setting. This study focuses specifically on the *basic education* subsector as its main area of research. There are several reasons for this selection: basic education receives by far the largest proportion of resources from the Ministry of Education (MoE) budget, and it is the most important subsector in terms of poverty reduction and the achievement of the MDGs. In addition, one aim of this study is to contribute to existing research at different levels of the joint evaluation of budget support in Zambia. As the impact evaluation of the education sector being undertaken by the Evaluation Department of the Dutch Foreign Ministry (IOB) is focused on the basic education subsector, it is considered appropriate to align the research area in this study accordingly. Moreover, many PFM processes in basic education take place at local level, the level of government on which our research focuses.

This chapter gives an overview of the background to and performance of the education sector, and especially of basic education, the GRZ's education strategies and goals, current education policies and the administrative architecture of the education system. It also provides some information on sector planning, budgeting and financial management in the basic education subsector. It concludes with the findings of our research on inefficiencies in the PFM system at local government level, using the conceptual framework outlined in Chapter 3.

## 7.1 Sector background and performance

After years of neglect the education sector in Zambia has recently experienced a period of renewed interest, during which the MoE has greatly improved its service delivery performance, and especially access to education. During the 1990s the education system was still in a state of crisis. The collapse of the Zambian economy between 1975 and 1990 forced the government to reduce education expenditure, leaving the sector heavily underfunded (IOB 2008, 31). By the beginning of the 1990s per capita expenditure on pupils at primary school level had fallen to US\$ 17 from double that amount in 1985 (Ministry of Education 2007, 12). As a result, investment in school infrastructure and educational resources dropped sharply. Consequently, enrolment rates declined, teaching staff became demoralised, and public confidence in the education system waned (Wood 2004, 23).

The policy document *Educating our future*, presented by the Zambian Government in 1996, shone the spotlight on the education sector again. The policy gave priority to basic education and sought to reverse the negative trends in its provision. It also laid the foundations for the adoption of a joint strategy, in which donors and the GRZ would work on a sector-wide approach, to be managed through the government's own systems (Wood 2004, 23f.). Today, the FNDP identifies education and training as one of the main requirements for socio-economic development and calls for greater investment of resources in this sector (Republic of Zambia 2006a, 146). In 2008, the GRZ allocated 16 per cent of the national budget to the education and training sector, making it the largest single recipient of total budget allocations (Ministry of Finance and National Planning 2009b, 73).

On the basis of current sector developments, the FNDP mid-term review 2009 stated that, despite a number of continuing challenges, Zambia had taken major steps towards achieving the education-related MDGs of universal primary education (MDG 2) and gender equity in education (MDG 3) (Ministry of Finance and National Planning 2009b, 80). The following summarises current developments and achievements in the education sector.

### **Access to education**

Access to education in Zambia has improved tremendously in the last few years. While one in three children still did not go to school in 1999, the ratio had fallen to less than one in ten by 2005 (IOB 2008, 110). Gross enrolment ratios (GERs) for Grades 1 to 9 rose from 75.1 in 2000 to 119.1 in 2005,

net enrolment ratios (NERs) for the same group from 68.1 in 2000 to 99.5 in 2007, thus reaching the target set for that year (Ministry of Finance and National Planning 2009b, 79; Ministry of Education 2007, 39). Besides the effectiveness of education policy, including the abolition of school fees in 2002, major factors responsible for this increase were the growth of community and private schools and investment in schools, classrooms and teachers (IOB 2008, 109).

In addition to the success achieved in enrolment, gender disparities in education have diminished in recent years. For primary education the gender parity index (female:male ratio) increased from 0.92 in 1999 to 0.96 in 2005. However, there has been no further improvement in this figure since 2005. These figures also conceal considerable differences in gender parity between grades and provinces (IOB 2008, 110). Completion rates for Grades 1 to 7 rose significantly from 80.9 in 2005 to 89.8 in 2007, thus exceeding the target set for that year (Ministry of Finance and National Planning 2009b, 79). At higher grades completion rates are significantly lower, although the trend is again upward. Dropping out is again subject to gender differences and occurs mainly at higher grades and in rural areas. The main reasons for pupils leaving school early are economic factors and distance from home to school, especially in rural areas, while girls also drop out because of pregnancy or early marriage (IOB 2008, 110).

### **Teachers and school infrastructure**

As a consequence of the massive increase in enrolment, the quality of education initially fell and still poses a major problem for the provision of education in Zambia. Although the number of teachers grew by 37 per cent between 2000 and 2005, this increase could not keep pace with enrolment (IOB 2008, 67). As a result, pupil:teacher ratios rose as high as 80.3:1 for Grades 1 to 4 and 37.5:1 in Grades 5 to 7 in 2005.<sup>48</sup> Although this trend was

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48 Pupil:teacher ratios at basic school level must be viewed in the context of the organisation of basic school teaching in Zambia. In Grades 1 to 4, a teacher teaches a morning class and an afternoon class, and pupils attend for 3 hours and 20 minutes, either in the morning or in the afternoon. This system was introduced in the 1980s as an economy measure; previously children in these grades attended for a full school day. By the end of four years of schooling, a Zambian child has received the hours of instruction that a child attending a normal primary school would receive in two-and-a-half years. In Grades 5 to 7, a teacher teaches one class for six hours (World Bank 2006, 30).

reversed in 2006 and 2007, thanks mainly to the massive recruitment of teachers, pupil:teacher ratios remain too high (Ministry of Finance and National Planning 2009b, 80). Furthermore, teacher qualifications generally fall below the targets set, 7 per cent of all teachers being untrained in 2005 (Ministry of Finance and National Planning 2009b, 80; IOB 2008, 66-67). As regards school infrastructure, the GRZ has invested heavily in the construction of schools and classrooms. Although progress has been made (an increase from 5,300 basic schools in 2000 to more than 8,000 in 2006, for example), the infrastructure backlog is still very serious. Many more schools and classrooms are needed, and pupil:classroom ratios are still considered far too high (IOB 2008, 71-72). Similarly, there is a general lack of instructional materials. In 1998, the book:pupil ratio in core subjects at basic schools was 1:5. Even though this ratio improved to roughly 1:3 (and 1:2 in some subjects) in 2005, the provision of books is still inadequate. In addition, there are notable differences between regions, and allocations vary greatly from one school to another (IOB 2008, 76).

### **Learning achievements**

In general, the learning achievements of Zambian pupils at primary level have neither improved nor deteriorated significantly in recent years (IOB 2008, 146). Given the sharp rise in enrolment and the adverse pupil:teacher, pupil:classroom and pupil:book ratios, this can be seen as a remarkable achievement in itself. Learning achievements in basic education in Zambia are generally deduced from the results of national assessment tests and Grade 7 examination scores. While test results for English remained roughly constant from 1999 to 2006, test results for mathematics actually improved. Examination results show similar patterns. Nevertheless, general learning achievements remain unsatisfactory. Some 70% of Grade 5 pupils do not attain the minimum performance level for English and only 6% achieve the desirable levels (IOB 2008, 146-147). Zambian pupils achieved lower results in reading and mathematics in 2000 than pupils in such neighbouring countries as Kenya, Mozambique, Tanzania and Uganda (IOB 2008, 35). This suggests that, in spite of major achievements in expanding access to education, the Zambian educational system still faces a number of challenges, especially with regard to the quality of basic education.



## 7.2 National policies, goals and strategies in the education sector

After the above overview of the education sector's performance, this section will provide some information on the national education policies, goals and strategies that have been adopted. Where education goals and strategies are concerned, two documents are of particular interest, the FNDP and the Education Sector National Implementation Framework (NIF) 2008 – 2010, the latter being the plan for the implementation of the FNDP in the education field. The two documents set out the main priorities, goals and strategies for education, which are described in the following. However, the section begins by outlining the main past and current national policies for the education sector.

### 7.2.1 National education policies

The foundations for today's education policies in Zambia were laid in 1996, when the GRZ sought to revitalise the sector by drawing up the policy document *Educating our future*. The key underlying principles of this strategy included decentralisation, partnership, equity, efficiency, quality, democratisation and effectiveness (Ministry of Education 2007, 18). On the basis of this policy the *Education Sector Investment Plan* (ESIP) was presented. It envisaged the coordination of policies and programmes and stressed the importance of a Sector Wide Approach (SWAp) in the development of basic education. The plan was operationalised by separate plans for two sub-sectors, the *Training Sub-Sector Investment Plan* (TDP) and the *Basic Education Sub-Sector Investment Plan* (BESSIP). BESSIP was implemented from 1999-2003, its aim being to improve basic education (IOB 2008, 61).

While BESSIP focused primarily on access to education, its successor placed greater emphasis on improving the quality of education. In 2003 the MoE introduced the five-year *Ministry of Education Strategic Plan* (MoESP), which continued until 2007. In addition to its focus on basic education, the plan pursued a holistic approach and included measures for secondary and tertiary education (IOB 2008, 61).

The current priorities, goals and strategies of Zambia's education policy are defined by the *National Implementation Framework*, which was adopted in 2008 and covered the period until 2010. It followed the policy guidelines and priorities of the FNDP regarding education and served as an operational

plan for the sector. A more detailed description of the main aspects of the NIF and the FNDP will be presented in the following. Finally, it is worth noting that in 2002 the President of Zambia announced the Free Middle Basic Education Policy (Grades 1 to 7). Under this policy children were granted free access to basic schools and could not be denied access on account of cost. Furthermore, school uniforms were no longer compulsory (Ministry of Education 2007, 18).

### 7.2.2 Goals, priorities and strategies under the FNDP

The vision of the education sector is to guarantee “innovative and productive life-long education and training accessible to all by 2030” (Republic of Zambia 2006a, 150). Accordingly, the MoE's mission during the period of the FNDP, 2006 to 2010, was to provide “equitably accessible education and skills training opportunities for sustainable livelihood and development” (Ministry of Education 2007, 17). In view of the huge increases in enrolment, the FNDP upheld the strategy adopted in the MoESP by focusing on interventions aimed at increasing the quality of education and enhancing skill development (Ministry of Education 2007, 19). However, the further improvement of access to education was also considered with a view to achieving the MDGs.

Although the sector has made significant progress in recent years, it still faces a multitude of challenges, which the government needs to address if it is to achieve the targets it has set itself. However, the government also recognises that its limited human capacities and financial resources make it necessary to select a number of core interventions that are of strategic importance for the realisation of its broader vision by 2030. For this reason the MoE identified the following four strategic priorities for the period of the FNDP, and they were set out in the NIF (Ministry of Education 2007, 22-23):

- *Access considerations:* The government sought to increase enrolment by providing additional educational facilities/schools under an effective infrastructure development plan.
- *Quality considerations:* The Ministry was to improve the quality and relevance of education by drawing up a comprehensive and diversified school curriculum. Furthermore, it planned to review its educational materials production and procurement systems with a view to

having more decentralised structures and processes for their management. Finally, the Ministry sought to achieve quantitative improvements in teacher supply and quantitative and qualitative improvements in teacher training.

- *Improving efficiency and effectiveness of educational service delivery:* The government intended to work towards more decentralised systems of delivery in order to deliver quality educational services effectively and efficiently. The measures envisaged included the development and application of effective teacher assessment systems, the enhancement of basic school inspections and the design and application of an effective standards assurance system that monitored teacher performance.
- *Equity considerations:* The Ministry pays special attention to education systems that ensure equitable access to basic education, focusing on the specific needs and requirements of the girl-child, orphans and vulnerable children, children with special educational needs and those that are affected by, and infected with, HIV and AIDS.

Under these four pillars of strategic priority the FNDP lists clear objectives and priorities for each subsector of the education system. The subsectors are defined as early child care development and education, lower to middle basic education, upper basic education, high school education, teacher training and university education (Ministry of Education 2007, 23-24). As outlined at the beginning of this chapter, this study focuses primarily on the analysis of basic education for the aforementioned reasons.<sup>49</sup>

For the basic education subsector the government outlined several outcomes expected during the FNDP period. They included the development of a comprehensive, diversified and integrated curriculum that also covered gender issues; a decentralised, effective and efficient educational materials procurement and distribution system; and an effective standards assurance

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49 Basic education in Zambia is divided into three levels: lower basic (Grades 1 to 4), middle basic (Grades 5 to 7) and upper basic (Grades 8 and 9). The system is currently in transition from seven years of primary education (middle basic level) to nine years of basic education. Until recently, however, most secondary schools still offered education at Grades 8 and 9 (the upper basic level) in addition to three years of high school. Only 15 per cent of Zambian high schools have stopped teaching Grades 8 and 9 (IOB 2008, 52; World Bank 2006, 11).

system that monitored teachers' and learners' performance. Other outcomes were to be, for example, an effective infrastructure development programme, a comprehensive teacher development programme and an education system that was sensitive to the requirements of children with special educational needs (CSEN), girls, orphans and vulnerable children (Ministry of Education 2007, 41).

The key basic education subsector objectives and target indicators for 2010 (FNDP target) and 2015 (MDG target) are presented in Table 7.

<b>Table 7: Targets for basic education</b>			
Indicator	Baseline	2010 target	2015 target
Grade 7 completion rate	85 per cent	92 %	100
Learning outcome in NAS for grade 5 (mean score)	English: 34 % Maths: 38 %	English: 40 % Maths: 45 %	English: 60 % Maths: 60 %
Net intake rate	55 %	100 %	100 %
Share of repeaters	7.2 %	6 %	< 5 %
Total enrolment	2.6 million	2.8 million (enrolment bulge due to absorption of over-age children)	2.7 million
Pupil: classroom ratio	112:1	90:1	60:1
Pupil: teacher ratio	70:1	55:1	40:1
Pupil: textbook ratio	Maths: 3:1 English: 3:1	Maths: 2:1 English: 2:1	Maths: 1:1 English: 1:1
Source: Ministry of education (2007)			

The FNDP also stressed the importance of regularly monitoring the progress and impact of the educational programmes. For this the MoE developed key performance indicators to form the basis of the monitoring process (Table 8) (Republic of Zambia 2006a, 156). As we are focusing on

basic education, only the key performance indicators for the basic education grades (Grades 1 to 9) are presented in Table 8.

<b>Table 8: Key performance indicators for the education sector</b>		
<b>Key performance indicators</b>	<b>Baseline value 2005</b>	<b>Target value 2010</b>
<b>Net enrolment ratio</b>		
Grades 1 to 7	94.77 per cent	97.3 per cent
Grades 8 and 9	23.5 per cent	48.5 per cent
<b>Completion rate</b>		
Completion rate at grade 7	80.93 per cent	90.0 per cent
Completion rate at grade 9	42.73 per cent	65.4 per cent
<b>Pupil teacher ratio</b>		
Grades 1 to 4	80.3	60.1
Grades 5 to 7	37.5	41.1
Grades 8 and 9	21.7	27.6
<b>Teacher qualification</b>		
Grades 1 to 7	98 per cent	100 per cent
Grades 8 and 9	98 per cent	100 per cent
<b>Gender parity index</b>		
Grades 1 to 7	0.96	0.98
Source: Ministry of education (2007)		

In addition to the key performance indicators stipulated in the FNDP, the Performance Assessment Framework (PAF) listed certain indicators for monitoring progress in the education sector. These indicators were (Ministry of Finance and National Planning / Poverty Reduction Budget Support Cooperating Partners 2009, 35-36):

- the number of districts falling below the threshold of 80 per cent net enrolment for Grades 1 to 7;
- the Gender Parity Index for Grades 5 to 9;
- the number of district education profiles developed and presented to the District Development Coordinating Committee (DDCC);
- the number of girls in Grades 8 and 9 in receipt of bursaries;
- the number of districts with a pupil:teacher ratio of over 100:1 in the lower basic grades (Grades 1 to 4).

## 7.3 Administrative architecture of the education sector

### 7.3.1 Administrative and operational structure

Responsibility for the education and training sector in Zambia is shared by four ministries, namely the Ministry of Education, the Ministry of Science, Technology and Vocational Training (MSTVT), the Ministry of Sport, Youth and Child Development (MSYCD) and the Ministry of Community Development and Social Services (MCDSS). There are also many non-governmental providers of education and training active in the sector. They include actors from the private sector, non-governmental organisations (NGOs), faith-based organisations (FBOs) and community-based organisations (CBOs). Using different delivery systems, these organisations focus mainly on teaching young people the knowledge and skills they will need in later life (Republic of Zambia 2006a, 146).

Of the four ministries, the MoE is the most important stakeholder in the education sector. It is mandated to regulate education delivery and to provide education in the basic, high school, and tertiary education subsectors (Republic of Zambia 2006a, 146). It is also primarily responsible for the implementation of the education component of the FNDP (Ministry of Education 2007, 83). As this report focuses its research primarily on basic education, and the basic education subsector is the MoE's responsibility, only the MoE's organisational structures will be described in the following. The other three ministries will not be the subject of any further research.

The MoE employs about 65,000 teachers and lecturers and over 4,400 administrative and support staff. With over 50 per cent of all public-sector workers, it is the largest employer in the public sector in Zambia. Besides its

headquarters, the MoE has nine Provincial Education Offices (PEOs) and 72 District Education Boards (DEBs). The main responsibilities of the MoE's headquarters include policy analysis and development, strategic planning, resource mobilisation and allocation. Headquarters is also responsible for developing the national curriculum, quality assurance and standard-setting, supervision, and monitoring and evaluation (Ministry of Education 2007, 83). Finally, it controls the Examinations Council of Zambia (Republic of Zambia 2006a, 146).

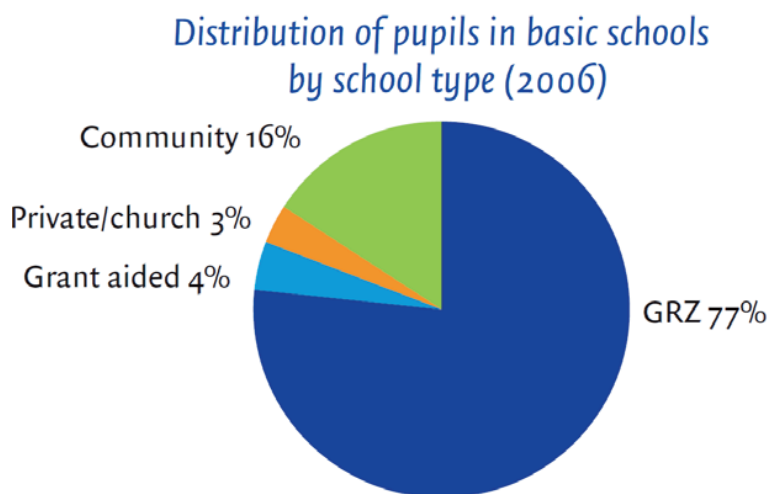
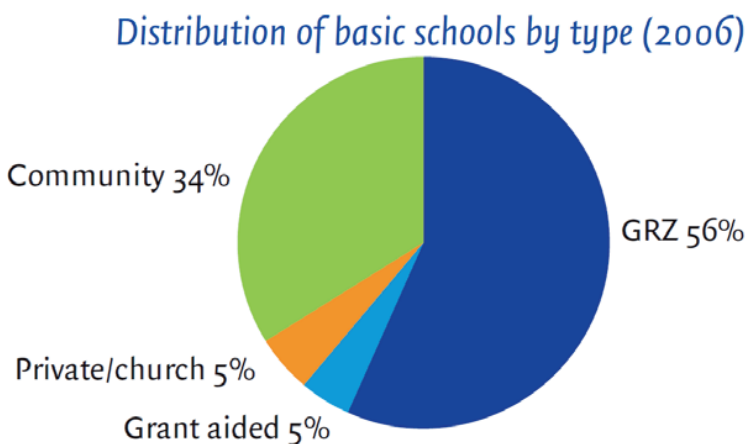
The PEOs, which are supervised by the MoE's headquarters, are involved in the monitoring and supervision of policy at provincial level. They are responsible for the management of standards in all districts in their respective provinces and for the coordination and monitoring of the implementation and provision of education programmes and activities. They are also in charge of developing and maintaining a reliable database for all districts in the provinces. To strengthen decentralisation, DEBs have been set up by the MoE at district level. The DEBs take care of the management of all basic schools in their respective districts and ensure that education and education facilities are provided. They are also responsible for the preparation and submission of the Annual Work Plans and Budgets and for looking into staff and pupil disciplinary cases and attending to staff welfare (Ministry of Education 2007, 83). DEB members are selected by the District Education Boards Secretariat (DEBS) (IOB 2008, 50). In addition to the DEBs, District Education Standards Offices (DESOs) have been introduced to monitor and evaluate the performance of schools and the DEBs themselves (Ministry of Education 2003, 19). Finally, Parent Teacher Associations (PTAs) were initiated in the mid-1990s. They provide a link between parents, teachers and the school administration and often engage in fundraising, formulating priorities and allocating funds (IOB 2008, 50).

### 7.3.2 Types of schools

Although the government is the main provider of education and training, other types of schools play an important role in the Zambian education sector. They are mainly privately owned schools, schools run by Churches and especially community schools. Private schools charge school fees, since they are managed and financed by a private individual or a group and do not receive government funds. Church schools receive the support of a religious

group or Church agency, and some grant-aided schools have access to school grants even though they are managed by Churches (IOB 2008, 50).

**Figure 12: Basic schools by type and distribution of pupils by basic schools type**



Source: IOB (2008)



Besides government-run schools, community schools play an increasingly important role and are one of the main features of the Zambian basic education system today. They are founded and managed by communities with the aim of educating children unable to receive formal education for various reasons. These children are often among the poorest and most vulnerable in Zambia (IOB 2008, 52-55). Figure 12 shows the distribution of basic schools and of pupils in basic schools by type of school.

Between 2002 and 2007 approximately 30 per cent of the increase in enrolment in basic schools resulted from the growth of the number of community schools. While only one in ten entrants in Grade 1 went to a community school in 2000, the ratio had risen to one in five by 2005 (IOB 2008, 109). In the ten years from 1996 to 2006 the number of community schools increased from 55 to almost 2,700, and estimates suggest that the actual number may even exceed 3,000 (IOB 2008, 54). Box 9 provides further information on community schools and their integration into the formal education system.

#### **Box 9: Community schools and the formal education system**

Community schools are set up by communities to meet the basic educational needs of children who do not attend formal schools. Many are run by parents, though increasingly they receive assistance from the government, cooperating partners, churches and NGOs. Community schools are found in both urban and rural areas. The schools' facilities are generally inadequate, and shortages of teaching and learning materials are common. Teachers are often unqualified, since they are mostly volunteers who have not had sufficient education themselves.

Community schools are formally acknowledged by the government as an important addition to the formal school system. To register the growing numbers of community schools, the MoE has adopted quality control regulations and procedures. The schools are normally registered with the MoE by Parent Community School Committees (PCSCs), which generally run them. PCSCs are normally formed by parents, teachers and prominent members of the community and have 7 to 10 members. Besides registering the school, their tasks include the recruitment of teachers and the mobilisation of resources. Registered community schools are inspected by the District Education Standards Office.

All officially registered community schools are eligible for government support, which includes school grants, textbooks, professional guidance and sometimes

the funding of teachers. In 2005 the districts were ordered to allocate 30 per cent of their sector pool grants to community schools, and schools that have been operational for at least two years and have functioning PCSCs can also receive grants to cover teachers' allowances. Despite potential support from the government, however, most schools are in practice severely underfunded, since the actual support they receive is determined by the specific policy pursued by their district board. This means that some community schools receive allocations from MoE institutions, while others receive nothing.

Source: IOB (2008)

## 7.4 Planning, budgeting and financial management in the education sector

### 7.4.1 Expenditure on education

The improvement of the performance of the education sector in recent years is closely related to the increased investment of public resources in it. While external donor support decreased in absolute terms from 2004 to 2006, domestic allocations rose from ZMK 756.7 billion in 2004 to ZMK 1,277.1 billion in 2006. In relative terms, this means that domestically resourced expenditure on education has remained steady at around 3 per cent of GDP in recent years (Table 9) (World Bank 2008a, 43).

<b>Table 9: Summary of education expenditure in ZMK billions (2004–2006)</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Domestic	756.7	860.8	1,277.1
Sector pool	282.2	246.2	216.2
Total	1,038.9	1,107.0	1,493.3
Education expenditure as per cent of GDP			
Domestic	2.9	2.7	3.3
Sector pool	1.1	0.8	0.6
Total	4.0	3.4	3.8
Source: World Bank (2008a)			

Although total expenditure on education has increased in Zambia in recent years, it is still comparatively low on a regional scale. In neighbouring countries, similarly committed to achieving universal completion of primary education, resource allocations as a percentage of GDP are significantly higher. In Kenya, Uganda and Malawi government expenditure on education averaged 5.3 per cent of GDP in 2003/04. In addition, these three countries devote at least 25 per cent of their domestic discretionary budgets to education, compared to only about 20 per cent in Zambia (World Bank 2006, 20). Consequently, the Education Expenditure Review of 2006 concludes that “Zambia has a ‘low-cost, low-quality’ education system, especially at the basic schools level” (World Bank 2006, 19). However, the GRZ has put the education sector among the ‘expenditure focuses’ of the FNDP. Consequently, its aim is to scale up government funding to approximately 4.5 per cent of GDP by 2010 (Ministry of Education 2007, 19).

### **Government funding**

As for distribution among the subsectors, GRZ-resourced MoE expenditure for 2005 was allocated as follows: basic schools 62 per cent; high schools 11 per cent; teacher training colleges 3 per cent; universities 15 per cent; and administrative and support services 9 per cent (World Bank 2006, 17). Basic schools received by far the largest share of the budget, and in recent years budget allocations to basic education have been rising. Given surging enrolment in basic schools, the MoE projects that the share of total resources required for basic education will rise to almost 68 per cent by 2010 (Ministry of Education 2007, 99).

GRZ expenditure on the basic education subsector equalled 1.6 per cent of GDP in 2002 and then rose to 1.8 per cent in 2003 (World Bank 2006, 27). Yet, as in the sector as a whole, these figures are low from a cross-country perspective. In 2004, the GRZ spent roughly ZMK 210,000 per basic school student, equivalent to approximately 8.6 per cent of Zambia’s per capita GDP. Government expenditure per primary school pupil compared to that of 49 other developing countries was 12.4 per cent of per capita GDP. Thus Zambia’s expenditure per pupil in the basic education subsector was only about 70 per cent of that of other developing countries (World Bank 2006, 27). While Zambia managed to increase expenditure per basic school pupil to 9.3 per cent of GDP per capita in 2006, the larger resource envelope for basic education has done no more than keep pace with enrolment growth.

However, resources have not so far sufficed to increase unit spending on quality improvement (World Bank 2008a, 68).

### **Funding by cooperating partners**

In addition to the government's own resources, the education sector is supported by external cooperating partner funding. Currently, there are eleven external multi- and bilateral sources of funding active in the sector: the African Development Bank, Denmark, the European Commission, Ireland, Japan, the Netherlands, Norway, the United Kingdom, the UN system,<sup>50</sup> the United States of America and the World Bank. Under the Joint Assistance Strategy for Zambia (JASZ) the two co-lead CPs are Ireland and the Netherlands, while four of the CPs are "background" CPs, namely the African Development Bank, the European Commission, Norway and the United Kingdom (Republic of Zambia 2010, 2-3).

The share of externally financed expenditure from the MoE budget increased from 22 per cent in 1999 to 38 per cent in 2004, falling again to 21 per cent in 2006 (IOB 2008, 46). External aid to the Ministry of Education is provided through various funding modalities, including direct budget support, pool funding, project support and technical assistance (Republic of Zambia 2010, 2). Under the MoESP the sector pool<sup>51</sup> has become the main external funding modality, providing 23 per cent of total expenditure in 2004 (IOB 2008, 48). The sector pool consists of partners' pooled funds, which are controlled by the MoE and can be used for any purpose within the approved Annual Work Plan and Budget (AWPB) (World Bank 2006, 16). A large part of the sector pool budget takes the form of sector pool grants, which are distributed among state schools and, increasingly, among community schools (IOB 2008, 48).

As well as receiving assistance from cooperating partners, the sector is supported by international NGOs and local civil society organisations. Among these are CAMFED, Care International, FAWEZA, the Peace Corps, Plan, Save the Children and World Vision. These organisations support the sector with projects and by providing technical assistance (Republic of Zambia 2010, 3).

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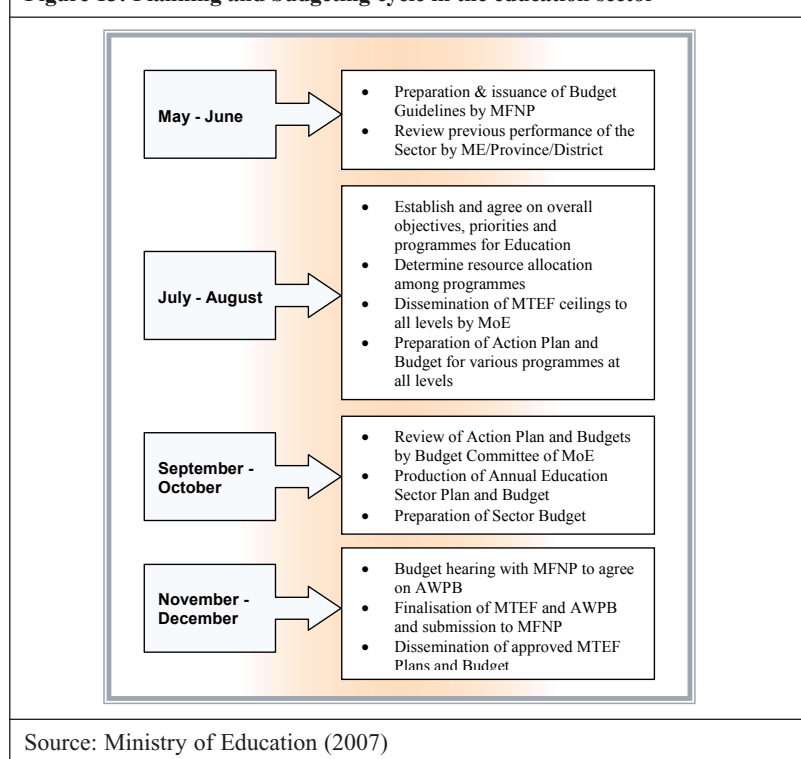
50 UNICEF currently represents the UN agencies present in the education sector.

51 Discussions at the MoE revealed that the sector pool is now known as the "NIF Account".

### 7.4.2 Planning, budgeting and accounting processes in education

Planning and budgeting are a collective responsibility within central government under the MoFNP. The FNDP guides MoE interventions, which are operationalised through subsector-level activities provided for in the National Implementation Framework (Ministry of Education 2007, 88). To raise the National Implementation Framework to a more practical level, Annual Work Plans and Budgets that observe the priorities set in the NIF and operationalise year-by-year implementation of the FNDP are drawn up. Indicative ceilings are defined for priority subsector programmes or activities (Ministry of Education 2007, 88). Figure 13 shows the planning and budgeting cycle for the education sector in Zambia.

**Figure 13: Planning and budgeting cycle in the education sector**



The National AWPB comprises all the work plans drawn up at the various levels. Annual Work Plans generally include information on sector objectives and targets, programmes and their strategic objectives, activities covering the FNDP period and sub-activities, such as yearly activities that are identified at each level of implementation. Information is also provided on the funds needed, including sources of financing, the timeline for the specific year, annual targets and the implementation modality (Ministry of Education 2007, 90).

The planning cycle for the development of the Annual Work Plan stretches across the district or institutional level, the provincial level and the national level. It begins with District Education Boards drafting work plans and budgets, with inputs from the schools and resource centres. Provincial Draft Work Plans and Budgets are then prepared, with input from the Education Board Secretaries. The Provincial Drafts are forwarded to national level, where the National Draft Work Plan and Budget is drawn up with the help of the Provincial Education Officers. The work plans and budgets for each administrative level also have to be approved at national level. The MoE's National Annual Work Plan and Budget at national level then forms the basis for budgetary requests to the Ministry of Finance and National Planning and requests for human resources to the Cabinet Office (Ministry of Education 2007, 90). The whole planning process is based on the information obtained from the MoE's planning and information database EdAssist.<sup>52</sup>

The main responsibility for the MoE's financial management and accounting during the FNDP period rests with the Permanent Secretary, who is supported by the Chief Accountant. The financial management and accounting of each implementing unit or education institution are the responsibility of the various heads of the implementing units. They are therefore accountable to MoE headquarters for all funds disbursed in their area of responsibility (Ministry of Education 2007, 88-89).

As described above, the MoE receives external funds provided by cooperating partners in addition to the government's own resources. Each of the two types of funds is managed and accounted for through the MoE's own accounting system. Government funds are accounted for through the government Financial Management System (FMS), while external funds are

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52 Information obtained from interviews with MoE representatives.

captured by a separate commercial system, the Sun Systems accounting system (Ministry of Education 2007, 90). The Education Sector Public Expenditure Review of 2006 states that “the Ministry of Education’s existing budget system (structure and processes) is complex, and considerably bifurcated between expenditures financed from GRZ’s own resources, and expenditures financed from development partners through the AWPB process” (World Bank 2006, 15). It suggests that the closer alignment of GRZ-resourced and externally resourced funds and simpler and more programmatic budget structures would have possible advantages (World Bank 2006, 16). The MoE has recognised the problem and has envisaged linking the Sun System accounting system to the government FMS (Ministry of Education 2007, 90).

Furthermore, in its National Implementation Framework the MoE envisages connecting the computerised accounting systems of the deconcentrated units to the server based at the Ministry’s headquarters. The first step would be to link the provinces to the main server, and once capacity and infrastructure were in place, all districts would then be connected (Ministry of Education 2007, 90). Information obtained at local level showed that DEBS offices do not yet have the necessary equipment and infrastructure, but that the planned development would be very welcome.

### 7.4.3 Provision of resources in education

#### **Flow of funds**

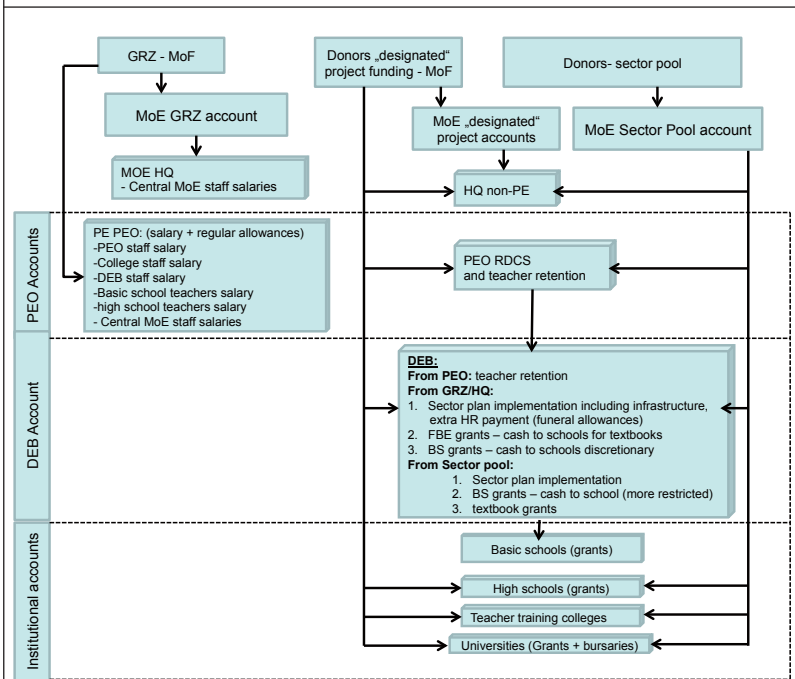
In Zambia public funding for education is delivered to schools through a three-tiered administrative system comprising the Provincial Education Offices, the District Education Offices and the schools (Das et al. 2004, x). Although education is among the most decentralised sectors in Zambia, the fund flow system still remains “top-heavy”, meaning that a large proportion of funds is handled by MoE headquarters and by the Provincial Education Offices. The largest volume of resources goes through the PEOs’ accounts, since they form the provincial level responsible for nearly all salary payments (excluding central ministry and university staff). Of non-salary expenditure, over 50 per cent is still handled by MoE headquarters and only about 33 per cent by the DEB offices (World Bank 2008a, 72). Funds for the DEB offices flow mainly through two channels: the central government budget allocation, which is transferred from the MoFNP to the MoE-GRZ

account, and the donor's pooled funding for education through the sector pool account. The disbursements from the MoE-GRZ account are released monthly, while releases from the sector pool are quarterly (World Bank 2008a, 78). In addition to these two main sources of funds, some funding is disbursed through various designated MoE accounts, designated project funding still being prevalent in 2006 (World Bank 2008a, 70).

Funds transferred from the MoE-GRZ account to the DEBS offices are divided into three parts: grants for free basic education, grants for the basic schools and funding for the implementation of the sector plan. The implementation of the sector plan consists of a standard list of activities, including policy and planning, curriculum and assessment, standards and evaluation, procurement, financial management, office administration, infrastructure, distance education and special issues. The grants for free basic education and those for basic schools will be explained in more detail in the following section. Most of the funding from the sector pool is also used for various designated purposes. Besides additional funding for the implementation of the sector plan and for the grants to basic schools, there are funds earmarked for the procurement of text books and for the construction of classrooms (World Bank 2008a, 71). The flowchart in Figure 14 illustrates the flow of funds from the MoE accounts to the Provincial Education Offices, DEB offices, basic and high schools, and other institutions.

As this study focuses on the efficiency of service delivery in basic education, specific funding types relevant to the subsector will be considered in greater detail in the following. Certain PFM management processes at district level will also be described to show how budget allocations are actually translated into service delivery in basic education. For this purpose, three areas of service delivery are described: the provision of learning/teaching materials and textbooks, the provision of school infrastructure and the deployment of basic school teachers.



**Figure 14: Flowchart for funding and actual spending, 2006**

Source: World Bank (2008a)

## Learning/teaching materials and textbooks

According to the 2006 Education Sector Public Expenditure Review, the MoE devotes less than 10 per cent of its own budget to such recurrent expenditure such as learning materials and textbooks (excluding teachers' salaries). In 2004 government-resourced expenditure equalled less than US\$ 3 per pupil at basic school level, whereas "according to the MoE Strategic Plan, it is estimated that excluding textbooks, other learning materials [...] amount to about US\$ 4.50 per student" (World Bank 2006, 33). The resources for learning/teaching materials are provided mainly through two types of funding.

The first type is known as the Grant for Free Basic Education (World Bank 2006, 33). This grant was created by the MoE after the implementation of the Free Basic Education Policy in 2002 in order to compensate the schools for the lack of funding due to the abolition of school fees. The grant is transferred to the DEB offices, which use them to procure such learning materials as exercise books and pens for the schools in their area of responsibility. The materials procured are then distributed among the schools in the district. The reason why materials are procured by the DEB offices and not by the schools themselves is that schools often have difficulty accessing suppliers because of mobility constraints. In addition, procurement by the DEB office has positive scale effects, since it procures the materials for all schools in bulk and is thus able to negotiate lower unit prices.<sup>53</sup>

The second type of funding for the procurement of learning/teaching materials is the Grant to Basic Schools (World Bank 2006, 33). This grant is first transferred to the DEB office, which then distributes the funds to the schools according to a specific allocation formula. The distribution formula takes into account certain school characteristics, such as the enrolment rate, number of school grades, number of classes and a gender parity factor (World Bank 2008a, 76).<sup>54</sup> Basic schools use the school grant to purchase learning/teaching materials which, unlike learning/teaching materials bought with the Grant for Free Basic Education, they can easily buy themselves from small local suppliers. However, the school grants are not used entirely for the procurement of learning/teaching materials: schools also use the funds for other recurrent expenditure or for the rehabilitation and maintenance of school buildings.<sup>55</sup>

Besides the governments' own resources, cooperating partners provide substantial funding for the education system. Their contributions to non-salary expenditures include cash grants to schools and spending on school health and nutrition, bursaries and learning materials (World Bank 2006, 33). Most funding from the sector pool budget is provided in the form of sector

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53 Information obtained during interviews with MoE representatives and DEB Officers.

54 Information obtained during interviews with representatives of the DEB Offices revealed that the dominant factor in allocation is the enrolment rate at each school.

55 Information obtained during interviews with MoE representatives, head teachers and PTA representatives.

pool grants, which are divided among state schools and, increasingly, community schools. These funds provided estimated additional spending of US\$ 16 per pupil at basic school level in 2004 (IOB 2008, 48). An MoE grant utilisation guideline requires schools to allocate these funds to a specific formula: 35 per cent on textbooks, 25 per cent on rehabilitation and maintenance, 35 per cent on learning materials and 5 per cent on special education (IOB 2008, 48; World Bank 2006, 34).<sup>56</sup> However, as these funds are channelled through the district level, schools do not always receive the full amount on time. Nor, it appears, do they always spend the funds as instructed in the MoE guideline, but rather, to a very large extent, on rehabilitation and maintenance (World Bank 2006, 34).

The system of distributing textbooks has been significantly decentralised in recent years. Formerly, textbooks were procured centrally by the MoE and then distributed amongst the schools. The fact that basic schools were unable to choose books sometimes led to a mismatch between their needs and the type and number of books they received. As a result, pupil:book ratios varied considerably from one school and from one subject and grade to another. Moreover, there was no book tracking system, and the MoE was not well enough informed whether books arrived at the schools or whether schools required more books (World Bank 2006, 34).

In the light of the inefficient procurement system at central level, the MoE has decentralised the responsibility for textbook procurement. Basic schools are allotted budget ceilings. They then pass on their requirements to the DEBs, which purchase books on the basis of the schools' orders (IOB 2008, 75). The decentralised system changes the relationship between the MoE, publishers and booksellers. Publishers are responsible for producing, marketing and supplying books to booksellers, who then provide books as ordered by the schools. However, books may be ordered only from a list approved by the Curriculum Development Centre (World Bank 2006, 35). Under the new system the MoE's role consists merely in ensuring an

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56 The term "special education" is not further defined in the literature used for this specific section. However, in line with the MoE's National Implementation Framework the term is used to describe "special attention to the peculiar needs and requirements of the girl-child, orphans and vulnerable children (OVC), children with special needs (CSEN) and those that are affected by, and infected with, HIV and AIDS" (Ministry of Education 2007, 23).

enabling environment, whereas the responsibility for textbook funding is passed on to the district level. The DEBs' tasks also include the compilation of annual district budgetary plans for textbook expenditure and monitoring the whole procedure (World Bank 2006, 35).

The restructuring process was to be phased, with only Grade 1 books purchased under the decentralised system in 2004. Grades 2 and 5 followed in the second phase in 2005 (World Bank 2006, 35). Funds for the procurement of books under the decentralised system are obtained mainly from the sector pool. In 2005, however, the ZMK 18 billion allocated to textbook provision was well below the estimated requirement of ZMK 39 billion, indicating problems with allocations to textbook provision (World Bank 2006, 35). The Education Sector Public Expenditure Review (2006) states that a certain number of textbooks is still procured under the centralised system (World Bank 2006, 35). At the time the research was carried out for this study, however, discussions with MoE representatives and DEB officers revealed that the text book procurement system had been completely decentralised.

### **Deployment of basic school teachers**

Within the budget resourced by the MoE itself, personal emoluments (mainly teachers' salaries) account for about 90 per cent of total expenditure (Ogawa 2004, 133; World Bank 2006, 28). In addition to a basic salary, teachers are entitled to a variety of allowances. These include housing allowances, if teachers are not provided with institutional housing, and double-class allowances, if teachers teach two classes at their school (World Bank 2006, 29). The 2006 Education Sector Public Expenditure Review found that compensation levels are generally sufficient to attract qualified individuals into teaching and to keep them motivated once they are in post. On the other hand, they are not so high as to make the achievement of universal primary education (MDG 2) fiscally unaffordable. Moreover, in a comparison with other African states, the compensation of Zambia's basic school teachers is average, the report therefore concluding that current pay scales are neither too low nor too high (World Bank 2006, 29-30).

Das et al. (2004, xii) found that teachers' salaries were disbursed efficiently and generally on time, not causing arrears. Teachers are paid directly through a centralised payroll in Zambia using deposit slips, and neither provinces nor districts have discretion over these payments. The same is true of certain types of allowances which are also paid through the cen-

tralised payroll and are normally disbursed efficiently. On the other hand, one-time allowances, such as leave or transfer benefits, are paid at the discretion of the districts and provinces (Das et al. 2004, xi-xii & 23-24). Such discretionary allocations are largely paid late and inefficiently, causing overdue payments as many as three times a teacher's monthly salary in some provinces (Das et al. 2004, xiii&24).

As regards teacher supply, the 2006 Education Sector Public Expenditure Review found that, despite adequate compensation, not enough qualified teachers were being produced by the Zambian education system to meet the country's needs. The review referred to a shortage of 5,700 teachers for Grades 1 to 7 in 2003, implying that 5,700 classes were without a teacher (World Bank 2006, 30). In addition, the distribution of teachers among schools seems to be highly inefficient. As a rule, schools with a similar number of pupils should have a similar number of teachers so that pupil:teacher ratios are even across schools. However, the number of teachers at schools with roughly the same number of pupils differs widely. Basic schools with about one thousand pupils, for example, may have 10, 30 or 50 teachers (World Bank 2006, 32).

The pattern of teacher deployment reveals a significant difference between urban and rural areas. Most teachers tend to prefer working in urban areas, many schools in remote areas therefore being understaffed (IOB 2008, 69). In 2004, pupil:teacher ratios averaged 47:1 for basic schools in the relatively urbanised Lusaka and Copperbelt Provinces, whereas the remaining seven, mainly rural, provinces had average ratios of 60:1. A major obstacle to teacher recruitment and retention in rural areas is the lack of appropriate housing (World Bank 2006, 32). However, a study by K. Ogawa (2004) finds that inconsistencies in teacher deployment exist not only among the provinces, but also among basic schools within provinces, and this to a marked degree. The author calculates that only 20 per cent of the variation in teacher allocation is due to inter-provincial disparities, the other 80 per cent of the inconsistency stemming from differences between individual schools in the provinces (Ogawa 2004, 140). A study by IOB (2008) adds to this finding the statement that one particular school in a district may be understaffed, while a school nearby may have more than enough teachers (IOB 2008, 68). However, as this study focuses on the efficiency of PFM processes at local government level, and the deployment of basic school teachers is currently managed from central government level, the research

team did not focus on inefficiencies in teacher deployment and allocation. The reason for including information on teacher deployment at this point is a desire not to omit an important aspect of service delivery in basic education. However, for a deeper analysis of this aspect further research at central government level will be needed. It should be noted, however, that the MoE is currently in the process of also decentralising the process of teacher deployment and so delegating more responsibility to district level in this respect.<sup>57</sup>

### **Provision of school infrastructure**

The construction of school infrastructure also accounts for some expenditure and funding in the basic education subsector. Despite tremendous progress in this area in recent years, there is still a serious backlog in classroom construction in Zambia. According to the World Bank, 900 classrooms have been constructed annually in recent years. Funds for this have been provided mainly by JICA, Finland, the IDA and the AfDB (World Bank 2006, 36). Nevertheless, the construction has not been sufficient to keep up with soaring enrolment rates. Large sums have therefore been recently allocated to school construction from the sector pool (World Bank 2006, 36).

Two approaches to classroom construction are used in Zambia: construction by contractors and construction by the community. In the former case the whole construction process is undertaken by the contractor, who takes full responsibility. In the latter case, the communities for which the new school is being built are involved. This reduces the cost of construction and increases ownership and the feeling of responsibility in the recipient communities. Information obtained during interviews with DEB officers showed that this approach is currently adopted in the construction of almost all new basic schools.

The community is expected to provide in advance materials equivalent to 25 per cent of the cost of the project, in the form of burnt bricks, crushed stones, river sand and building sand, for example. It also supports the project with unpaid labour for such tasks as carrying bricks and drawing water (Ministry of Education 2009, 69).

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57 Information obtained from interviews with MoE representatives.

Sites for the construction of new schools are identified by the DEB office in consultation with the DDCC and local communities. The DEB office is then responsible for organising sensitisation meetings with the communities concerned to ready them for the collection and preparation of the materials they are contributing. The next step is for the DEB office to set up a Project Management Committee (PMC) chaired by a member of the community and otherwise comprising the District Building Officer, teachers, parents from the community and the head teacher, who acts as the committee secretary. The PMC coordinates and manages the delivery of the advance materials to the site and is also responsible for the day-to-day planning and execution of the project. For the actual construction of the school, and thus the remaining 75 per cent of the project, a contractor is hired, and he then employs skilled labour. Funds for the project are released to the DEBS accounts and then transferred to the school's account. The whole construction period must not exceed seven months (Ministry of Education 2009, 69-79).

## 7.5 Findings on the education sector

This section presents the findings of our analysis of inefficiencies in the PFM system in basic education using the conceptual framework outlined in Chapter 2. The general conceptual finding of this study is that all inefficiencies in the PFM system can be traced back to two systemic determinants, which adversely affect operational efficiency at local level through various channels (see Chapter 9). Our first step, then, is to describe specifically how these two determinants manifest themselves in the education sector. In section 7.5.1 we then give an overview of the types of inefficiencies which, according to our analysis, generally occur in the education sector. These types of inefficiencies are categorised by the four channels identified as causing them, namely a lack of coordination, a lack of capacity, a lack of commitment and a lack of mobility. In section 7.5.2 we then illustrate the causal links between the identified inefficiencies, the determinants and the channels or constraints through which the determinants impact on the efficiency of service delivery. We also identify short-term technical solutions that might possibly improve efficiency by tackling problems at the constraint level. However, as not many technical solutions could be found, we also consider whether decentralisation, as a more systemic reform, might solve efficiency problems in certain cases. Finally, section 7.5.3 summarises the empirical findings.

Our analysis identified two systemic determinants as root causes of inefficiencies in the PFM system in basic education at local level: a “lack of resources” and the “concentration of power and control over decision-making and resources”. Although public expenditure on education has increased over the past years in absolute terms and the resource envelope has generally kept pace with enrolment growth, the GRZ has been unable to achieve a significant increase in unit spending on quality improvement, particularly at basic-level schools. By international standards, unit spending per pupil at basic school is still relatively low, and the supply of such instructional materials as textbooks and desks remains inadequate (World Bank 2008a, 7-13). As section 7.5.2 shows, there is also a general lack of resources for the implementation of PFM processes. Although appropriate planning, implementation and control processes are mostly in place, it is often impossible to implement them properly owing to a lack of resources.

The second determinant, the concentration of power and control over decision-making and resources, mostly shows itself in the structure of funding flows in the education sector. Although the education sector is often described as decentralised, control over public resources and the power to decide on what they are to be spent still rests largely with the MoE. Funding from both the GRZ account and the NIF account is often designated by the MoE for certain uses.

### 7.5.1 Conceptual findings on the education sector

This section gives an overview of the general types of inefficiencies in the basic education subsector. As described above, four constraints preventing more efficient service delivery were identified.

#### **Coordination**

There are two general areas in which a lack of coordination poses a challenge for more efficient service delivery. Vertically, the flow of information between the MoE's various levels of administration on the amount and timing of funding releases is inadequate. This seems to concern both the flow of information from MoE headquarters down to the deconcentrated units and schools and requests for such information from some actors at lower levels in the administrative structure. This lack of information leads to inefficiencies in planning, implementation and control processes.



In certain districts there is also evidence to suggest a lack of horizontal coordination. The activities of the DEBS offices are not sufficiently coordinated with activities in other sectors. Although integrative district planning takes place through the DDCC, implementation often fails to conform to planning, since agreements taken at DDCC meetings are not binding and can be overruled by the decisions taken at the line ministries' headquarters. Consequently, scarce resources at district level may not be used optimally owing to insufficient integrative district coordination.

### **Capacity**

DEBS offices generally appear to be appropriately staffed both quantitatively and qualitatively. Staffing levels were usually regarded as sufficient for administrative management at district level. However, despite sufficient manpower, many tasks of the DEBS offices are hampered by a lack of financial resources.

As regards human capacity at school level, evidence suggests a lack of knowledge of accounting procedures. Some teachers seem unable to prepare accounting documentation in accordance with the regulations and requirements of the DEBS accountant. This leads to inefficiencies in reporting and control, most of which can be attributed to the inadequate training of teachers in accounting.

When it comes to technical capacity, a lack of office equipment impedes the efficient exchange of information and so hinders planning and control tasks. In most case districts, for example, the accounting system has recently been computerised at district level, but has yet to be connected to higher levels of the administrative structure. The exchange of information for planning and control purposes, both between the DEBS office and higher levels within the MoE and between different DEBS offices in one Province, still entails a considerable amount of travelling for Education Officers, since data have to be transferred physically by car. This process is time-consuming and wastes scarce resources on travel, thus making certain PFM processes inefficient.

However, the MoE has already taken major steps to reduce these inefficiencies by moving data processing tasks (for the EdAssist Planning and Information Tool, for example) to lower levels of the administrative structure. There are also plans to equip DEBS offices with the digitalised accounting system IFMIS.

## **Commitment**

The level of commitment and its influence on the efficiency of PFM are difficult to measure. However, there are no obvious signs of a lack of commitment amongst District Education Officers that would lead to inefficiencies in service delivery. On the contrary, some Education Officers even go so far as to use personal resources to compensate for the lack of public resources to fulfil their duties.

Although no evidence for a lack of commitment within the structures of the MoE could be found, the efficiency of the PFM system in the education sector is still confronted with commitment issues outside its structures. In certain areas, especially where traditional practices still largely prevail, there is a lack of demand for education in some communities, which manifests itself in a lack of coordination with the DEBS office. It is, for example, difficult to mobilise such communities to help with the construction of classrooms, and many sensitisation and supervisory visits that are then necessary, reducing the efficiency of service delivery.

## **Mobility**

At district level, DEBS offices face a general lack of mobility, mainly due to a lack of functioning vehicles, insufficient funding for fuel and generally poor roads. Consequently, many of the duties for which DEBS officers rely on mobility, such as supervisory visits to schools, become difficult to carry out effectively.

However, the lack of mobility does not seem to be solely a problem of insufficient capacity in terms of a lack of vehicles and funding for fuel. Evidence suggests some lack of coordination between different deconcentrated units at district level with regard to the joint use of vehicles for trips in the same direction or even to the same destination.

### **7.5.2 Empirical findings on the education sector**

This section illustrates the inefficiencies identified and analyses their determinants in greater depth, firstly by describing the inefficiencies observed and then by considering how the determinants influence the efficiency of service delivery via the four channels referred to above.

In Chapter 3 we explained that districts which differed in their service provision performance had been chosen for in-depth case studies to determine

whether differences in the operational efficiency of PFM at local level could be attributed to the differences in performance between districts. The rationale behind this was that some districts might organise certain PFM processes more efficiently than others. The more efficient processes could then be replicated in other, less efficient districts. However, as all the districts selected seemed to organise their processes in much the same way, no sound reasons for differences in performance could be identified in the area of operational efficiency. The following inefficiencies do not therefore stem from a comparative analysis, but were identified by means of a qualitative analysis of PFM processes at local level.

### **Erratic and unpredictable funding**

Erratic and unpredictable funding was identified as one of the major problems for efficient service delivery in basic education. Research in the four selected districts revealed that it took several months for funds from the GRZ account to arrive at the DEBS offices. Disbursements through the NIF account seemed to be less erratic, although there was again evidence that these releases, too, sometimes arrived late. Schools as well as the DEBS offices also reported the late arrival of school grants. In one particular case, a school had gone without a school grant for seven consecutive months. While these delays were identified as a major problem, it should be noted that serious irregularities in funding have mainly occurred since 2009. The reasons include the adverse effects of the financial and economic crisis on revenue and the negative contagion effect of the corruption scandal in the health sector, which led to the withdrawal of donor funds and the subsequent realignment of the GRZ's own expenditure. According to discussions at district level, funding seemed to be more reliable and punctual before 2009.<sup>58</sup>

Research at district level revealed uncertainty among DEBS officers as to when the next inflow of funds could be expected and how much they would amount to. Schools were similarly unsure when to expect their next grant and how much they would receive. The unpredictability of funding and the uncertainty over the amounts impact on the efficiency of budget implementation in two ways. Firstly, planning becomes inefficient in certain cases. Districts plan for a range of activities, but then apparently receive only a proportion of the funds planned for each activity. In addition, fund-

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58 However, previous studies undertaken before 2009 had also identified late and unpredictable funding for schools (World Bank 2008a; Assist Consulting AS 2007).

ing for these activities may not arrive until the end of the year, although it is often needed earlier in the year if those activities are to be undertaken efficiently and effectively. If districts knew that they would receive only a small amount for their activities and not until the end of the year, they would probably plan for the scarce resources differently by concentrating on certain activities in one year and leaving others until the next.

The lack of information on the amount of funding that can be expected also influences the efficiency of PFM in a second way. If schools do not know how much funding they will receive, they cannot check whether they have obtained the amount they were expecting. They are therefore unable to hold higher levels to account for the failure of funds to arrive. This has an adverse influence on the efficiency of PFM monitoring.

These inefficiencies are due to a weak flow of information between the MoE and the deconcentrated units. The constraint that causes inefficiencies is thus a lack of coordination with respect to funding flows. As funds are released by the MoE and then passed on to the deconcentrated units, one possible cause of the weak flow of information is that the MoE does not give lower levels sufficient information on the amount they will receive or when. In that case, the underlying determinant causing the coordination constraint is the concentration of control over decision-making at central level.<sup>59</sup>

However, our analysis revealed that the causes of the inadequate flow of information may lie not only in the transfer of insufficient information by the MoE, but also in the failure of lower levels to insist on being informed. Thus the problem may have not only supply-side, but also demand-side causes. Information obtained during interviews at district level shows that, while they are very unhappy with the erratic and unpredictable nature of funding, actors at district level feel they are not in a position to question the resources received from higher levels. In certain cases, a somewhat passive attitude seems to prevail at DEBS offices and schools: they accept that funding will be inadequate and subject to delay and do not check whether the right amounts have been received.

While there may be possible short-term solutions to improving the flow of information on the movement of funds between the MoE and actual service

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59 However, discussions at central level revealed that not infrequently the MoE itself does not receive from the MoFNP the necessary information on expected funding early enough for it to be forwarded on schedule.

providers in the districts, it is likely that a more systemic change would result in schools at the receiving end of the funding process becoming less passive. Further devolution, as envisaged in the DIP, would transfer control over resources to councils, and thus to a lower level, as in the current case where funding is controlled by the MoE and funding decisions by higher levels are not questioned. Schools might feel closer to the point of fund releases, and the distance for the investigation of fund flows and for possible complaints would be considerably shortened. In the case of erratic or insufficient funding schools might then feel more empowered to follow up the fund flow than they are now.

However, two challenges would remain in the event of such devolution. Firstly, resources would flow directly to the councils from the MoFNP, instead of passing through the MoE's headquarters, the provincial level and the DEBS office. This would reduce the number of actors involved in the flow of information on disbursements, but the councils would still rely on the MoFNP to provide this information. The problem might therefore persist.

Secondly, even with the transfer of power over funding to the local level, schools might not stop being somewhat reluctant to enquire how much funding they should receive and to check whether they actually receive the total amount. Limited and delayed resources would in this case still be accepted, and accountability would effectively not be increased.

### **Integrated district planning**

A second problem discovered during the research concerns a lack of alignment of the planning of different deconcentrated units at district level. The activities of the DEBS office are not always sufficiently coordinated with activities in other sectors. To give an example, there are cases where a new school is built, without appropriate water and sanitation facilities being installed on the same site. Previous studies suggest, however, that the availability of toilets at schools is an important factor if girls are to be enrolled.<sup>60</sup> The construction of a new school without plans being made for appropriate water and sanitation facilities may therefore result in fewer girls being enrolled and in a reduction of the effectiveness of the resources used to construct the school. Consequently, service delivery in the form of the provision of new classrooms becomes less efficient.

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<sup>60</sup> See Brock and Cammish (1997), *Factors affecting female participation in education in seven developing countries*, DIFD, London.

The underlying cause of this inefficiency in service delivery is a lack of coordination between the various sectors at district level. Although coordination with other sectors already occurs in the DDCC, agreements reached in the DDCC are not binding. Decisions taken in the DDCC may be overruled by decisions taken at the headquarters of the line ministries. This setting is reflected in the behaviour of certain actors at district level. Some seem to regard DDCC planning as less important than planning within the line ministry. There is evidence of some DDCC meetings being postponed owing to more pressing issues at the line ministry. Although the importance of more integrative district planning and coordination is generally recognised, planning is in many cases not followed by action. As adherence to line ministry decisions dominates integrative district planning, the underlying determinant that leads to inefficiencies through the channel of inadequate coordination is the concentration of power and control at central level.

It should be noted, however, that levels of integrative district coordination vary from one district to another. Discussions with MoE representatives at central level revealed that coordination among the various deconcentrated units at district level seems to work better in certain districts than in others. There may therefore be some short-term potential for increasing coordination in the current setting. A good example of this is the recent introduction of district education profiles by the MoE. These profiles present a summary of the facts and the current situation in education in a particular district. They are meant to be passed on to the deconcentrated units of other line ministries in the district so that they can include this important information on education in their own planning.

However, while these short-term solutions may produce small efficiency gains, it is highly unlikely that they will solve the structural problem of the subordination of integrative district planning to planning at ministry level. To address this problem, a more systemic change in the form of further decentralisation may be needed. That change would provide a binding platform for more effective coordination among the various sectors at district level, which might then lead to greater efficiency gains in the delivery of public goods and services.

### **Lack of transport**

Another major challenge to efficient service delivery in education is the inability of DEBS officers to perform their duties owing to a serious lack of transport at district level. A general shortage of appropriate vehicles and of

funds for fuel limits the mobility of DEBS officers. The problem is aggravated by the poor condition of the road infrastructure, which prolongs trips considerably and so obstructs DEBS officers needing to undertake supervisory visits to schools. The District Education Standards Officer, for example, is often unable to visit schools to assess and monitor standards of education. Similarly, internal audits of schools by DEBS accountants and the further training of teachers in accounting skills are constrained by the fact that DEBS accountants do not have the means to visit the schools. This lack of mobility leads to inefficiencies in service delivery, since standards of education may not be upheld owing to a lack of monitoring, and accounting irregularities occur because of the inadequacy of the checks kept on schools.

The cause of this lack of mobility is a general shortage of resources due to the fact that, while the supervisory structures meant to guarantee an efficient service delivery system are usually in place, they cannot be used to their full potential because there are insufficient resources for the system to be implemented effectively. However, although a lack of resources is the main cause of inefficiencies, failings in coordination among deconcentrated units at district level also seem to play a role. Evidence suggests that coordination among local agents is too limited for them to arrange to share the small number of vehicles at district level. Thus the already limited transport resources are not used efficiently. A short-term solution reducing the inefficiencies arising from coordination failings would be the district mobility pool already suggested in the findings on the health sector.

### **Accounting capacity in schools**

A further problem identified as an obstacle to greater efficiency in service delivery is a lack of accounting skills in schools. Fund management and record-keeping in schools are normally the responsibility of an ordinary teacher, to whom the head teacher has also assigned the task of accounting. The teacher usually receives a brief introduction to accounting, but no subsequent training. Evidence suggests that this introduction is not sufficient for the teacher to perform the task of accounting correctly. In some cases, the record-keeping and documentation undertaken by teachers do not comply with the regulations or the requirements of the DEBS Accountant, who then has to make the necessary adjustments. Furthermore, when accounting procedures change, teachers are not informed and continue accounting in their usual way. As a consequence, the efficiency of control suffers, and DEBS Accountants are faced with the extra work of adjusting the accounting documentation.

The cause of these inefficiencies is a lack of accounting capacity in schools. If the responsible teacher in the school was aware of the current MoE accounting standards and requirements, less post-editing by the DEBS office would be necessary and the monitoring process would be more efficient. Teachers clearly do not receive sufficient training, and they also need to be informed and instructed when new accounting procedures are introduced. However, this is thwarted by a second constraint. DEBS Accountants are required to visit schools regularly to train and update the teachers responsible for accounting. But they are often constrained by the general lack of mobility, as explained above. As a rule, then, teachers are normally advised and assisted only when they visit the DEBS office for the retirement of funds. Both constraints, the lack of accounting capacity in schools and the lack of mobility needed if teachers are to be trained in accountancy, are due to a general lack of resources. The inefficiency in this case does not seem to be caused by the structuring of processes, but rather by a lack of means to implement the system. If there were more resources, teachers could attend regular accounting courses, and the result would be fewer mistakes and irregularities and thus more efficient monitoring. Similarly, with more resources available for vehicles and fuel, DEBS Accountants would be able to train the teachers concerned and inform them of changes in accounting procedures.

### **Lack of equipment for information and data management**

The fifth challenge to efficient PFM is the lack of means for a more efficient exchange and flow of information and data at district level. Several inefficiencies in data management and information exchange were noted during the field research. Firstly, while the accounting system is computerised in three of the four case districts, it is not yet connected to higher levels of the line ministry. This means that, to exchange data with higher levels, officers usually have to make the journey and be physically present to exchange the information. Data cannot yet be transmitted digitally through the system.

Secondly, the data from the Annual Schools Census forms are currently entered into the digitalised EdAssist Information and Planning database at provincial level. This, too, entails a considerable amount of travelling for the District Education Planning Officer, since it is his task to enter the data at the Provincial Education Office. Furthermore, when mistakes or irregularities in the data occur, they are investigated by the Provincial Education Office, which is costlier and takes more time than if it were done at district level.



Thirdly, District Education Planning Officers from all the districts in a province are required to meet regularly to exchange information, present their progress reports, learn from challenges in other districts and assist each other. These meetings have, however, become more difficult to arrange owing to the lack of mobility. While the process of exchanging information between districts is very important, it would be more efficient if it could be done without the staff concerned having to travel.

The underlying constraint causing inefficiency in this case is a lack of technical capacity at district level, which is due to a general lack of resources for efficient data management systems. Our research suggests that interconnected data management and exchange systems would lead to efficiency gains in planning and control processes in the public financial management system.

It should be noted, however, that the MoE is currently addressing these inefficiencies by decentralising planning and accounting systems. For example, data were entered into the EdAssist database at central level before the task was transferred to provincial level. The next step is to equip DEBS offices with the means to enter the data directly at district level, which would allow the District Planning Officer to check and use the data in his own office, instead of having to travel to the Provincial Office. The accounting system envisaged for DEBS offices is the IFMIS financial management system connected to higher levels at the MoE. This would further increase the efficiency of the monitoring processes that form part of PFM in the education sector.

### 7.5.3 Conclusions for the education sector

Despite the challenges described above, our research suggests that the public financial management system at the local level of the education sector is relatively well organised. It includes many procedures that would normally ensure efficient planning, implementation and control in the PFM system. However, our analysis shows that, although the necessary procedures are generally in place, it is often impossible for them to be applied appropriately owing to a general lack of resources. Examples include the lack of mobility needed to make supervisory visits to schools, the lack of resources to train teachers in accountancy and the lack of technical capacity to make exchanges of information and data more efficient.

As regards short-term technical solutions to the constraints on more efficient service delivery, the scope for improvement through technical solutions is

considered to be limited. One example of how to address the problem of mobility would be the district mobility pool described in the findings on the health chapter. Other technical ways to increase efficiency in the short run are already being implemented by the MoE. The introduction of district education profiles as a means of improving integrative district planning is one such example. Another is the decentralisation of data management and information systems. As described above, the MoE is currently in the process of connecting the EdAssist Planning and Information system at district level to higher levels so that District Education Planning Officers may enter and use data directly. There are also plans to install IFMIS at district level, which would increase the efficiency of monitoring processes significantly.

However, our analysis also shows that certain sources of inefficiencies in the PFM system in education may not be remedied by short-term technical solutions. It may be possible to address certain causes of inefficiencies only if a more structural change is made. One example is the poor flow of information on the amount and timing of funds to be transferred to district level. Devolution, as envisaged in the DIP, might reduce the passive position of schools at the receiving end of the funding flow. This would potentially increase efficiency in planning and probably also lead to greater accountability. However, reducing the administrative levels through which funding flows and moving the power over funding closer to schools might not automatically reduce the reluctance of schools to enquire what funds they are to receive and to check what funds they have received. Another example is the lack of integrative district coordination. Although the MoE is aware of this challenge and is already addressing the problem by introducing district education profiles, comprehensive district planning may be achieved only through devolution as envisaged in the DIP, since this would provide a binding platform for more effective district coordination.

## **8 The road sector in Zambia**

The road sector has been identified as a relevant case for this research project, since it is one of the subjects of the joint budget evaluation. To analyse the efficiency of service provision in the road sector, the research team decided to focus on rural road maintenance. This is deemed a suitable focus for several reasons: firstly, its potential for reducing poverty where the poor are; secondly, its importance on the government's national development

agenda as reflected in the FNDP; and thirdly, its provision at subnational level, which allows cross-district comparison. Empirical evidence has shown that the development of the rural road network has the potential to contribute effectively to the promotion of income generation and so to poverty reduction and pro-poor growth particularly in rural areas, where poverty levels are generally much higher than in urban settlements (Bryceson / Bradbury / Bradbury 2008, 476). During the last decade there has also been a major shift in the importance of road maintenance in sub-Saharan Africa as perceived by donors.<sup>61</sup> Although the Zambian FNDP and the sector-relevant policy documents stress the importance of rural-led development and the provision of a well maintained strategic and social infrastructure, and particularly of (rural) feeder roads, irrigation and communication infrastructure, the performance rates in this subsector remained strikingly low (RDA 2009d, 55). We assumed that the potential for greater efficiency in public service provision exists in the rural road subsector. Finally, this subsector was selected on methodological grounds. Rural road maintenance is a district responsibility. Evidence suggests that the performance of district councils in providing rural road maintenance varies from one district to another, which cannot be attributed entirely to differences in budget allocations. A comparative case study approach at subnational level was therefore deemed appropriate, since it would enable different districts in the same country context to be compared and the determinants of and constraints on efficient public service provision to be scrutinised in each case.

The research team's main aim in the road sector was to gain a clear understanding of the current set-up of the road sector, and especially of service provision for rural road maintenance, and to identify obstacles to efficient service delivery.

The data for the analysis were obtained in interviews with representatives of the relevant ministries (the Ministry of Local Government and Housing (MoLGH), the Ministry of Works and Supply (MWS) and the Ministry of Finance and National Planning (MoFNP), of the National Road Fund Agency (NRFA), the Road Development Agency (RDA) and the Rural

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61 A study published by the World Bank found out that the neglect of road maintenance resulted in a loss of one third of the capital invested in the sub-Saharan African road network. The resulting deterioration of roads led to an exponential increase in vehicle operation costs and thus to the loss of efficiency in the road transport system and rising investment costs for road reconstruction and to an increase in the number of accidents (Martinez 2001, 258).

Road Units (RRUs) and of cooperating partners, civil society organisations in Lusaka and local road authorities (LRAs) at district level.

The following sections contain detailed information on the road sector and rural road maintenance to clarify the background to the empirical findings. To this end, we begin with an overview of the sector background and current challenges. The most important road sector policies and the GRZ's strategies and priorities for the road sector are then considered. This is followed by an overview of the administrative set-up and information on the planning, implementation and control of service provision in the road sector. The final section presents the main conceptual and empirical findings of our research and draws conclusions on the potential for increasing the efficiency of service provision in the short and medium term.

## 8.1 Sector background

In Zambia, road development is seen as part of the development of the economic infrastructure, which is “*related to public works that catalyse social activity*” (EAZ 2009b, 56).<sup>62</sup> A large part of Zambia's road network was constructed during the decade of the economic boom between 1965 and 1975 to link principal administration centres throughout the country or to enable goods to be exported (EAZ 2009b, 57). Since the 1980s, the lack of funds and the neglect of road maintenance has led to a steady deterioration of road conditions (Republic of Zambia 2006a, 2). In 1991, only 20 per cent of the road network was reported to be in good condition (World Bank 2005, 41).

The aim of this section is to provide some background information on the Zambian road network. It introduces the distinction made by the GRZ between types of public roads, e.g. main, trunk, district, rural and community roads, and defines the subsector – rural roads – that has been chosen for the study. It also gives some information on the ‘Core Road Network’ (CRN), the network currently being addressed by GRZ activities.

### 8.1.1 Conclusions for the education sector

According to the Public Roads Act, the public road network consists of inter-territorial main or trunk roads, territorial main roads, district roads,

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62 It also includes railways, air transport, dams and even such public buildings as schools and hospitals.

rural district roads, rural roads, branch roads and estate roads (National Assembly of Zambia 2002b, Part 3). Rural roads are also referred to as “feeder roads” and are subdivided into primary, secondary and tertiary feeder roads (see Table 10), the last of these being classified as community roads (DANIDA 2002a, 3).

In 2002, the GRZ identified the “Core Road Network” (CRN) as comprising 40,113 km of the total road network length of 67,671 km (see Table 10). The CRN is the “minimum road network that is required to be maintained continuously and on a sustainable basis so as to unleash the potential in the country and its people to promote self-development as the only approach to poverty alleviation for economic growth” (GRZ / European Community 2007, LXXX).<sup>63</sup> The development of the network was therefore considered crucial for continued economic growth, poverty alleviation and the marketing of agricultural goods. The CRN took account of connectivity (international or provincial linkages), poverty alleviation and agricultural and marketing activities (RDA 2009b, 6).

Of the core road network, 7,250 km is unpaved and 32,863 km paved (GRZ / European Community 2007, LXXX). The CRN comprises all trunk roads, most main roads and some district roads, approximately half of the (rural) feeder road network and 1,500 km of urban roads (GRZ / European Community 2007, 14).<sup>64</sup> In 2008, the government launched a road network reclassification exercise, in which the CRN is also being reviewed, the aim being to apportion resources and optimise their use in the development of the CNR, and to draw up a road inventory and survey the condition of urban and primary feeder roads (RDA 2008a, 17). At the time of the interviews, the reclassification exercise had reached the stage at which recommendations are made.

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63 In previous National Development Plans the overall aim was to develop transport infrastructure throughout the country to enable all provincial and district centres and inaccessible areas to be linked by different modes of transports.

64 The density of the core road network is 0.053 km/km<sup>2</sup> and 0.029 km/capita (GRZ / European Community 2007, 14).

<b>Table 10: Estimated total road network and Core Road Network</b>			
<b>No.</b>	<b>Road type</b>	<b>Total estimated network (km)</b>	<b>Core Road Network (km) December 2002</b>
1	Trunk	3,088	3,088
2	Main	3,691	3,691
3	District	13,707	13,707
4	Urban	5,294	5,294
5	Primary feeder	15,800	14,333
6	Primary tourist	-	-
7	Secondary feeder	10,060	-
8	Tertiary feeder	4,424	-
9	Park roads	6,607	-
10	Community roads	5,000	-
	Total	67,671	40,113
Source: RDA (2009b)			

A detailed inventory of all rural feeder roads in Zambia was completed in 1998. It discovered their total length as being 31,024 km or about half the total road network. Some 50 per cent of these roads have been “gazetted”, i.e. officially recognized (DANIDA 2002b, 10).<sup>65</sup>

### 8.1.2 Condition of the Core Road Network

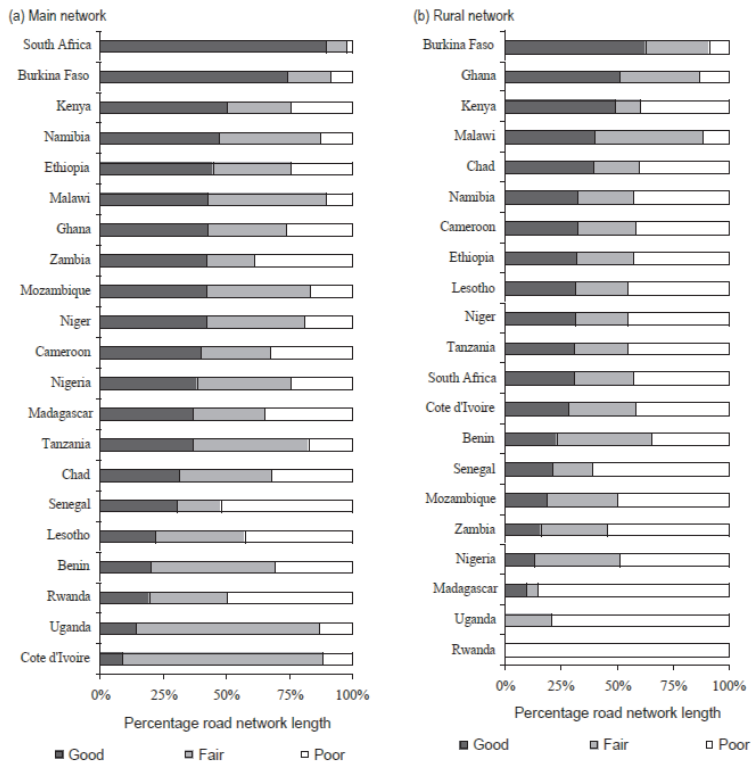
Overall, there is a huge difference in access to and the quality of infrastructure between urban and rural areas in Zambia. Urbanised areas have enjoyed disproportionate investment in public infrastructure owing to higher levels of economic activity, which have resulted in higher tax revenues. Compared with other countries in sub-Saharan Africa, Zambia has a

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<sup>65</sup> Feeder roads are classified according to their social and economic importance as primary (15,953 km), secondary (10,216 km) and tertiary (4,855 km) roads.

well-developed network of main roads, but nearly 50 per cent of the rural network is in a poor condition (see Figure 15: Road network length by country, classification, and condition). The dichotomy between urban and rural infrastructure development is said to perpetuate the two-nation syndrome: a modern and developed urban area with good access to public infrastructure and an impoverished rural area with poor infrastructure (EAZ 2009b, 56). Surveys suggest slight improvements in the condition of the unpaved road network in 2005 (see Table 11).

**Figure 15: Road network length by country, classification and condition**



Source: Gwilliam et al. (2008)

Table 11: Condition of Core Road Network by road type							
Condition	Type	2004	2005	2006	2007	2008	
<b>Good</b>	Overall	19 %	25 %				
	Unpaved	11 %	16 %	22 %	36 %	8 %	
<b>Fair</b>	Overall	14 %	16 %				
	Unpaved	12 %	77 %	30 %	24 %	9 %	
<b>Bad</b>	Overall	67 %	59 %				
	Unpaved	77 %	67 %	48 %	40 %	83 %	
Note: Data have been collected by the Road Development Agency since 2006 and include trunk, main and district roads. These data have been used to calculate network performance indicators.							
Source: GRZ / European Community (2007), RDA (2008)							

Table 12: Condition of paved Core Road Network							
Condition	2002	2003	2004	2005	2006	2007	2008
<b>Fair</b>	59 %	56 %	57 %	60 %	64 %	72 %	61 %
<b>Good</b>	22 %	27 %	22 %	19 %	29 %	17 %	33 %
<b>Poor</b>	19 %	17 %	21 %	21 %	7 %	11 %	6 %
Source: GRZ / European Community (2007), RDA (2008)							



The state of the paved CRN in particular has improved in the last few years, with just 6 per cent now in poor condition, compared to 90 per cent of the unpaved road network (see Table 12).

There is no evidence that performance in the maintenance of unpaved roads has improved in recent years (Box 10). In particular, the condition of feeder roads and the surface of the paved network have been declining compared to previous years. The data obtained suggest that the GRZ has focused mainly on improving the paved road network, while largely neglecting unpaved roads. In 2009 the GRZ is said to have maintained only 11,000 km of rural roads country-wide. According to donor representatives in Lusaka, the GRZ was not satisfied with its performance and increased the funding of rural road maintenance in 2010. Senior RDA officials underline that far more resources are needed, around US\$ 500 million per year, to maintain the rural roads of the CRN in the next five years.

**Box 10: Classification of activities in the road sector**

Activities in the road sector have been broken down into the subcategories of road maintenance, which consists of periodic and routine maintenance, rehabilitation and upgrading works:

*Maintenance* focuses on preserving the road network from further deterioration.

*Periodic maintenance* comprises work carried out periodically, including regravelling and resealing.

*Routine maintenance* comprises work carried out yearly to keep roads in good condition and consisting of pothole patching, vegetation control, line-marking and drainage works.

*Rehabilitation* focuses on work to renew the road and comprises limited amounts of reconstruction, such as the reworking of the base and sub-base, and the application of heavy overlays.

*Upgrading* work includes the upgrading of the road surface material from earth to all-weather gravel or from gravel to bitumen.

Source: Authors' own compilation, based on RDA (2009a)

## 8.2 Goals, priorities and strategies of the road sector

The following section gives an overview of the goals, priorities and strategies that have been formulated for the road sector by the GRZ in sector-specific government programmes, with particular reference to the Road Sector Investment Programme (ROADSIP) I and II and the FNDP. It also presents the GRZ performance targets for the road sector and gives an overview of the GRZ's performance in 2009.

The reforms undertaken in the road sector during the 1990s were said to have put Zambia at the forefront of road sector financing and maintenance in Africa. Road maintenance had been one of the main promises made by the MMD government when it came to power in 1991 (NRFA 2010a). In 1991 it joined the Road Maintenance Initiative (RMI) under the auspices of the Sub-Saharan Africa Transport Policy Program (SSATP), a joint undertaking of the United Nations Economic Commission for Africa (UNECA) and a number of development agencies coordinated by the World Bank, and held a Road Maintenance Policy Seminar in February 1993.<sup>66</sup> The GRZ accepted the recommendations of the RMI Seminar and undertook financial and institutional reforms in the sector, setting up the National Road Board (NRB) in 1994, for example. A Letter of Sector Policy was drawn up by the Minister of Finance and Economic Development and exchanged with the World Bank in March 1997. This paved the way for ROADSIP I.

### 8.2.1 Road Sector Investment Programme (ROADSIP) I and II

With support from the cooperating partners (CPs), the GRZ established an ambitious programme for the road sector in 1998. ROADSIP is a 15-year programme, which sets out the road sector strategy and targets to be achieved by 2013. It was divided into ROADSIP I (1998 to 2003), with estimated costs of US\$ 515 million, and ROADSIP II (2003-2013), with estimated costs of US\$ 1.6 billion (NRFA 2010b). ROADSIP II was greatly influenced by the government's reprioritisation of poverty reduction and was included in the 2002 Poverty Reduction Strategy Paper (PRSP), the FNDP and the Zambian Performance Assessment Framework (PAF) for

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66 World Bank and UNECA launched the Road Maintenance Initiative in 1987 to trigger reforms in the road sector, to prioritise the maintenance of the existing road network and to increase the public funding of the sector.

budget support (see Box 11).<sup>67</sup> The GRZ estimated that it would cost US\$ 175 million per year to implement ROADSIP II.

**Box 11: The road sector in the Fifth National Development Plan (FNDP) 2006-2010**

Activities in the road sector have been broken down into the subcategories of road maintenance, which consists of periodic and routine maintenance, rehabilitation and upgrading works:

*Maintenance* focuses on preserving the road network from further deterioration.

*Periodic maintenance* comprises work carried out periodically, including regravelling and resealing.

*Routine maintenance* comprises work carried out yearly to keep roads in good condition and consisting of pothole patching, vegetation control, line-marking and drainage works.

*Rehabilitation* focuses on work to renew the road and comprises limited amounts of reconstruction, such as the reworking of the base and sub-base, and the application of heavy overlays.

*Upgrading* work includes the upgrading of the road surface material from earth to all-weather gravel or from gravel to bitumen.

Source: Authors' own compilation based on GRZ (2006)

While ROADSIP I focused mainly on institutional reforms and the development of economically important roads, ROADSIP II identifies poverty reduction in rural areas as the sector's main priority (see Box 12). Its overall aim is to "promote equitable economic growth and better living conditions in Zambia by bringing about sustainable improvement in the conditions of transport infrastructure" (RDA 2009c, 9).<sup>68</sup> The performance of the road sector is to be reviewed quarterly in the "ROADSIP II Progress Reports".<sup>69</sup>

67 Chapter 14 of the PRSP, "Communication and Roads" (Republic of Zambia 2002b, 129). The PAF refers to the road sector under the heading "infrastructure", which also includes the power sector and water supply and sanitation (WSS) (Ministry of Finance and National Planning / PRBS Group 2009a).

68 As ROADSIP I/II was not accessible for the research, the study cites ROADSIP Progress Reports, Annual Working Plans and Quarterly Reports on the sector.

69 Annual Work Plans, Quarterly Reports and Annual Reports are accessible on the RDA homepage. ROADSIP II Progress Reports are not accessible online.

**Box 12: Main objectives of ROADSIP II**

- Rehabilitation/periodic and routine maintenance of the Core Road Network (40,113 km) with the help of various funding agencies
- Improvement of the condition of trunk, main, district and primary feeder roads, tourist roads and selected urban roads to give full accessibility as per “need” and priorities
- Institutional strengthening of the construction industry through appropriate approaches
- Creation of employment opportunities through appropriate road interventions
- Improvement of road safety as per Road Safety Action Plan
- Improvement of environmental management through capacity-building
- Improvement of rural transport mobility through road improvements
- Improvement of management of community roads through the Road Development Agency

Source: RDA (2009c).

The envisaged outcomes, outputs and impacts of ROADSIP II are shown in Table 13.

**Table 13: Key outputs, outcomes and impacts of ROADSIP II**

Key outputs	Key outcomes	Impacts
Maintainable Core Road Network of 40,113 km	Access to improved mobility, underpinning development of all sectors, reducing poverty	Shorter travelling times and lower distribution costs for people and goods, greater efficiency of the economy
Effective axle load control in place (weigh stations, legislation, etc.)	Access and improved mobility, underpinning development of all sectors, reducing poverty	Greater mobility and higher productivity, fewer accidents and fatalities

New or substantially renovated bridges and pontoons	Substantially improved access, creating opportunities in all sectors, reducing poverty	Higher school enrolment figures, better access to health facilities, better quality of life
Intermediate means of transport (IMT) distribution to the poor	Increasing self-sufficiency, contributing to the economy, reducing poverty	Improved national welfare
Source: RDA (2009b)		

On the basis of ROADSIP II, the government set annual targets for road rehabilitation and for routine and periodic maintenance (see Table 14). They are operationalised through subsector level activities defined in the Annual Work Plans (AWPs). AWP are reviewed in quarterly reports published by the RDA.

<b>Table 14: Targets for road maintenance (2006–2013)</b>						
<b>Year ending</b>	<b>Maintainable road targets (in km, in per cent)<sup>70</sup></b>					
	<b>Paved roads (7,250 km)</b>			<b>Unpaved roads (32,863 km)</b>		
	<b>per cent</b>	<b>km</b>	<b>km / year</b>	<b>per cent</b>	<b>km</b>	<b>km / year</b>
<b>2006</b>	85.3	6,184	152	48.2	15,84	2,432
<b>2007</b>	87.4	6,337	153	55.6	18,272	2,432
<b>2008</b>	89.5	6,489	152	63.0	20,704	2,432
<b>2009</b>	91.6	6,641	152	70.4	23,136	2,432
<b>2010</b>	93.7	6,793	152	77.8	25,567	2,432
<b>2011</b>	95.8	6,946	153	85.2	27,999	2,432
<b>2012</b>	97.9	7,098	152	92.6	30,431	2,432
Source: RDA (2009b)						

<sup>70</sup> The road targets are combined percentages for roads in good and fair condition.

As the above figures show, the GRZ fell well short of the road maintenance targets, especially in the case of the unpaved network (see Table 15). However, road rehabilitation targets were not only met, but exceeded by 327 per cent in the case of unpaved roads in 2009. The government ascribed its weak performance in road maintenance to the banning of 42 contractors and the discontinuation of advance payment systems (Ministry of Finance and National Planning 2008, 33). Other causes of the poor performance in the maintenance of unpaved roads were long tendering procedures, local road authorities' lack of capacity, especially contracting capacity, the ban on advance payments, which significantly reduced the number of contractors, and an inadequate operational budget (RDA 2008a, v).

<b>Table 15: 2009 Targets and achievements, road maintenance &amp; rehabilitation</b>				
<b>Type of work</b>	<b>Type of roads</b>	<b>Targets</b>	<b>Achieved</b>	<b>Achieved</b>
Routine maintenance	Paved roads	4,413.8 km	7,995 km	62.6 %
	Unpaved roads	5,918.9 km	15,695.2 km	47.6 %
Rehabilitation	Paved roads	130 km	89.55 km	145.3 %
	Unpaved roads	1971.8 km	602 km	327.5 %
Source: RDA (2009d)				

The 2008 Annual Progress Report on the implementation of the FNDP identified the following problems: the generally poor state of the infrastructure, the lack of sustainability and continuity of financing mechanisms, the low level of private-sector participation, the inability of local companies to undertake work and the failure to mainstream gender issues and HIV/Aids (Ministry of Finance and National Planning 2008, 81). The FNDP mid-term review recommended that local road authorities and rural road units be strengthened, that the number of projects contracted to national road authorities be increased, that a mechanism be developed for allocating resources according to road classification, that sustainable preventive maintenance programmes be developed and that budget allocations to road infrastructure programmes be increased (Ministry of Finance and National Planning 2009b, 69).

To alleviate poverty, which is especially high in rural and remote areas, CPs suggested that the emphasis be placed on basic access, rather than the upgrading of the CRN. The “ROADSIP bankable documents” suggest that the current prioritisation modalities be revised and that greater account be taken of the potential for agricultural development.

### 8.3 Administrative architecture of the road sector

In 2002 the GRZ initiated a wide-ranging reform of the administrative set-up in the road sector. With the establishment of three separate road agencies, each with a statutory mandate, road sector financing, implementation and management were separated: the Road Development Agency (RDA) plans, manages and coordinates the road network, the National Road Fund Agency (NRFA) coordinates and manages road financing, and the Road Transport Safety Agency (RTSA) is in charge of traffic management and road safety. The three agencies became fully operational in 2007.

The new institutional set-up was considered a “model case”. According to international best practice, autonomous road authorities are considered to be more efficient, and cost and time effective in implementing road projects (Gwilliam et al. 2008, xi). The creation of three separate agencies was intended to make public service provision in the sector less dependent on political factors and its financing more transparent. This section considers the most important institutions, their competencies and composition in the road sector.

The *Committee of Ministers on Road Maintenance Initiative* oversees activities in the road sector and gives overall policy guidance. It considers “funding requests from implementing agencies” under the ROADSIP and recommends the sector’s Annual Work Plan to Parliament for approval (Republic of Zambia 2009). Its members include the PSs of all relevant ministries, and it is currently chaired by the Ministry of Transport and Communication.<sup>71</sup> Its work is prepared by the ROADSIP Committee, on which all relevant ministries are represented at a technical/bureaucratic level.

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71 The Committee is the directive body responsible for sustainable road maintenance and includes the Minister of Finance and National Planning, the Minister of Communication and Transport, the Minister of Works and Supply, the Minister of Local Government and Housing, the Minister of Energy and Water Development, the Minister of Tourism, Environment and Natural Resources, the Minister of Agriculture and Cooperatives and the Minister of Justice.

**The Roads Development Agency (RDA)**, which was established by the Public Roads Act in 2002, is responsible for planning, managing and coordinating the road network (National Assembly of Zambia 2002b, Part 2). The RDA implements all programmes relating to the Core Road Network and reports to the *Committee of Ministers on Road Maintenance Initiative*.

The RDA has routine and emergency maintenance of the Core Road Network carried out by contractors. It is responsible for contract management and certification, the preparation of road surveys and studies for road development, advising and guiding road authorities under its jurisdiction and the preparation and review of budget guidelines, for example. It also awards contracts on a performance basis and certifies public works. Although the RDA generally has its work carried out by contractors, 10 per cent of its annual budget is spent on force account work, usually in areas that are not attractive to contractors or in emergencies.

The RDA draws up Annual Work Plans (AWPs) that operationalise the targets laid down in ROADSIP. It reports to the Committee, which approves the AWP and forwards it to Parliament. The RDA comprises seven departments, which report directly to the RDA Director/Chief Executive Officer: the Departments of Planning and Design, Construction and Maintenance, Technical and Commercial Services, Corporate Services, Finance, Audit and Procurement.<sup>72</sup> It is governed by a 16-member Board of Directors drawn from various stakeholders in the various Ministries and the newly established Road Agencies referred to above.

The RDA maintains regional offices in all nine provincial capitals. They are headed by **Provincial Road Engineers (PREs)**. The PREs are responsible for maintaining and rehabilitating main, trunk and district roads. To prepare the AWP, the PREs have to carry out road condition surveys in their respective regions and undertake limited procurement. Each provincial RDA office has a **District or Senior Road Engineer** responsible for managing the work where councils do not have the capacity to do so (RDA 2008a, 12). The Senior Engineer supports the councils in all matters relating to the planning, implementation and supervision of maintenance projects on rural and urban roads and capacity-building at local level.

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72 Details can be found on the RDA's website: <http://www.rda.org.zm/>



The change to contracting out work resulted in a massive reduction of staff. After the dissolution of the Roads Departments most staff were obliged to reapply for positions in the RDA. The continuing shortage of experienced engineers in the country and the slow pace of the reform of the civil service led to a 30 per cent shortfall in professional and engineering staff in the RDA (DANIDA 2002b, 17). The newly established Rural Road Units absorbed many former employees of the Roads Departments.

In 2009, the RDA was accused by CPs of having *over-committed funds* without Parliament's financial authority to do so. Irregular transactions occurring in 2008 led Danida to reduce its grants to the RDA by US\$ 7 million in 2009. It was not yet clear whether the irregularities were due to fraud or inadequate accounting procedures. In July 2010, the Auditor General carried out an audit, details of which were released in May 2010. It revealed a number of weaknesses in financial and contractual management in the road sector, which led to the RDA's over-commitment of funds (OAG 2010). Before the audit report was made available to the public, the Permanent Secretary to the MWS had been dismissed and the boards of the NRFA and RDA dissolved.

The *National Road Fund Agency (NRFA)* is a statutory body created in 2002. It is responsible for administering and managing all financial resources in the road sector. It also coordinates and manages various donor funds under ROADSIP.<sup>73</sup> The NRFA is a small agency, consisting of 18 staff members working in four departments: administration, fund management, monitoring and evaluation, and auditing. It is overseen by a private-sector-driven board, the private-sector members having the right to vote, while public officials represented on the board may only attend meetings and give advice. A number of committees oversee the activities of the NRFA (the Administration, Finance & Technical, Audit & Risk Management, ROAD-SIP Steering and Procurement Committees).

The NRFA's aim is to become a world model for the mobilisation and management of road sector finances and to mobilise adequate resources and release them in a timely manner. It is responsible for releasing funds on receipt of payment certificates from the road authorities. It is also respon-

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73 The NRFA home page contains statistical information on the disbursement of funds. However, it has not been possible to access it at <http://www.nrfa.org.zm/>

sible for consolidating reports from the various road authorities and agencies and integrating them into the annual ROADSIP Progress Review. In addition, it prepares and publishes the Road Fund's annual accounts for submission to the MoFNP. It advises the MoFNP on the fuel levy and the modalities of the road user charges and other means of funding road maintenance (National Assembly of Zambia 2002a, Part 2).

In August 2008, the MWS set up ***Rural Road Units (RRUs)***, technical units responsible for rural road maintenance and emergency work. The GRZ had ordered technical equipment for maintenance from China and assigned it to working units that report to the Office of the President at provincial level. Technically, the RRUs come under the MWS's Buildings Department. MWS headquarters created a small unit headed by the Chief Engineer, who reports directly to the Permanent Secretary. Each RRU is headed by a Provincial Senior Road Engineer and consists of a number of engineers and technical staff. Compared to the RDA, the RRUs have higher staffing levels, their employees having qualifications similar to those of the RDA staff. Most had previously worked for the Roads Department.

The responsibilities of the RRUs have not been officially defined. In practice however, they are in charge of maintaining rural roads that do not form part of the CRN, i.e. roads that are not addressed by the RDA's Annual Work Plan. Each RRU formulates its own annual work plan, which it aligns – each in its own Province – with the RDA's Annual Work Plan: RRUs incorporate in their work plans activities that the RDA was unable to include in its AWP. For the implementation of the annual work plan, the RRUs receive regular funding from the MoFNP under the MWS budget for feeder roads. The amount of funding from the MWS is the same in all the Provinces. In 2010 the funding per Province rose from ZMK 2 billion to ZMK 5 billion per Province and is forecast to rise even higher in the future.

The RRUs also act as contractors and can be hired to carry out work by the RDA or the district councils. In such cases, the RDA pays the RRU from its budget or the councils provide funds from the local government budget. Such recurrent expenditure as the cost of fuel is provided by the RDA's Provincial Road Engineer or covered by the councils.

The RRUs' aim is to improve feeder roads and, therefore, access to rural areas. The GRZ suggests that the introduction of the RRUs is an appropriate answer to several problems connected with rural road maintenance, such

as the councils' lack of contracting capacity, the high cost of hiring private contractors and the ever growing backlog of rural road maintenance. On the other hand, the RRU seems an inappropriate tool for addressing these challenges efficiently, repairing machines being time-consuming and expensive, the prioritisation of activities being unclear and the quantity of work taking precedence over its quality.

The introduction of the RRUs was inconsistent with the road sector reforms of the 1990s. The return to force account work compromised the GRZ's separation of road sector financing and implementation. CPs remained highly sceptical about the sustainability of the RRUs and the recentralisation of decision-making in the subsector. The distribution of machinery to provincial level led to a heated debate between local and central government on where it should be located. The MoLGH supported the return to the previous administrative structure, where it was the body responsible at central level for supporting councils when they carried out rural road maintenance.

Road work is meant to be undertaken mainly by private-sector contractors or the communities themselves. The *National Council for Construction (NCC)*, a statutory body representing all trade organisations and professional bodies in the Zambian construction industry (National Assembly of Zambia 2003), replaced the Joint Liaison Council for the Construction Industry, which had been in existence since 1968. The NCC's creation was initiated by the Cabinet in 1995 and was funded by the World Bank. It commenced operations in October 1998.<sup>74</sup> The NCC registers and regulates all contractors and consultants in the construction subsector and enforces construction standards. With the advent of the MMD government and the introduction of private-sector-led policies in the 1990s, the representation of the construction industry became more important. The number of contractors registered with the Roads Department increased from 49 in 1995 to 105 in 2000. The Board of the NCC is composed of various private-sector stakeholders and public officials.<sup>75</sup> It is the GRZ's aim to facilitate the provision

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74 With a Project Credit from the World Bank for the first two years' funding (extended for a further year), the NCC finally came into being in 1998, although meaningful operations did not begin until 1999. It is unclear how it has financed itself since World Bank funding ended.

75 NCC Board members are appointed for a period of three years and are eligible to be reappointed for another three years. The Board is the overall authority in which all the powers of the council are vested. It is responsible for formulating council policies.

of infrastructure and the effective delivery of social services through private-public partnerships (PPPs) in the road sector (Ministry of Finance and National Planning 2009b, 63).

The **Road Donor Forum** brings together all CP representatives in the sector and seeks to harmonise the CPs' activities. China has been invited to join, but has never attended meetings. The ROADSIP Steering Committees and the Joint Donor Forums were set up to act as formal platforms where the GRZ and CPs might hold regular exchanges. The ROADSIP Steering Committee meets four times a year to consider the ROADSIP Annual Progress Reports. Since 2008, the Committee of Ministers on Road Maintenance Initiative has organised a bi-annual **Joint Donor Forum**, which acts as the main steering platform for the GRZ and CPs and covers such issues as sector absorption and performance, institutional reforms and recent sector development. The last Joint Donor Forum was held in April 2009 to discuss such sensitive issues as the RDA's over-commitment of funds. The CPs suggested a Corrective Action Plan and supported the decision that a technical and financial audit of the sector should be carried out by the Office of the Auditor General. With the breakdown of sector reporting, the CPs halted all on-going projects. Since the autumn of 2009, the dialogue between the GRZ and CPs has officially ceased, and CP contributions (one third of the total budget in 2010) have been frozen. Most of the CPs expressed disappointment at the recent breakdown of the sector dialogue with the GRZ and called for a fundamental reform of the administrative set-up. At the same time, they expressed their commitment to remain engaged in the sector.

#### 8.4 Decentralisation in the road sector

The Public Roads Act (2002) clarified the competencies of the RDA and subnational road authorities and prepared the ground for the devolution of responsibilities to local government level. It transferred the authority for all public roads to the RDA. It also stipulated that the RDA might suggest the appointment of Local Road Authorities (LRAs) by the MWS to be responsible for rural and urban road maintenance (National Assembly of Zambia 2002b, Part 3). Under the Act, the MWS transferred authority over the sub-sector to district council administrations in 2008.

The new set-up has merged the Roads Department, which was under the Ministry of Works and Supply (MWS), and the Department of Infrastruc-

ture and Support Services (DISS), which formed part of the Ministry of Local Government and Housing (MoLGH). Before the reforms, road departments under the MWS at provincial level were responsible for trunk, main and district roads and employed more than 4,000 staff. Councils received funding and machinery from the MoLGH to carry out work on township and rural roads.

The MWS appointed district councils to act as local road authorities. As councils had already been responsible for rural and urban roads under the previous system, they were seen as the most capable actors. The MWS thus devolved the responsibility for the management of rural and urban roads to local government level. Councils are responsible for guiding the planning of projects, managing and overseeing their implementation and monitoring the quality of work done on rural and urban roads. Their planning is fed into the RDA's Annual Work Plan, and they receive resources from the Road Fund. Few councils have the equipment needed to carry out the work on their own. As the road sector is set up, they contract out work to private contractors. As the appointment of LRAs had not been formalised, the rights and responsibilities of the two actors were not spelt out, which led to confusion over reporting, for example. To address the issue, a task force was set up in 2008 to clarify the relationship between the RDA and MoLGH on the one hand and the councils on the other and to define the role of key stakeholders in the management of rural and urban roads. A Memorandum of Understanding (MoU) defining the roles and responsibilities of the relevant actors was signed by the MWS and the MoLGH in July 2009 (Republic of Zambia 2009).

The MoU strengthens the predominant role played by the LRAs in the management of rural and urban roads (see Box 13).

**Box 13: Responsibilities of the LRAs**

- conduct road condition surveys and submit to MoLGH with copy to RDA;
- prepare AWP and strategic plans and submit to MoLGH with copies to RDA, NRFA and RSTA;
- prepare procurement plans and cash flows and submit to MoLGH with copies to RDA and NRFA
- prepare tender documents where capacity is available;

- issue tenders through District Tender Committees;
- submit tenders for issuance to Provincial, Ministerial or National Tender Committees according to the threshold;
- sign contracts for works and/or consultancies with copies to MoLGH, NRFA, RDA, PA;
- coordinate with the RRU under MWS and all stakeholders on feeder (rural) and urban roads;
- administer contracts, including certification of works and submit payment certificates directly to NRFA (for all LRAs with capacity) with copies to MoLGH and RDA
- administer contracts, including certification of works and submit payment certificates to NRFA through MoLGH (for LRAs without capacity) with copies to RDA
- prepare progress reports and submit to MoLGH with copies to RDA, NRFA, PA and DC
- implement road safety measures in collaboration with RTSA and Zambia Police (ZA)

Source: Republic of Zambia (2009)

It also strengthens the role of the MoLGH when it liaises between the LRAs and the RDA at central level. Councils are required to communicate their annual work plans, progress reports and payment certificates through the MoLGH to the relevant road agencies, i.e. the RDA, RTSA and NRFA. Only councils “with capacity” may issue tenders locally or submit payment certificates directly to the NRFA (Republic of Zambia 2009). With the signing of the MoU, the MoLGH becomes the main interlocutor in communications concerning the planning, implementation and control of rural and urban road management between councils and road agencies at national level.

The management of rural and urban road maintenance is one of the responsibilities of the works departments of the councils. They are headed by directors of works, who are supported by two or three technical assistants and provide infrastructure services for the maintenance of rural feeder roads, urban roads and public buildings (National Assembly of Zambia 2002b, Part 3). The director of works reports to the secretary to the district council. The LRAs have staff vacancies, there being a shortage of experi-

enced staff at local level and the councils' staffing policy having recently changed. Some councils are supported by local consultants hired by the MoLGH or RDA (DANIDA 2002a, 4).

**Road User Committees (RUCs)** are established in each district as a forum for various stakeholders to participate in the identification and prioritisation of planning in the district. They advise both the DDCC and the council. RUCs ideally draw up proposals for district road construction and maintenance and monitor the implementation process (DANIDA 2002a, 8).

## 8.5 Planning, budgeting and expenditure in the road sector

The following section gives an overview of the expenditure on the road sector and its financing through the Road Fund. It also presents some information on the planning, implementation and monitoring of rural road maintenance projects. The aim of the section is to explain the various steps in public service provision and the roles and responsibilities of the relevant actors in the subsector.

### 8.5.1 Road sector expenditure

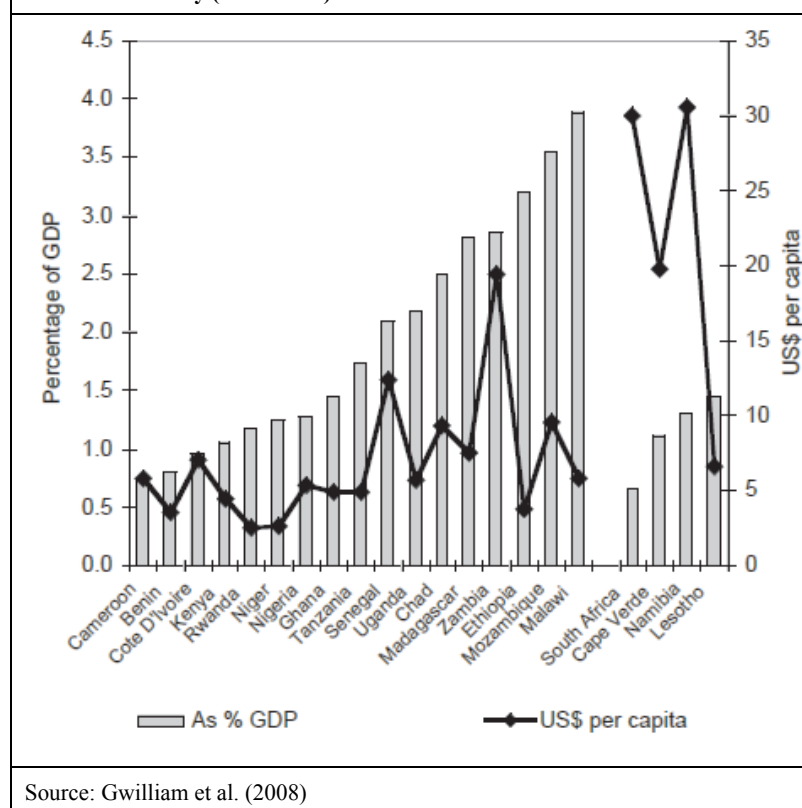
Between 2001 and 2005, 2.5 per cent of GDP and US\$ 30 per capita were spent annually on road transport. The GRZ thus spends more than the sub-Saharan Africa average (see Figure 16) of 1.8 per cent of GDP and US\$ 7 per capita per year (Gwilliam et al. 2008, vii).<sup>76</sup> A study undertaken by the World Bank underlined the major variations in annual expenditure in various countries (see Figure 16), which are to be attributed mainly to climatic and geographical factors (Gwilliam et al. 2008, 11).

Particularly important for the analysis of the efficiency of public service provision is the question of the volume of resources available for this purpose.

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<sup>76</sup> Industrialised countries typically spent around 1 per cent of GDP and fast growing economies up to 2 to 3 per cent of GDP on road development.

**Figure 16: Average annual expenditure on road transport by country (2001–2005)**



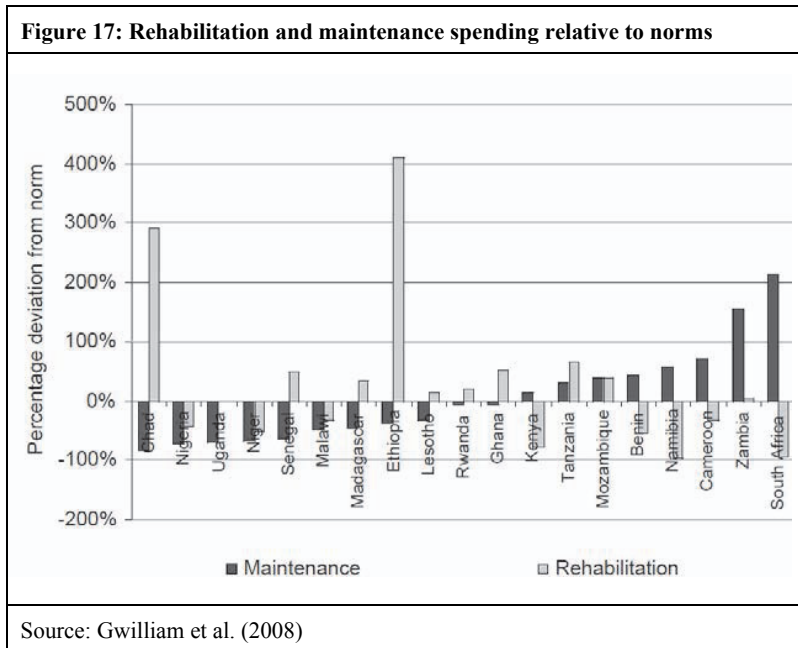
Source: Gwilliam et al. (2008)

The volume of resources for road works depends on the cost-effectiveness of the works. At times of rising road costs or a lack of competition among contractors, road works may become more expensive. Compared with other countries in the region, Zambia spends more than what has been established as the norm<sup>77</sup> for routine maintenance (see Figure 17).

<sup>77</sup> Practice worldwide indicates that expenditure should be split equally between maintenance and investment, whereas most countries in sub-Saharan Africa are spending less than one third on maintenance (Gwilliam et al. 2008, vii).



Expenditure on maintenance varies widely from one country to another, but Zambia is one of the few low-income countries spending substantially more than the norm (Gwilliam et al. 2008, vii). This may be due to many factors, one of the major ones surely being Zambia's high unit costs in road works. Considerable variation of unit costs in road maintenance has been identified across the continent. One kilometre costs about US\$ 200 in Chad, but about US\$ 6,000 in Zambia. It is important to note that road unit costs have recently risen sharply, which may further dilute the adequacy of current budget allocations (Gwilliam et al. 2008, viii).



### 8.5.2 Funding for the road sector

Rural road maintenance has three main sources of funding: the National Road Fund, which finances projects included in the RDA's AWP, the budget

allocations for the RRUs, which finance the work of RRU operators carried out by force account, and the Constituency Development Fund (CDF).<sup>78</sup>

### The Road Fund

Since the mid-1990s, the bulk of road sector financing has been channelled through an autonomous fund, the *National Road Fund*. In 1994, the GRZ introduced the National Roads Board, later replaced by the NRFA, to oversee the fund. The *Zambian Road Fund* was applauded as a “model” for road sector funds in the region. It has met 70 per cent of the criteria for efficient road funds laid down by the SSATP, which included a clear legal foundation, separation of functions, application of road user charges, direct transfer of funds, representation of road users on the board, clear revenue allocation rules and independent auditing of accounts (Gwilliam et al. 2008, v).

The Road Fund is composed of a yearly grant from the GRZ, the fuel levy, World Bank and OPEC loans, CP funding and road user charges. In 2009, the total budget for the road sector was ZMK 1.36 trillion, comprising ZMK 715.45 billion from local sources and ZMK 641.4 billion from external sources (see Table 16: AWP 2009 funding by funding agency). CPs provided 47 per cent, or ZMK 641,396 billion, of a the total of ZMK1,356,846 trillion for the Annual Work Plan in 2009 (RDA 2009a, 11). Fuel levies finance 31 per cent, the GRZ 22 per cent. Compared to 2008, the total budget for the road sector increased by 12 per cent. The GRZ's aim was to finance 60 per cent of the total cost of ROADSIP II with local funding (RDA 2009c). However, while the local resources budget had increased marginally by 3 per cent, the donor component had grown by 24 per cent (RDA 2009a, 7).

**Road user charges** include a percentage of licence fees, vehicle registration fees, tolls and international transit fees collected by the Road Transport and Safety Agency (RTSA)<sup>79</sup> and the fuel levy (National Assembly of Zambia 2002a, Part 4).

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78 Details on the Road Fund flows can be obtained from the Annual Work Plan. Both the NRFA and the RDA keep databases on the funds: the RDA on administration and certification, the NRFA on fund collection and funding. Data on budget allocations to the RRUs can be found in the Yellow Book, while information on allocations from the CDF is obtainable from district councils.

79 The RTSA is responsible for road transport, traffic management and road safety, including the registration of motor vehicles and the issuance of licences and permits.

The ***fuel levy*** was introduced in 1993 and has since increased more than ten-fold from ZMK 10 per litre in 1993 to ZMK 120 in 2001. It is collected by the Zambia Revenue Authority (ZRA) and channelled to the MoFNP and from there paid into the Road Fund. It is a fixed amount in the budget even if it varies. The surplus is retained by the MoFNP. The NRFA has suggested raising the fuel levy, but the MoFNP is concerned that this will lead to an increase in smuggling. Both road user charges and GRZ grants are disbursed on a monthly basis.

Until recently, the Road Fund consisted largely of CP funds and ***GRZ grants*** (Gwilliam et al. 2008, v). In the 2009 budget, the GRZ allocated ZMK 1,507 billion of a total budget of ZMK 15,278 billion to the transport sector under the “Economic Affairs” pillar (EAZ 2009a, 40). Of this, ZMK 1,356 billion was allocated to road construction.<sup>80</sup> In his 2010 budget address in October 2009, the Minister of Finance and National Planning announced the allocation of ZMK 1,522.4 billion to the transport sector, including ZMK 1,461.9 billion for the construction, rehabilitation and maintenance of the road network. Of the budget for road construction, 40 per cent was to be used for routine and periodic maintenance (Musokotwane 2009, 18).

Another source of road financing consists in ***funds and grants from Cooperating Partners (CPs)***. The reform of the sector and the implementation of the ROADSIP have been strongly supported by such CPs as the World Bank, DANIDA and the European Commission (EC), which is the lead donor in the road sector. While the World Bank and DANIDA are hesitating to move towards sector budget support, the EC began channelling resources through the Road Fund under the 9th European Development Fund (EDF) in 2007 (GRZ and European Commission 2007, 31). Denmark launched project assistance in the road sector in 1991 and moved to sector budget support in November 1998 (DANIDA 2002b, 1). The World Bank provides both concessional loans that the NRFA applies for and project-based assistance.<sup>81</sup>

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80 After planned general public spending (ZMK 4,865 billion, 33.8 per cent of the budget), expenditure on education (ZMK 2,628 billion, 27.9 per cent ) and that on health (ZMK 1,823 billion, 15 per cent), transport received the fourth largest share (EAZ Budget Presentation Review 2009, 35).

81 Generally, road maintenance operations grew to account for 26 per cent of World Bank programmes from 1989 to 1994 (Martinez 2001, 262).

Currently, both EC and DANIDA projects focus on the maintenance of feeder roads with a view to enhancing basic access. The EU has provided funding through a "Feeder Road Programme". To other CPs involved in the road sector in Zambia (see Table 16: AWP 2009 funding by funding agency) the NRFA has expressed an interest in changing to a common basket-funding system. However, some donors, such as the JICA, are opposed to this and continue to engage in projects. The release of funds by the GRZ stood at 95 per cent, the donor component at only 51 per cent. The latter resulted from protracted procurement due to the suspension of some contractors by the GRZ and the banning of advance payments (RDA 2009a, 4).

<b>Table 16: AWP 2009 funding by funding agency</b>		
<b>Funding source</b>	<b>ZMK billion</b>	<b>Percentage</b>
GRZ	299,311	22.06
Road Fund	416,139	30.67
BADEA	4,200	00.31
DANIDA	64,960	04.79
European Union	132,636	09.78
EU Budget Support	229,200	16.89
IDA	131,600	09.70
IDA/ADSP	34,600	02.55
KfW	3,000	00.22
JICA	13,500	00.99
NDF	24,000	01.77
AfDB	3,000	00.22
Total	1,356,846.48	100.0
Source: RDA (2009d)		

Ensuring the sustainability of road sector financing remains a major challenge for the GRZ. The actual cost of the ROADSIIP has exceeded the GRZ's projections. A shortfall of US\$ 650 million in total funding until

2013 that was meant to be financed from increases in road user charges, fuel levies and donor funding has been identified (RDA 2009b, 6). However, these sources cannot fully cover the cost of the maintenance needs of the Zambian road network. The GRZ has announced its vision of all maintenance costs being covered by domestically generated revenue from road user charges from 2013 onwards (RDA 2009b, 4).

The NRFA has suggested that the fuel levy and borrowing should be increased. CPs have suggested a commensurate reduction in excise duty as a revenue-neutral option. The NRFA and RDA have commissioned a review of the “ROADSIP II Bankable Document” and are to redraft the financial strategy for the sector (RDA 2009b, 6).

### Funds for RRUs

Details for the flow of funds to the RRUs can be found in the Yellow Book. The RRUs receive the same fixed amount of funding for each province. This stood at two billion ZMK per province in 2008 and 2009 and rose to five billion ZMK in 2010. The money is used to pay staff salaries, operators’ charges and small repairs. The operational costs incurred by the RRUs when carrying out CFD-funded projects is covered by funding received from the councils.

Some district councils use the *Constituency Development Fund (CDF)* allocations to undertake road works. In many cases the CDF<sup>82</sup> has been used to pay for RRU operators’ fuel and allowances. As the fund is very small, it has covered only a small number of kilometres of maintenance.

## 8.5.3 Planning and budgeting for rural road maintenance

### District level

Planning for rural and urban road maintenance is essentially a bottom-up and demand-driven process originating from local authorities and communities. Neighbourhood Development Communities (NDCs) participate in the planning process and communicate their priorities through their wards. The wards present their priorities to the council and the DDCC. Being appointed as an LRA by the MWS, the council is in charge of the manage-

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82 For details on the CDF see Section 5.3.4.

ment of rural and township roads. The council submits a priority list of planned projects, which is presented to and discussed by the DDCC, which prioritises roads that need to be maintained or rehabilitated at district level. The RDA's senior road engineer plays a minor role during the planning process. In theory, the councils are meant to plan up to the "budget ceilings" shown in the national development plan and to draw up five-year district development plans accordingly. In addition, the MTEF provides them with projections for three years and serves as a guide for their planning process. Evidence from the field phase suggested, however, that councils submit "wish lists" to the RDA.

### **Provincial level**

A list of road project priorities is transferred to the RDA and RRU at provincial level and discussed by the PDCC. The provincial road engineer then prepares the submission on main, trunk, district and rural road projects for the AWP. The PREs receive no indication of the budget ceilings. The extent to which the provincial level (both the Provincial Road Engineer and the Provincial Permanent Secretary) reprioritises or adapts the list before submitting it to the RDA remained unclear. Some interviewees said that the district plans are compiled and sent to headquarters without further reprioritisation, while others claimed that changes are made before their submission to national level. How far the RDA and RRUs coordinate their planning processes at that stage also remained unclear.

The RRU work plan is consolidated and prioritised by the Permanent Secretary at provincial level and forwarded to the MWS. Although the RDA and RRUs plan separately, cases were identified in which both had tried to align their planning processes, the RRUs, for example, including in their plans projects that had not received funding in the RDA's AWP. In addition to the projects carried out under the RRU programme, councils may hire RRU operators using the CDF and other small funds to carry out small-scale works in the districts.

### **National level**

At the RDA headquarters the AWP is assembled, i.e. the submissions are consolidated against the background of the funding ceilings provided by the MoFNP and NRFA. In 2009 the budget ceilings of the Medium-Term Expenditure Framework (MTEF) – or "Green Book" – forced the RDA to adopt a "constrained budget", which spreads the resource envelope thinly

(RDA 2009a, 10f.). As a consequence, the RDA has had to limit new routine and periodic maintenance projects. Priority has been given to on-going projects, and only a few new projects – largely confined to rural road maintenance – have been launched (RDA 2009a, 10f.).

The final decision on how much attention is to be paid to rural roads is taken at headquarters and does not follow a clear allocation formula. The official allocation scheme requiring 40 per cent of the budget to be spent on rural roads has been abolished.<sup>83</sup> In the 2009 AWP, ZMK 167 billion of a total budget of ZMK 1.35 trillion was allocated to activities of subnational road authorities, including DCs (RDA 2009a, 13). The NRFA has hired a consultant to identify a more progressive allocation system.

When prioritising main, trunk and district roads, the RDA considers such factors as population and traffic density and connectivity. The prioritisation of rural road projects is based on two factors: a) the “Multi-Criteria Analysis” (MCA), which takes account of the condition of the roads, population density and the prioritised “wish lists” of the PDCCs. This approach is considered to have the advantage of balancing both global priorities and local needs. At the same time, the selection criteria are rather vague and questionable (see Box 14). Some provinces have received more attention than others (see Table 17), the bulk of the 2010 budget, for example, being committed to the Lusaka area. In Southern Province major trunk or main road upgrading and rehabilitation projects are under way. In other areas, such as the Central and North Western Regions, the CPs have implemented numerous projects (RDA 2009a, 17).

**Box 14: Criteria for selection of roads for maintenance**

- On-going works, such as major GRZ-funded projects, feasibility studies and urban road projects.
- Prioritisation based on traffic levels and economic analysis (through the Highway Management System) in the case of trunk, main and district roads.
- Prioritisation based on a multi-criteria analysis as provided for in the ROAD SIP II Bankable document for lower-order rural roads.

83 Road Fund resources are spent on the maintenance of urban roads (20 per cent), feeder/rural roads (40 per cent) and trunk and main roads (40 per cent). See [http://www.nrfa.org.zm/road\\_fund.htm](http://www.nrfa.org.zm/road_fund.htm).

- Ensuring that roads are not developed in isolation, without any connectivity to other road sections in good or fair condition.
- Opening up new areas, particularly through feeder and tourist roads.
- Projects funded by cooperating partners are selected on the basis of high economic return or social benefits established through comprehensive technoeconomic feasibility studies.

Source: Authors' own compilation, based on RDA (2009a)

Before the funding request is sent to the NRFA, the AWP has to be approved by the Committee of Ministers on Road Maintenance Initiative, which submits it to Parliament for final approval. After the funding requests for payments to contractors have passed through the NRFA, the MoFNP must sign them, and the funding is then released directly to the contractor. In the past, delays in the disbursement of funds have reduced the time available for hiring contractors. The RDA has consequently resorted to advance payments, submitting a funding profile when they expect procurement to take place. The problem of funding delays has been eased through the introduction of the new budget cycle, which allows more time for the identification and hiring of contractors.

The signing of the MoU between the MWS and the MoLGH has far-reaching implications for the planning process. It was intended to simplify the planning and implementation process for the councils that had had coordination difficulties with the RDA in the past. According to the MoU, councils will now have to submit their priority lists directly to the MoLGH rather than through the RDA at provincial level. Under the new system, the district plans will be sent directly to the MoLGH, which will prioritise and submit the plan to the RDA for inclusion and consolidation in the AWP (Republic of Zambia 2009). The MoLGH does not know the budget ceilings in advance, but receives indications from both the RDA and the NRFA.



<b>Table 17: Sources of funding for roads and distribution by Province</b>				
<b>Province</b>	<b>Local resources (ZMK million)</b>	<b>Donor resources (ZMK million)</b>	<b>Amount (ZMK million)</b>	<b>Percentage distribution</b>
Lusaka	97,250.90	73,584.44	170,835	12.6
Copperbelt	55,000.90	79,584.44	134,585	9.9
Central	54,262.90	105,763.75	160,027	11.8
Northern	155,701.18	35,584.44	188,286	13.9
Luapula	26,050.90	66,084.44	92,235	6.8
Eastern	96,130.53	73,684.44	169,815	12.5
Southern	127,850.90	61,284.44	189,135	13.9
Western	37,450.90	87,264.44	124,715	9.2
North Western	65,750.90	61,561.61	127,313	9.4
Total budget	715,450.02	641,396.48	1,356,846	100
Source: RDA (2009a)				

#### 8.5.4 Procurement for rural road maintenance

As the client in rural and urban road maintenance projects, councils engage contractors to carry out the work, i.e. they sign a contract with them, oversee implementation and monitor the quality of the work. Some projects costing less than ZMK 500 million may be handled by the district tender committees, but most are the responsibility either of the RDA or, if the cost exceeds US\$ 8 million, of the Zambian Public Procurement Agency (ZPPA). In such cases, it is either the RDA or the ZPPA that advertises on behalf of the councils. In both cases, the councils prepare the tender documents and submit them to the RDA's senior engineer, who checks them before they are sent to the ZPPA's or RDA's tender committee for publication. When the MoU enters into force, the procedure will change insofar as councils will be required to submit the tender documents directly to the ZPPA for publication. The RDA's provincial road engineer also assists the

council during the tender process and prepares evaluations or reports for the tender committee at RDA headquarters or the NRFA.

As a rule, small local firms or communities themselves are contracted to carry out rural road maintenance projects (DANIDA 2002a, 8f.). In 2009, the GRZ excluded the possibility of advance payments to contractors, which made it especially difficult for small contractors to take on work of this kind. It had previously been possible for contractors to obtain a performance bond, enabling them to receive advance payment from a financial institution. Councils have since resorted to contracting larger, mostly national companies. Where the contract value exceeds US\$ 10 million, international companies, mostly from China and South Africa, carry out the work.

With the introduction of RRUs in 2008, many rural road projects are now being carried out by force account: the work is undertaken by the RRUs' own personnel, rather than private contractors. The RRUs have a separate work plan that provides for work to be carried out in all districts. The Provincial Permanent Secretary (PPS) and the PDCCs define zones where the RRUs move to first, but it is unclear on what the PPS bases the prioritisation. Councils can hire RRU operators to carry out work in their districts, using the CDF or other small funds to pay them.

### 8.5.5 Accounting and auditing rural road maintenance

Councils are responsible for overseeing and certifying the accuracy of rural road maintenance work. They carry out site visits to check the progress of the work and sign payment certificates. They are assisted by the RDA's senior engineer and/or a supervising external consultant hired by RDA headquarters. Inspections of the work take place monthly. For the inspection and preparation of payment certificates the councils – especially those with limited capacity – are accompanied by the RDA senior engineer or the consultant. Most inspections are visual and do not require technical equipment.

Contractors receive monthly payments. After the council has signed the disbursement request, it is delivered to the senior engineer for him to check and sign. Finally, the RDA refers it to the NRFA for funding, and the NRFA transfers the amount directly to the contractor's account. Under the MoU, this process may change considerably. Councils are now required to submit the payment certificates to the MoLGH. The MoU states that only Councils "with capacity" may transfer them directly to the NRFA. In addition, the

MoLGH will provide staff at provincial level to improve the councils' contract management, supervision and final inspection capacities. The MoLGH inspects on a case-by-case basis.

During our research it became apparent that councils rarely report on their activities. Neither RDA Progress Reports nor NRFA Reports gave any information on the progress of rural road maintenance activities. Not even the MoLGH received reports on the councils' activities. The issue of reporting is addressed in the MoU, which states that councils are to report to the MoLGH's Department of Housing and Infrastructure. The MoLGH passes copies of communications with the councils to the RDA. The RDA receives all the information it needs to be able to advise councils directly, if necessary.<sup>84</sup> The MoLGH has recently set up a monitoring and evaluation unit linked to the MoFNP. Its task is to compare councils' performance with the PAF indicators formulated to measure GRZ performance in all sectors.

The Road Fund's accounts are audited by external consultants annually. Internal audits are undertaken on field trips during which payment certificates are checked against the actual progress of projects. The NRFA also carries out post-audits after payments have been made and projects concluded. It submits quarterly audit reports to the audit committee. The NRFA employs two engineers for M&E. Audits at district level are carried out not by the NRFA, but the MoLGH and the Office of the Auditor General. They focus on physical works under high-value contracts, whereas small-scale projects are not monitored. The NRFA makes all its reports available to the public. Major projects may also be evaluated by external consultants hired by the RDA and/or the RDA provincial roads engineer.

The RRU report regularly to the Provincial Permanent Secretary at the Office of the President. Each RRU also reports quarterly to the RRU Chief Engineer at the MWS Buildings Department.

## 8.6 Findings on the road sector

The research project found that two factors in particular have an impact on the efficiency of PFM at local government level: a lack of resources for

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84 The same form of coordination at ministerial level occurs between the RDA and such other agencies as the Zambian Wildlife Authority, i.e. between the RDA and the Ministry of Tourism.

rural roads and the concentration of control over resources and decision-making in the subsector. The lack of funding for rural roads is due to many factors related either to GRZ policy or to the fragmentation of funding flows to local level. The concentration of control at central government level is a consequence of the councils' current lack of capacity to manage the rural road network themselves. These determinants influence the nature of service provision in various ways and throughout the budget cycle.

The aim of this section is to show how these factors materialise in the road sector, i.e. how they impact on various facets of service delivery. It begins with a description of the main causes of inefficiencies in rural road maintenance and then considers the main constraints on efficiency, affecting, for example, coordination among various actors and the commitment, capacity and mobility of staff. The third step is to discuss the channels for inefficiencies in service provision that were identified during our research. The section ends by specifying and discussing possible technical and systemic means of overcoming the inefficiencies identified.

### **Lack of funding**

The lack of funding is due to the fact that maintaining the rural road network is not the first priority of the Government of the Republic of Zambia (GRZ), as the Road Sector Investment Programme (ROADSIP) I and II shows. Consequently, the subsector receives low funding. The GRZ is focusing on the rehabilitation and maintenance of the Core Road Network (CRN), with the long-term objective of continuously upgrading it. Although primary rural roads are included in the CRN, not even 50 per cent of these roads are addressed in the Annual Work Plans (AWP) of the Road Development Agency (RDA). As evidence from our research suggests, the RDA does not apply a clear prioritisation formula to guide its planning of rural road maintenance. Consequently, there is no guarantee that budgeting for rural road maintenance is undertaken in the most efficient way. The indicators against which GRZ performance in maintaining the unpaved road network over the last decade has been measured suggest that the allocation of resources does not accord with the strategic objectives set in theROADSIP. Although, the majority of the rural road network is not included in the CRN, we have found that communities consider councils responsible for improvements to that network.

The lack of resources for rural roads also results from dysfunctional and fragmented funding flows from central level to the councils. The decentralisation of responsibility for rural roads to the councils was not accompanied by a transfer of resources from central level. With the local revenue base shrinking in the last decade, the councils have not even been able to use local funds to carry out work on rural roads.

### **Concentration of control over resources and decision-making**

The road sector in Zambia has only recently been restructured. With the objective of increasing the efficiency and transparency of public service provision in the road sector, the GRZ introduced autonomous agencies with statutory mandates to take charge of managing the sector. This is meant to protect decision-making in the sector against political interference: to ensure the transparency of decision-making on road rehabilitation and maintenance, the responsibilities previously held by such sector ministries as the Ministry of Works and Supply (MWS), the Ministry of Transport and Communication (MTC) and the Ministry of Finance and National Planning (MoFNP) have been transferred to the new agencies. The lack of supervision of the Committee of Ministers on Road Maintenance Initiative (Committee) that has been set up for the overall coordination of the sector may lead to inefficiencies. The Committee's weakness impairs the transparency of decision-making in the road sector and may result in the re-politicisation and re-centralisation of decision-making in the various ministries.

Local Road Authorities (LRAs) with responsibility for rural and urban road maintenance have been assigned to all district councils by the MWS. However, our research suggests that councils have not been given sufficient decision-making power to execute their responsibilities. The capacity of the district councils to hire contractors and supervise them autonomously is limited, making them dependent on coordination with the RDA's senior engineer in such matters as calls for tenders, the signing of contracts and the transfer of funding requests. Although the MoU provides for councils "with capacity" to have more leeway in carrying out their responsibilities autonomously, it does not specify what this means. The MoU can also be seen as an instrument for concentrating decision-making power at central level, rather than devolving it to local government level. As it requires all communication between councils and the road agencies to pass through the MoLGH, the local government level has not gained any additional decision-making power.

Furthermore, the establishment of the Rural Road Units (RRUs) can be seen as a step towards the recentralisation of power. As the RRUs were established under the authority of the Office of the President, they may be more prone to deployment to suit political thinking than to meet a district's needs. Nor are they integrated into the overall road sector set-up; in principle, they are not, for example, bound by district priorities or planning. Although councils are able to hire RRUs, the decision-making power over the use of the machinery lies at central level. As the existence of the RRUs may reduce incentives for the RDA to look after rural roads, their creation may weaken the councils' role in the subsector, possibly undermining the devolution of responsibilities and decision-making to local government level.

### 8.6.1 Conceptual findings on the road sector

The two determinants that have been identified are systemic, meaning that they require systemic reform if they are to be altered. They have an adverse impact on the efficiency of service delivery at local level, i.e. they impact on the human and technical capacity of the RDA and councils, on the mobility and commitment of their staff and on coordination between them. Overcoming these constraints may lead to greater efficiency at every stage of the budget cycle. Efforts to this end are being made at various administrative levels – central, provincial and district. In the following section, the major constraints on efficient service provision for rural road maintenance are considered.

#### **Coordination**

The findings of our research suggest that a lack of coordination is the major challenge to efficient service provision in the subsector. Coordination problems arise at central level mainly among the ministries involved in policy formulation and in the implementation and financing of road sector projects. At local level they arise predominantly before and during the implementation of projects, relating to such aspects as the hiring and supervision of contractors. The most pressing coordination challenge at provincial level concerns the planning and implementation of projects by the RDA and RRUs. To illustrate these challenges, we have arranged them in the order of their place at the various administrative levels.

One of the main coordination problems at central level concerns the overall coordination of the sector by the Committee of Ministers of Road Mainte-

nance Initiative. Evidence from interviews with various actors in the road sector and the findings of the audit recently carried out by the Office of the Auditor General (OAG) suggest that the Committee lacks the power to enforce the road sector policy set out in the ROADSIP. Road agencies continue to pay greater allegiance to their former “mother ministries”, when it comes to reporting, for example (OAG 2010).<sup>85</sup> The lack of supervision by the Committee may lead to inefficiencies, as in cases where the ministries are able to exert influence over the decision-making of the road agencies, and formal rules and procedures cannot be upheld by the Committee. The risk that decisions are taken on the basis of political rather than efficiency factors may have a negative impact on the efficiency of service provision. The lack of coordination between the RDA and the NRFA, which was one of the main reasons for the RDA’s recent over-commitment of funds, may be a consequence of such weaknesses.<sup>86</sup>

Coordination challenges also arise between agencies and ministries involved in road sector financing and those involved in project implementation. Insecure funding and late disbursements affect the activities of implementing agencies and cause inefficiencies during the implementation of projects. The unpredictability of funding – from both CPs and the GRZ – has been a major obstacle to the timely disbursement of resources to the Road Fund and the payment of contractors. During implementation the lack of coordination between funding and implementing agencies has a particularly negative impact on PFM.

Coordination between the central and local levels is challenged by the fact that responsibility for rural road maintenance has not been fully decentralised. Until the signing of the MoU between the MWS and the MoLGH, it was not clear which agency or ministry was responsible for supervising and coordinating with the councils. The lack of oversight from central level has resulted in confusion over the accountability of councils with respect to

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85 Interviews were held with representatives of the various road agencies and of cooperating partners (CPs) who are active in the road sector.

86 In May 2010, the Office of the Auditor General released the findings of the technical and financial audit that had been undertaken in the road sector and clarified the issue of the RDA’s over-commitment of funds. In the case of over-commitments entered into by the RDA, the lack of oversight had led to inefficiencies at the level of implementation. Tenders had been invited and contracts signed without funding having been secured.

reporting, preparing procurement plans and calling for tenders. The MoU has clarified the responsibilities of the actors involved in rural and urban road maintenance, but has still to be implemented.

At local and provincial level, coordination challenges arise between the road authorities, i.e. LRAs and the RDA, and between the road authorities and the operators, i.e. RRUs and private contractors. Evidence suggests that there is generally little contact between the RDA provincial road engineer or senior engineer and the councils at all stages of the budget cycle. Coordination challenges between councils and contractors are due to late payment for work and the lack of supervision. The RRUs and the RDA have difficulty coordinating their work plans at provincial level, which causes inefficiencies during the implementation phase.

### **Technical and human capacity**

The lack of technical and human capacity affects the efficiency of service provision severely at every phase of the budget cycle. Evidence from the case studies suggests that many councils largely employ capable staff. Although some directors of works (DoWs) lack the civil engineering qualifications specified in the job requirements, most hold civil engineering diplomas or have been trained by the MoLGH, MWS, RDA or CPs. Compared to the RDA, councils tend to attract generally less qualified staff because of the lower salaries paid to council staff and the remoteness of some districts.<sup>87</sup> Considering the various tasks the Department of Works has to perform – rural road maintenance being only one – most councils are generally understaffed for the effective performance of the rural road maintenance responsibilities delegated to them. In most cases, only one person, the DoW, sometimes supported by an Assistant Director, is in charge of rural road maintenance. In many cases, the position of DoW is vacant and has been temporarily filled by a junior staff member. Evidence gathered during the field phase suggests that the problem of staff turnover is a result of the on-going reform of the staffing policies for local government, which has been recently recentralised, and that understaffing is a major challenge to efficient service delivery at local level. Of greater relevance to the effi-

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87 In contrast, the RDA employs highly qualified staff, most of its employees holding civil engineering diplomas. Many worked in the Works Department of the MWS and joined the RDA after it was dissolved. Most have experience in contract management, having worked in the private-sector road construction industry. Nearly all of them have worked abroad.



ciency of rural road maintenance, however, is the understaffing of the RDA. It generally has only one senior engineer in charge of liaison with the councils. Evidence obtained during the field phase suggests that the understaffing of the RDA has a negative influence on coordination with councils and may result in inefficiencies during the supervision of work by the RDA and the councils.

### **Mobility**

A major constraint on the efficiency of public service provision identified during the field phase is the immobility of council staff. There is strong evidence that most districts do not have sufficient funding to service vehicles appropriately or to pay for fuel. Where the budget cycle is concerned, this poses challenges mainly during the supervision and monitoring of contractors. Without adequate transport to take them to the work sites, council staff cannot ensure effective and regular supervision and monitoring.

### **Commitment**

Lack of commitment as a constraint on efficient PFM is inherently difficult to measure. Some evidence from the interviews conducted at central level and from the field phase suggests, however, that RDA staff commitment to supporting the councils is low as a result of differences of prioritisation. As described above, the RDA focuses mainly on the upgrading of trunk and main roads. Our field work and interviews with RDA staff at central level indicate that even those rural roads that are included in the CRN receive insufficient attention from the RDA. The RDA's limited interest in rural road maintenance may also be a result of the relatively recent reform of the sector in 2002. Under the old system the MoLGH's Department of Infrastructure and Housing was responsible for rural road maintenance, the MWS's Works Department for main, trunk and district roads. With the creation of the RDA, all public roads, including those in rural areas, became its responsibility. As most of the former Works Department staff now work for the RDA, it is possible that both the awareness and the experience of working with councils at local level have yet to develop fully. Evidence obtained during the field phase suggests that the RDA has been even more reluctant to assume responsibility for rural roads since the creation of the RRUs. There was some evidence of the RRUs' activities possibly helping to reduce the backlog of rural road maintenance. It remains to be seen what impact the introduction of the RRUs will have on the RDA's commitment to rural road maintenance.

## 8.6.2 Empirical findings on the road sector

### **Opportunity costs due to planning uncertainty**

Evidence obtained during the field phase suggests that uncertainty about the content of the AWP causes difficulties during the planning phase. This uncertainty is due to a lack of communication between the RDA's provincial road engineer and the councils. The RDA does not always inform councils that their projects have been included in the AWP. Some councils that have not received the information begin work on projects with local funds, not knowing whether they have been allocated funding under the AWP. The fact that most councils compile a "wish list" of far more projects than will realistically receive funding hampers local planning even more. Opportunity costs arise at the implementation stage where councils launch projects with local resources when they have actually been budgeted for in the AWP. The problem of uncertain funding stems from the lack of coordination among the actors involved and is rooted in the concentration of decision-making and control over resources in the RDA.

### **Lack of supervision**

Most councils have difficulty supervising contractors and monitoring their work. As they are often unable to attend regular site meetings with contractors, they cannot effectively check the quality of work done. Proper supervision may in many cases have resulted in the discontinuation of work. Evidence from the field phase suggests that the most serious obstacle to effective supervision is the lack of mobility. The RDA's capacity constraints and the lack coordination between its senior engineer, who is meant to support the LRAs, and the councils adversely affects the councils' ability to supervise contractors effectively.

The lack of mobility results from inadequate transport at local level. Few councils have sufficient or appropriate means of transport or money for fuel to keep a regular check on the work of contractors. As has already been noted in the findings in the chapter on the health sector, the mobility challenge has a negative effect on the efficiency of service delivery because councils cannot ensure that contractors are carrying out work appropriately. Some DoWs use private vehicles at their own expense to attend site meetings. In other cases, councils and sector ministries have car-sharing arrangements. This report makes two suggestions for overcoming the

mobility challenges discussed in detail in the health chapter (see: Findings on the health sector).

Another reason for the lack of supervision is poor communication between the RDA and the councils. There are indications that the senior engineer does not engage sufficiently with councils. The latter are not, for example, informed when the RDA visits work sites, they are not involved in the preparation of contracts and payment certificates, and they do not receive regular capacity-building from the RDA, although the AWP makes provision for it. In practice, it is the RDA that actually contracts and supervises work, the councils merely being consulted when contracts or payment certificates need to be signed. The lack of communication and coordination results from capacity constraints at RDA level due to understaffing and the incomplete devolution of the subsector. The latter has created a peculiar relationship between the RDA and councils to which LRAs are assigned, but which do not have sufficient scope for decision-making. The MoU has addressed the issue by clearly spelling out roles and responsibilities in rural road maintenance. Evidence from the field phase suggests that the content of the MoU is unknown to the majority of the actors. The report therefore strongly suggests that the MoU should be distributed and discussed so that awareness of the changes it has brought may be raised at all administrative levels.

As has already been mentioned, the lack of supervision may also result from capacity challenges due to the understaffing of the RDA. Inefficiencies may occur where neither the senior engineer nor the councils are able to monitor the contractor to ensure that the work done is of the required quality. The shortage of RDA staff responsible for coordination with councils is due both to a lack of resources and to the concentration of responsibilities at central government level. Few technical solutions can be suggested for addressing the understaffing of the RDA in the rural road subsector. The lack of funding is a systemic constraint and can be overcome only through reprioritisation within the sector.

### **Punctual payment of contractors**

The implementation of projects is hampered when contractors are not paid on time. Small contractors who are less well-endowed financially are particularly hard hit by payment delays. Evidence from the field phase suggests that many contractors stop work when they are not paid. The main obstacle to the punctual release of funds to contractors is a lack of coordi-

nation among the agencies involved in their payment: the LRAs, the RDA at provincial and central level and the NRFA.

As contractors continue to be monitored at national level and provincial level, with the RDA checking payment certificates, it takes a long time for funds to be transferred. All contracts that councils sign are double-checked by the RDA's provincial road engineer. Councils wanting to submit funding requests to the NRFA cannot do so directly: they must go through the RDA at provincial level, which then transfers the requests to the NRFA for funding. Consequently, the contractors are often not paid on time and stop work before the project is finished. The contracting process is complex and time-consuming for councils because the consent of too many institutions at different levels is required.

The findings of our research suggest that there is room for technical solutions to the problem of late payments to contractors. The payment process might be speeded up if councils "with capacity" were permitted to submit their funding requests directly to the NRFA, as provided for in the MoU. This would bypass the RDA's check-and-control step at provincial level and so enable the contractors to be paid on time and reduce the risk of their stopping work. Empowering councils to submit funding requests independently would require continuous capacity-building for and close monitoring of councils. Building councils' capacities and empowering them to prepare and submit funding requests to central level should be viewed as parallel processes, since they are closely linked.

Another problem that led to the late payment of contractors in the past was the delay in the GRZ's disbursement of resources to the Road Fund and so in the funding of projects under the AWP. However, there is evidence that the introduction of the new budget cycle in 2010 has speeded up the budgeting process. The research team can suggest few technical solutions that might help to overcome the coordination problems at central level that cause the late disbursement of funds. The uncertainties these problems pose for councils when funding contractors might be eliminated if the exchange of information between the RDA, NRFA and councils was improved.

### **Difficulties engaging small contractors**

Another difficulty that councils face is finding a suitable contractor to carry out work. Most of the work involved in maintaining rural roads is small-scale, cutting grass and filling potholes being two examples. The formal

procedures that councils are required to follow when engaging small contractors to carry out such work seem inappropriate. As has been pointed out above, they are too time-consuming and complex. As a rule, small contractors rely on being paid quickly. Few of them have savings to bridge the period until the NRFA pays them, and they would have difficulty raising loans from financial institutions. Consequently, councils find it difficult to engage small contractors. In many cases, they resort to larger companies. As most large firms are not located nearby, they have to move their equipment to the districts over long distances. The economies of scale indicate that it is efficient to employ contractors from far away only if the resource input is high. As the majority of work carried out in a district is small-scale, it is inefficient to use large-scale contractors. Furthermore, the small number of large contractors and the lack of competition among them lead to escalating road work costs. A few technical solutions to the problem can be suggested, such as simplifying the procedures for paying contractors and making advance payments to small contractors. We do not believe that suggestions made at local level for, say, a direct flow of funds for small-scale work or putting machinery at the councils' disposal constitute sustainable solutions. In terms of improving the efficiency of service provision, they are not appropriate ways of solving the problem in view of the high resource input they require.

### **Ineffective supervision at national level**

Evidence obtained during the field phase and from interviews in Lusaka suggests that the implementation of rural road maintenance projects is not effectively monitored or supervised from national level. The research team were unable to obtain any progress or performance assessment reports on rural road maintenance from the MoLGH, RDA or NRFA at central level. The lack of supervision and monitoring of councils from central level may be increasing the inefficiency of public service provision at local level. Among the various reasons identified for the lack of detailed reporting are the fragmentation of funding flows from the RDA, MoLGH and CPs, the lack of communication with the RDA and MoLGH and the lack of awareness that reporting is a vital requirement for the transparency of service provision at central and local level.

For projects funded under the AWP, it is the senior engineer rather than the councils who are responsible for reporting to RDA headquarters. Although the AWP includes a certain number of rural road projects, they are never

mentioned in the annual progress reports. Information on projects financed from the CDF or other resources from the MoLGH is to be included in the general council report to the MoLGH. It was found that councils do not use a standard format, but report in an *ad-hoc* and informal fashion, telephoning the person responsible at headquarters and reporting to him orally, for example. Some interviewees said that reporting is confusing because different funding flows (CPs, MoLGH, NRFA) call for different reporting standards. To address these challenges, the GRZ and CPs might harmonise and standardise reporting systems. Where the harmonisation of reporting procedures is concerned, the MoU is a step in the right direction. It specifies where councils must send their reports and who receives copies. Although the MoU was signed as long ago as July 2009, most councils were unaware of its content. Some senior RDA staff members at provincial level were similarly unaware of the MoU and the new reporting chains it stipulates. To enable councils to take informed decisions when reporting, the MoU needs to be communicated to the local and provincial levels.

### **Duplication of planning at provincial level**

The introduction of RRUs at provincial level created an additional layer of administration in rural road maintenance, since they have to coordinate project planning and implementation with the RDA. As the RRUs and the RDA have separate work plans, coordination is essential if duplication is to be avoided and priorities are to be observed. The RRUs try to align their planning with the AWP and take up some of the projects that have not received funding under the AWP. Inefficiencies arise when the RDA is unable to carry out projects that have been budgeted for. In fact, projects with a high priority that are not implemented by the RDA will not be taken up by the RRUs, either. As their planning processes are not integrated, the two institutions are unable to adapt to mishaps in an *ad-hoc* fashion. Further problems that impact negatively on the efficiency of rural road maintenance are delays in the formulation of the RDA Work Plan, since they slow down the RRU planning process. This is particularly serious because of the short time-frame for road work, which cannot usually be undertaken during the rainy season.

We can only speculate on the reasons for the GRZ's decision to separate the RRUs from the road sector agencies and on whether it was a strategic, long-term rather than a short-term, *ad-hoc* decision. Evidence from the field phase suggests that control over the RRUs is centralised and opaque, which

leaves room for the politicisation of the units, especially in pre-election periods. The RRUs were created to reduce the backlog of rural road maintenance, which was said to be due to a shortage of contractors at local level and to councils' lack of contracting capacity. Work carried out by force account was to replace work undertaken by private contractors. The funding flows for contracting through the RDA and force account through RRUs were to be kept separate because they differed in their nature. To reduce inefficiencies due to the duplication of structures and planning processes, the RRUs were ideally to be integrated into the RDA and so carry out work under the AWP and receive funding from the Road Fund.

### **Use of CDF resources**

Given the limited funding for rural roads from the RDA and a pressing need for rural road maintenance in some districts, the councils sought alternative funding. Many began using such minor sources as the Constituency Development Fund (CDF) for road projects and "hired" RRU operators to do the work. Road works generally entail the high cost of moving machinery to the district, while the unit-cost for every kilometre of work done is relatively low. Efficiency in the sector is achieved through economies of scale and the pooling of resources for more expensive projects, rather than using small funds. Evidence from our field phase suggests that CDF resources were shared among several micro projects rather than being spent on one large (road) project. This splitting of the fund makes it a highly inefficient means of financing road works. Our findings therefore suggest that the CDF is not an appropriate option for the funding of rural road maintenance. As regards the use of small funds, the efficiency of service delivery in the sector would be improved if fund resources were pooled by constituencies or even districts. During our field phase, we did not come across any examples of resources being pooled, and we believe it to be a very unlikely option, given that resources are limited and needs in most districts are pressing.

### **8.6.3 Conclusions on the road sector**

The challenges facing efficient service delivery in rural road maintenance require very different approaches if they are to be overcome. As has been shown, the underlying determinants of the inefficiency of service delivery are insufficient funding for rural roads and the far-reaching centralisation of power over resources and decision-making. Our analysis shows that these

determinants can be addressed only by the kind of structural changes that require systemic reforms. However, certain challenges to the efficiency of rural road maintenance can be overcome with short- or medium-term technical solutions. In the following section, we describe and discuss the scope for technical and systemic approaches to eliminating inefficiencies in the rural road maintenance subsector.

To address the challenges arising from the lack of autonomous decision-making on rural road maintenance, as when contractors are to be hired, the GRZ decentralise responsibilities according to capacity. As envisaged in the “capacity ladder approach” adopted for the DIP, councils “with capacity” should be allowed more decision-making freedom. The MoLGH should ensure that local government structures are used where the capacity exists. The capacity of district tender committees to handle tender procedures at local level should be strengthened, for example. To that end, the MoLGH and RDA should specify the capacity required of LRAs with respect to tender procedures, the management of contracts and the monitoring of the quality of road works. To ensure that councils meet the capacity requirements and employ qualified staff, the RDA/MoLGH should draw up terms of reference for all LRA staff. On the basis of a common understanding of the capacity needed to ensure efficient service delivery at local level, the GRZ should undertake a country-wide capacity assessment. The aim of the assessment would be to identify councils “with capacity” as referred to (but not specified) in the MoU and the DIP. The GRZ could undertake pilot projects with those councils identified as having sufficient capacity and, as a first step towards devolution, allow them more scope for decision-making in the planning, implementation and monitoring of projects.

Continuous decentralisation of responsibilities to local level requires a reform of contracting procedures. As discussed in the previous section, councils have difficulties paying contractors. There are two options for addressing the complexity of procedures for funding rural road maintenance. Firstly, the GRZ should ensure that measures are taken to accelerate the payment process. The payment procedures could be simplified by reducing the checks required before councils may submit funding requests to central level. As the MoU already states, councils should be allowed to refer funding requests directly to the NRFA, without going through the additional step of having them checked and signed by the RDA at provincial and national level. This would reduce the control mechanisms at cen-



tral level and so potentially speed up the payment process. At the same time, the simplification of payment procedures requires a certain degree of capacity at local level for the autonomous preparation of payment certificates, for example. The difficulties that councils have contracting work at local level could also be addressed by the transfer of direct funding of small-scale work to local level. Direct government transfers to local level through, say, the introduction of a dedicated budget line or the establishment of a separate fund would allow councils to pay contractors themselves. This would significantly reduce the inefficiencies due to the complexity of the payment procedures and so speed up the payment of contractors. It should also be noted that fiscal decentralisation does not address problems arising from a lack of resources. Funding for rural roads does not automatically rise with fiscal decentralisation. The problem of how to use small-scale funds efficiently for rural road maintenance therefore persists. Hence the need for the MoLGH to ensure that councils allocate funds to a few small-scale projects so that they may be used efficiently. Both options have the potential to reduce the inefficiencies arising from the complexity of contracting procedures by decentralising responsibilities to local level. While the first option is a technical solution, fiscal decentralisation as suggested in the second option requires systemic changes through the implementation of the DIP, for example. However, we believe that the efficiency of service provision can already be significantly increased if the payment procedures are simplified. Our findings suggest that, if councils had easier access to funds for contracting out small-scale work, they might not be inclined to use small-scale funds for road works or call for machinery to be provided at local level.

To address the problems associated with coordination and communication among the RDA, LRAs and MoLGH, the roles and responsibilities of the actors and the procedures in rural road maintenance need to be clarified and internalised. The MoU between the MoLGH and MWS adopts a technical approach to resolving the issue, inasmuch as the respective ministries have agreed on roles and procedures. However, the content of the MoU has yet to percolate down to the local level. Depending on the underlying causes, the problems encountered in coordination between the RDA and LRAs may be addressed with either technical solutions or a systemic reform. Our findings do not enable us to determine why the various actors have not yet made the changes to rural road maintenance planning, implementation and control stipulated in the MoU. One reason may be that the MWS and MoLGH

have failed to communicate the MoU to their respective subnational units adequately. This problem might be addressed by the ministries concerned with such awareness-raising measures as workshops. Another reason may be that the actors have deliberately disregarded the MoU, because it is not in their interest to change procedures in the subsector. The devolution of responsibilities to the councils would constitute a systemic reform that might address the challenges posed by coordination between the RDA and the councils. However, such changes will require, for example, the introduction of a new legal framework for the subsector.

The transfer of responsibilities to the councils must be accompanied by continuing efforts to improve the capacity of the councils. Evidence during the field phase suggests that councils are generally more committed when they are given opportunities to develop their skills and exchange experience with other relevant actors in the sector. Adequate means of transport should be provided at local level to overcome the mobility challenge that councils face when endeavouring to supervise work. A possible solution would be the creation of a carpool at local level for the staff of line ministries and councils alike (for details see the findings on health in Chapter 6). Improving the capacity of Council staff and providing technical support are technical solutions that can be taken up even without any systemic or structural changes.

An issue that will not be affected by the decentralisation of responsibilities to local level is the inefficiency caused by the duplication of planning and implementing structures that resulted from the creation of the RRUs. From our findings we have identified two options for addressing this challenge. The efficiency of service provision in the rural road sector would be increased if RRU planning was integrated into the RDA's Annual Work Plan. The study suggests, however, that there is little interest in combining the two institutions. This option is not therefore currently feasible and will require systemic changes to the administrative set-up of the road sector. As our field phase has shown, a more feasible alternative would be to facilitate coordination between the RRUs and RDA at provincial level through the alignment of their planning cycles and enabling the RRUs to take over from the RDA quickly as and when necessary.

To conclude, our research suggests that there is potential for improving the efficiency of service delivery in rural road maintenance with technical solutions that do not necessarily require systemic reform, such as the simplification of contracting procedures. Most of the major constraints on service

delivery in the sector (e.g. the lack of coordination with RDA) can, however, be appropriately addressed only through the devolution of responsibilities to local level. The delegation of responsibilities for rural roads to local government level would require a new legal framework. As the RDA has authority over all public roads, an amendment of the Public Roads Act is essential if responsibility for rural roads is to be delegated to the councils. This would require a structural reform of the sector that would seem difficult to achieve at this juncture.

## 9 Conclusions and recommendations

### 9.1 Scope for short-term efficiency gains and implications for PFM reform

The main research question asked by this study is: What scope is there for improving the operational efficiency of service provision in a ‘typical’ African PFM system in the short and medium term?

In the initial approach to this research, we formulated the hypothesis that, in a country like Zambia, there are both ‘systemic’ and ‘non-systemic’ determinants of operational PFM inefficiencies at local government level. We defined as systemic the determinants that are rooted in cultural, political or other features of the neo-patrimonial structures which arguably characterise the state in Zambia. The only hope of a remedy in this case is through comprehensive, long-term systemic PFM (or other) reforms. Such systemic PFM reforms, however, are commonly believed to take at least 15 to 25 years to become fully effective, a time horizon that seems unacceptably long given the crucial role effective and efficient PFM plays in the achievement of urgent development objectives. Non-systemic determinants could be addressed with reforms or interventions that would not affect the neo-patrimonial political system and could thus be expected to meet with less resistance. If short-term, yet sustainable, improvements to the operational efficiency of PFM in Zambia are to be achieved, they will need to come about through non-systemic reforms.

In the absence of such non-systemic determinants, this study has argued, short-term gains in operational efficiency could be made only in the form

of 'technical' solutions at what the study has termed the 'constrained' level. Such technical solutions, however, could generally be expected to produce only locally and temporally limited efficiency gains.

In view of these considerations, the main aim of this research was therefore to identify non-systemic determinants of PFM inefficiencies, understood as factors that can be addressed not only through long-term systemic reforms, but offer potential for short-term (and less political) solutions to PFM inefficiencies.

In our field research, however, we were unable to identify any relevant determinants that would qualify as non-systemic in this sense. While we cannot categorically exclude the possibility that minor non-systemic determinants nonetheless exist, there is strong evidence that no substantial improvements in PFM efficiency can be expected from other than truly systemic PFM reforms. Consequently, our first conclusion is that

**Conclusion 1: The identified determinants that adversely affect the operational efficiency of local PFM in Zambia are either systemic or external; no relevant "non-systemic" determinants could be identified**

All identified challenges to PFM at local level that might at some point be subject to change could be traced back to two main systemic determinants:

**a) Systematic lack of resources:** The ubiquitous lack of resources for PFM activities poses a major risk of PFM inefficiency, since PFM-relevant institutions are, for example, unable to undertake key monitoring, control and supervisory activities owing to a lack of funding.

**b) Concentration of control over resources and decision-making at central government level:** Control over public resources, including the power to decide what to spend them on, is exercised almost exclusively by central government. Lower levels of government, especially the district level, have, depending on the sector, little or no competence over the handling of funds. As a result, central-level decision-making and distribution of funds often fails to reflect the priorities on the ground.

Both these determinants impact on the efficiency of service delivery at all stages of the budget cycle – planning, implementation and control – through a number of constraints. In fact, when the operational efficiency of

PFM at local level is examined, all identified challenges to PFM can be traced back to these two determinants. Both are inherently systemic and cannot be altered in the short term, or at least not sustainably.<sup>88</sup>

No determinants that could be classified as non-systemic were found. The systemic determinants identified require long-term reform approaches and do not offer any potential for short-term technical solutions that will improve the operational efficiency of PFM.

This means that any short-term improvements to the operational efficiency of service delivery in Zambia can stem only from ‘technical’ interventions at what this study has labelled the ‘constraint level’, the level of the channels along which the underlying determinants have an adverse impact on the operational efficiency of PFM at local level.

The research team identified a number of areas where technical solutions at constraint level might produce efficiency gains in the short run.<sup>89</sup> The potential for short-term technical interventions at constraint level identified in the sectors studied is, however, very limited and cannot be expected to lead to substantial and sustainable efficiency gains. Three of the constraints suggested by our initial conceptual framework (lack of commitment, lack of capacity and lack of coordination) were confirmed as relevant channels along which the determinants identified impact on efficiency at all stages of the budget cycle.

In addition, a fourth constraint turned out to be of major importance for the efficiency of PFM at local government level and could also be traced back to the two systemic determinants: ‘lack of mobility’ was included in the conceptual approach as a major cause of inefficiencies. It is understood as a surrogate of two other constraints, lack of capacity and lack of coordination, but as it cannot be replaced by any one of the other constraints, it is included as a constraint in its own right.

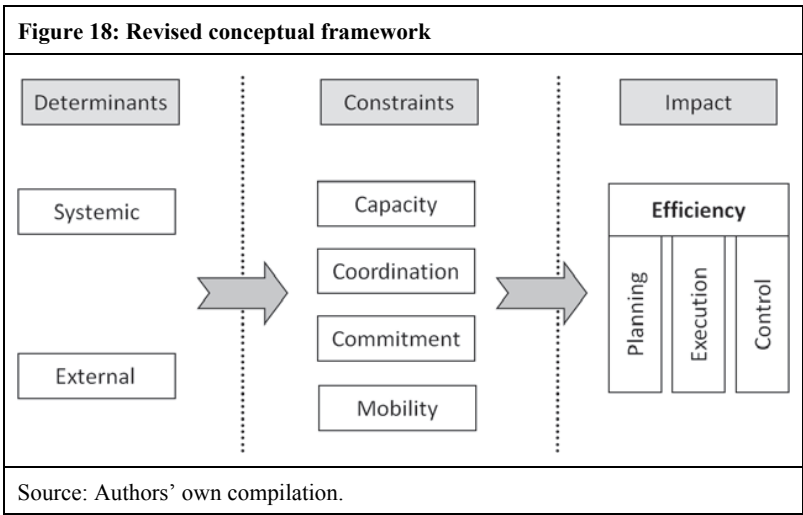
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88 Despite this, there are also several external determinants, such as geographical or climatic conditions, which are not, however, alterable in either the short or the long term and – more importantly – lie mostly outside the GRZ’s sphere of influence.

89 For details on short-term technical solutions in the education, health and road sectors, see sections 6.5, 7.5, 8.6.

**Conclusion 2: There is only limited potential for short-term improvements of PFM efficiency at local government level in Zambia, given that it exists only at constraint level.**

On the basis of these findings, the revised conceptual framework developed in Chapter 3 to show how operational inefficiencies in Zambia’s PFM system are generated, is set out in Figure 18.



No direct conclusions should be drawn on the universal validity of our findings for PFM systems in sub-Saharan Africa. However, if the Zambian PFM system is considered to be a ‘typical’ deficient sub-Saharan African PFM system, as this study has argued, it can be assumed that it would be equally difficult to identify non-systemic determinants with scope for short-term technical improvements in other sub-Saharan African PFM systems. This supports the frequent claim that in most developing countries significant improvements in PFM performance can be achieved only through systemic reforms and must be expected to take time, the usual estimate ranging from at least 15 to 25 years. One reform that would qualify as ‘systemic’ as we have defined the term for this study is the on-going decentralisation process

in Zambia. The following section outlines how likely this reform is to have a positive impact on PFM efficiency and potential challenges in this respect.

## 9.2 Implications for decentralisation as a systemic reform

Decentralisation has been on Zambia's political agenda for years, but the process of developing and negotiating a concrete decentralisation plan has been slow. In 2009, however, some important progress was made when the Zambian Cabinet approved the Decentralisation Implementation Plan (DIP), which sets out the strategy for implementing the decentralisation policy with the aim of transferring further competences and resources from central to local level (see section 5.3). In the context of this study, decentralisation would qualify as a 'systemic reform': by targeting the determinant "concentration of control over resources and decision-making", decentralisation has the potential to contribute positively to the efficiency of PFM at local level. However, these potentially positive effects are likely to take several years to materialise. At the same time, major challenges must be overcome if the decentralisation policy is to be effective in this regard.

Under the current system, the local authorities have a number of responsibilities and competences for certain sectors, such as rural roads in the road sector. Other sectors, such as health, education and agriculture, are deconcentrated, meaning that the line ministries at central level retain authority over policies and budgeting. Deconcentrated units at district level are for the most part the agents who implement decisions taken at central level, although they too have – to varying degrees – decision-making power in their own right. In this structural set-up, the local legislative, the district council, does not have full oversight or the power to decide what is done in several key sectors at district level. The local agents in these sectors – health, education and agriculture – are mostly executive units required to follow orders from and report to their superiors in the line ministries. Furthermore, there is insufficient coordination, as far as district development is concerned, among the superior levels of the line ministries themselves, the health ministry, for example, being unlikely to be aware of the activities planned by the education ministry for a certain district. Satisfactory coordination and alignment of the activities of several sectors in one district is not possible in these circumstances. The District Development Coordinating Committees (DDCCs) currently in place (see section 5.3.2) were set up in an effort to coordinate the activities of all sectors undertaken at district

level and so to achieve a more coherent district development approach. However, as the DDCCs do not have any legal backing, their resolutions are not binding and so frequently overlooked in the planning of the line ministries at central level. The directives that a line ministry at central level gives to its deconcentrated unit are, on the other hand, binding and leave no room for adjustments by a DDCC. Although the DDCCs thus represent a platform for better coordination within the district under the current, rather centralised system, coordination cannot be entirely efficient until they are regarded as an integral part of local PFM planning and monitoring and receive the necessary legal backing to perform this task effectively.

While coordination between DDCCs and deconcentrated line ministry units could possibly be improved under the current system, the DIP offers a more promising, sustainable approach: the deconcentrated line ministry units would be brought under the control of the district councils. Placing the entire range of sector activities under the single roof of the district council offers considerable potential for improvements in efficiency. Firstly, the complexity of coordination and communication between local authorities and the various deconcentrated line ministry units and coordination and communication bottlenecks between the deconcentrated line ministry units and central level might be reduced significantly. Secondly, comprehensive needs-based district planning and a more coherent district development approach might be facilitated. Thirdly, with authority over the spending of funds transferred to the district councils, the closer proximity of the relevant decision-makers to the electorate might promote grassroots initiatives and bottom-up accountability.

However, if decentralisation is to have a positive impact on the efficiency of the overall PFM system, several issues must be addressed before the DIP is implemented.

Firstly, the local and central levels may have differing perceptions of what constitutes a development priority. The development goals and strategies set out in the national development plans (e.g. the 2005-2010 Fifth National Development Plan and the sector strategy plans drawn up in accordance with it) by Zambia's central government may not reflect what the local level defines as its development priorities. This may not be so much of a problem in Zambia's current centralised political system. In a decentralised Zambia, however, it is very likely to become one, since central government may consider very different areas for development, such as health and education,



with a view to attaining the Millennium Development Goals (MDGs), while local government might, for example, prioritise agricultural development and roads in order to stimulate local economic development. The implementation of the DIP would lead to the transfer of substantial managerial and financial powers to local government. Against this background, it is crucial to define central government's future role in the development of overarching strategies, policy objectives and guidelines for the various sectors. It will also have to be specified what central government's authority encompasses and where in each sector local government's jurisdiction begins. In short, a clearly defined and transparent balance must be struck between national development strategies and local development policies.

It is also necessary to consider in this context the extent to which adequate funding for certain key MDG-relevant sectors – such as health and education – can be ensured. Under the current system both these sectors are, compared to many others, relatively well-funded. If funding authority for these sectors is largely transferred to local level, there is a risk of the local authorities regarding them as sources of cash for projects in other sectors. To give an example, if under a decentralised system a district council gave a higher development priority to another sector, such as road infrastructure, than to education, education funding would run the risk of being unduly downsized in favour of the road sector. Some concern has been voiced, especially at central level, that such a scenario might do serious harm to the especially MDG-relevant health and education sectors, which are in a relatively comfortable position under the current system as far as funding is concerned. A contrasting view is that all sectors are interlinked and that investment – or lack of investment – in a sector which may not appear at first glance to be directly linked to, say, the health sector could very well have an impact on the latter. If, for example, a district has enough funds for a new health facility, but not enough to maintain the road leading to it in a tolerable state, the new facility would be of little use. This dilemma of potentially divergent funding priorities between central and local government requires further attention and discussion during the implementation of the DIP.

A number of safety mechanisms that might be particularly MDG-relevant could be installed to avoid a scenario of preferential treatment for certain sectors at the expense of others. One would be to set binding sector budget ceilings: a district council would then be permitted to spend no more than a fixed amount on each sector. This might, on the one hand, constrain impor-

tant non-recurring large-scale investments. It would not, on the other hand, protect a given priority sector against excessive funding withdrawals to the benefit of other sectors. A second option would be the introduction of ring-fenced sector accounts, meaning that a certain minimum share of the total district budget would have to be spent on each sector. Ring-fenced accounts would protect specific priority sectors against the reallocation of their resources to others by restricting the freedom local authorities enjoy in setting priorities. Another option would be to establish a “management-for-results” system. In this case, district councils would have complete power of disposal over their budgets, but certain binding sector requirements – such as specified minimum requirements for pupil enrolment, classroom construction, book procurement etc. in the education sector – would have to be met. While this option would leave the district councils with the maximum amount of freedom to decide how to spend their funds, it would not be without serious risks: for one thing, there would be a major risk of over-taxing a council's planning capacity, especially in the initial years after the transfer of authority. For another, the availability, reliability and regularity of census data would require a great deal of improvement, the current quality of PFM data in Zambia being far from satisfactory. A great deal more control capacity would also have to be created – at either provincial or central level or through the creation of an autonomous control unit within the district. This would require a significant investment in human resources and infrastructure. The options for ensuring a balance of key sector spending and comprehensive development will need to be further discussed.

In many cases, district councillors seem to be guided in their voting more by personal motives than by any developmental rationale. As they need a majority of the votes cast only in the ward they represent, their main interest is to please the electorate of that particular ward. This has led to a certain tendency among councillors to obtain as much project funding for their own ward as possible. Furthermore, it is not unlikely that councillors give funding priority to “visible projects”, having three roads poorly maintained rather than one properly maintained, for example. The other wards in the district are perceived as rivals in a competition for scarce funds; the holistic aspect of district development can be ignored. If coherent development in the districts is to be promoted, there is an advantage in offering councillors incentives to focus on the development of the entire district rather than just their own wards and to be better judges of their personal political interests. Decentralisation is unlikely to resolve this dilemma; should the DIP be

implemented, however, a considerable measure of additional authority will be transferred to the councillors. It should be realised that the general good may not be the top priority for some councillors. In this context, it would also be worth evaluating the future role of the Constituency Development Fund (CDF). In the past, it appears to have been frequently used as a source of funding for MPs' political showcase projects, rather than projects with a potentially higher developmental value. Even though councillors decide how the fund is used, there is some evidence that the final decision is often taken by the MP. The transfer of further financial resources from national to local level under a regular intergovernmental transfer system would make the CDF dispensable.

Furthermore, if councils – supported by technical staff – are to supervise and take the decisions on the entire range of sector activities in their districts, further capacity-building for both elected councillors and their technical support staff will be essential. Some councillors, especially in the rural areas, have no conventional school education beyond primary level. Yet, as the democratically elected representatives of their wards, they are expected to decide on the allocation of substantial funds and on the prioritisation of district development programmes, and this will be all the truer in the future. Capacity-building is necessary if they are to be appropriately prepared to make those decisions.

There also seems to be some resistance among the current deconcentrated line ministry units to working under the council mandate. One reason for this may simply be that being employed by central government is regarded by some as more prestigious than being local authority staff. Furthermore, line ministries at central level may offer more opportunities for promotion to posts in provincial or even central government. The reason most frequently given for the resistance is that councils have had difficulty paying their staff regularly, whereas line ministry staff are paid far more regularly. In these circumstances, sequential decentralisation is recommended, meaning that as many functions as necessary – but as few as possible – should remain in a deconcentrated form until the local level is fully capable of coping with its new managerial and financial responsibilities (and appropriately supported in this by central level). Only when local government has reached that level of capability should complete devolution take place. The government of Zambia has recognised this and included the so-called “capacity ladder” approach in the DIP. The capacity ladder provides for the

gradual transfer of authority to the local authorities. At the same time, it will be crucial for central government not to use an alleged lack of capacity at local level as an excuse for holding on to its powers where this is not justified by actual local capacity constraints. If decentralisation is to work, central government must be committed to transferring both administrative and financial authority to local level.

It should be added that, while decentralisation may benefit some aspects of PFM operational efficiency at local level, it cannot overcome all the related challenges, especially those concerning the lack of resources. The ability of councils to mobilise revenue of their own by charging fees and levies – which has been consistently curbed by central government in the last decade – is an important factor that might give councils a certain degree of financial leeway. It will not, however, suffice to guarantee the councils financial autonomy, and it should not, since the ability of the various districts to generate their own revenue varies widely. The extent to which a district is able to raise its own revenue depends on various factors, such as geographical location, population, quantity of agricultural land and natural resources. Generally speaking, Zambia is, on the other hand, a country that abounds in natural resources. As provided for by the DIP, central government transfers to local government should therefore be the districts' main source of revenue, while acting as a factor that compensates for the disparities in the districts' ability to mobilise their own revenue. If properly taxed at national level, revenue stemming from such natural resources as copper should, despite the risk of price volatility, provide the districts with a sound financial basis for the delivery of public goods and services to their citizens.

To summarise, decentralisation has great potential for bringing about positive change by overcoming the challenges identified in this study that adversely affect the operational efficiency of PFM at local level. This is especially true of the challenges rooted in the underlying determinant “concentration of control over resources and decision-making”. However, it will be years before decentralisation, like any systemic reform, has most of its potentially positive effects, especially given the aforementioned challenges relating to the implementation of the DIP. Even when full decentralisation as envisaged in the DIP has been achieved, it is highly unlikely that it is going to overcome all the current challenges to the operational efficiency of PFM; in all probability some of the challenges rooted in the systemic determinant “concentration of control over resources and decision-making” will

persist. Furthermore, decentralisation is unlikely to have any noteworthy impact on the second systemic determinant identified, “lack of resources”, or on external determinants. Decentralisation will be advantageous for PFM at local level only if the issues mentioned above are addressed and dealt with appropriately. If they are not, the management of public finances could even deteriorate in so flawed a decentralised system.

### 9.3 Implications for budget support as an aid modality

Given that this study was conducted as part of the background work for an evaluation of budget support in Zambia (de Kemp / Faust / Leiderer 2011), a brief discussion of the implications of the findings for budget support as an aid modality seems appropriate.

The short-term potential for increasing the operational efficiency of PFM at local government level in Zambia is extremely limited. As all inefficiencies identified in this case study can ultimately be traced back to systemic features of Zambia’s PFM system, any suggested short-term ‘technical’ solutions can address only the channels (or constraints) through which these determinants impact on the efficiency of service delivery at local government level. In other words, such technical solutions can be expected to ease only the symptoms, not the underlying systemic causes of inefficiencies in Zambia’s local PFM system.

However, systemic reforms of PFM systems (such as fiscal decentralisation) that have the potential to improve the efficiency of public service provision take time to implement and then to have the expected positive effects.

This insight has a number of implications for the effectiveness of budget support as a means of assisting from outside such national development strategies as Zambia’s NDP:

Firstly, PFM systems in most sub-Saharan African countries are deficient and, as the findings of this study (and many others) indicate, will remain so in the short and possibly the medium term. This means that donors (and, for that matter, recipient governments) cannot hope to increase the effectiveness of budget support substantially in the short run through improvements in the area of operational efficiency of budget implementation at the level of service provision. Given the state of PFM systems on the continent described in Section 2.4 of this report, this means that, if donors want to

continue to use (and possibly expand) budget support to help sub-Saharan African countries to achieve the MDGs, they will simply have to accept the limits imposed on its effectiveness by the deficiencies of recipient PFM systems in the short and medium run.

It is therefore crucial for donors to use not only budget support effectively as a financing tool, but also the policy dialogue and financial leverage associated with budget support to maintain the momentum for such systemic PFM reforms in the recipient countries as fiscal decentralisation.

In addition, they should use their leverage as budget support donors to make sure that public-sector reforms are carried out in such a way as to ensure sufficient resources are provided for core PFM processes.

The findings of this study strongly endorse the argument that budget support should always be accompanied by strategic interventions aimed at building the recipient's capacity to manage public resources effectively and efficiently. In Zambia's case, for example, extensive capacity-building at local level is essential if decentralisation is to bear fruit and the efficiency of public financial management for service provision is to be improved. This calls for the more strategic integration of capacity-building programmes into the wider area of governance, beyond core PFM reform programmes (such as the PEMFA in Zambia) that tend to focus on core PFM functions at central government level.



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# Annexes



## **Annex 1: Methodological notes**

The following description of the main features of this approach is largely based on the presentation in Leiderer et al. (2007):

The analysis has drawn principally on qualitative data collected during a three-month field trip to Zambia. The main data collection instrument was the semi-structured interview, with individually adjusted interview guidelines. Official documents and grey literature were also collected. Data obtained from a number of non-participatory observations and informal conversations complemented the data acquired from interviews and documents. The data were subjected to a qualitative analysis.

The most important qualitative methods of data collection used to conduct this case study were the following:

- semi-structured interviews (expert interviews, interviews with stakeholders in and outside government),
- reviews of the literature and official documents,
- non-participatory observations,
- informal conversations.

Semi-structured interviews with varying degrees of openness were the principal source of data. Depending on the interviewee, they ranged between more open stakeholder and less open expert interviews. The interview guidelines that had been developed made the data comparable to some extent. Expert interviews focused primarily on the interviewee's knowledge in his position as an expert (predominantly 'hard-fact' data). General stakeholder interviews, on the other hand, sought data on the wider context of an individual's personal perceptions and assessments, although the main focus was usually on a very particular issue. They provide a view of this issue from a more contextual perspective (mostly subjective data and perceptions). It should be noted that both kinds of data, 'hard-fact' data and subjective, and perceptions were collected from all actors, although the focus differed from one interviewee (e.g. experts) to another. Furthermore, as both kinds of data are often closely interconnected, it is the researcher's task to separate them for analysis. However, stakeholder interviews within the administration were the main source of data for our endeavour.

An initial review of existing literature and official documents was begun before the field trip and continued in Zambia. Non-participant observations and informal conversations complemented the data obtained by other methods.

The interviewees included politicians and administrative staff at various government levels and staff of multi- and bilateral donor agencies and non-governmental organisations (NGOs). The research was conducted in close coordination with the Zambian counterpart organisation, the Economics Association of Zambia (EAZ), and the main stakeholders in the budget support evaluation.

As stated above, qualitative methods were mostly used to analyse the data.

Triangulation entails the comparison of data on the same case or issue generated by different researchers (investigator triangulation), by different methods of data collection (between-method triangulation) or from different kinds of data (data triangulation) (Flick 2000). It serves three purposes in qualitative analysis: it helps to validate the data to some extent, it supports careful generalisation based on the data, and finally, it helps to differentiate analytical findings.

Apart from the strategy of triangulation, ‘theoretical coding’ was used. The process of ‘theoretical coding’ also involves the constant comparison of data for analytical purposes. ‘Coding’ is the analytical process of structuring raw data in categories by attaching codes to certain sections of such text as a transcript. Although these codes can also be deduced from theory, an open qualitative analysis usually begins with the development of codes at an analytical level according to the phenomena to be found in the text. Three coding steps are usually distinguished in grounded theory:

*Open coding:* The researcher starts with this mode of coding. It is the procedure by which preliminary categories are developed from the constant comparison and examination of data. The same codes are attached to the same phenomena and attributes that constitute the phenomena. Open coding is used to structure the data in categories.

*Axial coding:* The researcher continues to code, but pays particular attention to relationships between selected categories. Categories and subcategories are identified and related to each. A preliminary theoretical framework begins to emerge from this system of categories.

*Selective coding:* The researcher identifies and concentrates on one or more 'core categories' and relates all the other categories to them. This mode of coding often includes a significant refinement of the other categories. The core categories identified usually form the central concepts of the analysis.

Researchers often switch from one mode of coding to another during analysis. Furthermore, as coding starts as early as the first data are collected, data collection and analysis are not separate processes, but connected in a circular process. In the course of data analysis, a network of categories develops, 'grounded' in empirical data, but forming an analysis at a more theoretical level.

While this theoretical coding procedure is very useful for the second kind of data (subjective data and perceptions), 'hard-fact' data do not need to be analysed as intensively. They were also coded, but this mode of coding is 'indexical', which means that the codes developed for this data primarily function as an index for marking the respective phenomena in the data and comparing them. The analytical content of these codes is very small, compared to the other codes developed for the second kind of data, which can therefore also be called 'analytical codes'.

This coding system was based on the four analytical categories identified beforehand (capacity, commitment, control, coordination). Using these categories helped us to attribute the inefficiencies identified to the underlying determinants by using the constraints as transmission channels.

The computer programme Atlas.ti, which is intended for the analysis of qualitative data and is based on the principles of grounded theory, was used to organise the data and to code and so analyse them.



**Annex 2: List of interview partners**

<b>Name</b>	<b>Position</b>	<b>Institution</b>
Mwanza, Elemani	District Commissioner Katete	Office of the President
Belinda, Mrs.	Acting Planning Officer	District Council Chadiza
Balanda, Abraham	Accountancy Assistant	DEB Katete
Baldwin Baud	Road Engineer and Head of Unit	RRU Eastern Province
Banda, Mr.	District Buildings Officer	DEB Chadiza
Banda, Canisius	Deputy Director of Technical Support Services and Health Education	Ministry of Health
Banda, Jackson	Health Centre Community Vice Chairperson	Chimuza Health Centre
Banda, John	Planning Officer	District Council Mumbwa
Banda, Philip	Accountant	DHMT Mkushi
Banda, Saul	Policy and Research Technical Advisor	Ministry of Education
Banda, Smat	Programme Officer	Care International Chadiza
Banda, Stanley	Budgeting Specialist	Ministry of Education
Banda, Ziko	Provincial Road Engineer	RDA
Beaume, Eric	Head of Operations	European Commission
Blockhuis, Frans	Team Leader/ Resident Engineer	GITEC Consult GmbH

Bwalya, Wisdom	Council Secretary	District Council Chadiza
Chanza, Collins	Chief Planner of Development Cooperation	Ministry of Health
Chibonga, Pamela	Senior Budget Analyst	MoFNP
Chikuta, Mbewe	Pharmacist, Pharmaceutical Unit	Ministry of Health
Chilalima, Frank	Development Officer	Care International Katete
Chileshe, Chilufya	Programme Officer for Debt, Aid and Trade	JCTR
Chitonema, George	Engineer of Contracts	Road Development Agency
Chiwele, Denis	Country Director	Ruralnet
Chunga, Musonda	District Commissioner Mkushi	Office of the President
Daka, Monica	Depute Headmaster	Chikwanda Basic School
Daka, Given Mwanakatwe	Education Specialist	Dutch Embassy
Daka, Lackson	DMO	DMHT Chadiza
Longwe, Dan	Programme Officer	LGAZ
di Mauro, Franscesca	Counsellor - Head of Section; Economics, Private Sector and Rural Development	European Commission
Dineiger, Peter	Programme Manager Decentralisation	GTZ
Dube, Christopher	DMO	DHMT Mumbwa

Fischer, Roland	GTZ Advisor	Ministry of Local Government and Housing
Guze, Gershum	Vice Chairman	District Council Katete
Haandema, Stanley	District Education Board Secretary	DEB Mumbwa
Haang'andu, Privilege	Programme Officer for Debt and Public Resource Monitoring	JCTR
Hamaimbo, Lennox	Council Chairman	District Council Mumbwa
Hazinji, Elester	Programme Officer Decentralisation Programme Southern Province	GTZ
Hodgson, Nick	Technical Advisor	RDA Livingstone
Jaliso, Ivo	Public Health Officer	DHMT Mkushi
Jere, Alik	District Education Planning Officer	DEB Katete
Jojo, Thomas Edson	Deputy Treasurer	District Council Mkushi
Kanyemba, Joseph	Accountant	Local Government Association (LGAZ)
Kalemba, Richard	Environmental Health Technician	Health Centre Masanza
Kamanga, Paul	Senior Teacher	Chikwanda Basic School
Kangamungazu, Edmond	Programme Officer	Caritas Zambia
Kanguna, Emmanuel	Engineer for Planning and Design	Road Development Agency

Kanseme, Henry	Chief Planner Planning and Budgeting Unit	Ministry of Health
Kanyama, Tembo	District Education Planning Officer	DEB Chadiza
Kapinga, Kelly M.	Assistant Director, Planning and Monitoring Department	MOWS
Kapole, David	Planning Officer	DHMT Katete
Kaunda, Emmanuel	Monitoring and Evaluation	NRFA
Mwansa, Kenneth	Country Director	AMICAALL ZAMBIA
Kressirer, Robert	Country Director	GTZ
Krimmel, Roland	Consultant	KfW
Kwambwa, Miyanda	Senior Education Adviser	Irish Aid
Lagerstedt, Adam	Advisor to the Permanent Secretary	Ministry of Health
Lubambo, Peter	Director	MoLGH
Lungu, Goodwill	Executive Director	Transparency International Zambia
Luulu, Maybin	District Education Board Secretary	DEB Mkushi
Mabenga, Raphael	Director and CEO	NRFA
Malama, Felix	Accountant	DEB Chadiza
Malama, Kennedy	Provincial Health Officer Eastern Province	Ministry of Health (Provincial Level)
Malupande, Mr.	District Education Planning Officer	DEB Mumbwa
Manasseh, Patricia	Pharmacist	DHMT Katete
Mankayaya, Stan	Director of Works	District Council Mumbwa

Mapala, Mr.	Acting Treasurer	District Council Chadiza
Masuma, Kalabi Exon	Road Engineer	RRU Central Province
Matengu, Mbala	n/a	MoLGH
Mbolela, Maurice	Executive Secretary	LGAZ
Mbewe, George	Planning Officer	District Council Katete
Mbuka, Mr.	Director of Works	District Council Chadiza
Meleki, Guston	Senior Road Engineer	n/a
Mkandawine, Harrison	DMO	DHMT Katete
Moonga, Mr.	Clinical Officer	Lungobe Health Facility
Mowowo, Monday	Director of Works	District Council Katete
Mpatanji Namumba	Information Officer	LGAZ
Mpofu, Oswald	Mkushi District Council Secretary	District Council Mkushi
Mtonga, Steve	Member of Planning Unit	Ministry of Health
Mulonga, Daniel	Senior Manager – Planning and Design	RDA
Mulindi, Everesto	Accountants Assistant	DEB Mumbwa
Mulopa, Noel Chiluba	Principal Planning Officer Budgets and Projects	Ministry of Education
Mumbuka, Joseph	Assistant Director of Works	District Council Chadiza
Mushanga, Corinna	Buildings Officer	DEB Katete
Musonda, Bupe	Chief Statistician	Ministry of Education

Musonda, Michael	Director of Works	District Council Mkushi
Mwansa, Mr.	PESO Eastern Province	Provincial Education Office
Mwanza, Rosemary	DMO	DHMT Mkushi
Mwavuli, David	DHMT Accountant	DHMT Mumbwa
Mwiinga, H.C.	District Education Standards Officer (DESO)	DEB Katete
Mwola, Mr.	Senior Road Inspector Inspector/Inspections	RRU Eastern Province
Ndoti, Ronald	Clinical Officer	Chimuzi Health Centre
Ngoma, Cedric	Coordinator Health/HIV	Care International Katete
Ngoma, Mr.	Provincial Education Officer Central Province	Provincial Education Office
Nkhata, Grayson	Council Secretary Katete	District Council
Nkweto, Gilbert	Regional Engineer	RDA Central Province
Nundwe, Musonda	Acting Manager Planning and Information	DHMT Chadiza
Nyambe, Vincent	Fund Manager	NRFA
Nyambe, Simate	Acting Chief Engineer	MOWS; RRU
Nyan, Dan	Hospital Pharmacist (Acting Pharmacist DHMT)	District Hospital Mumbwa
Nyawali, Lazarous	Regional Road Engineer	RDA Southern Province
Nyrenda, Peter	District Commissioner Chadiza	Office of the President

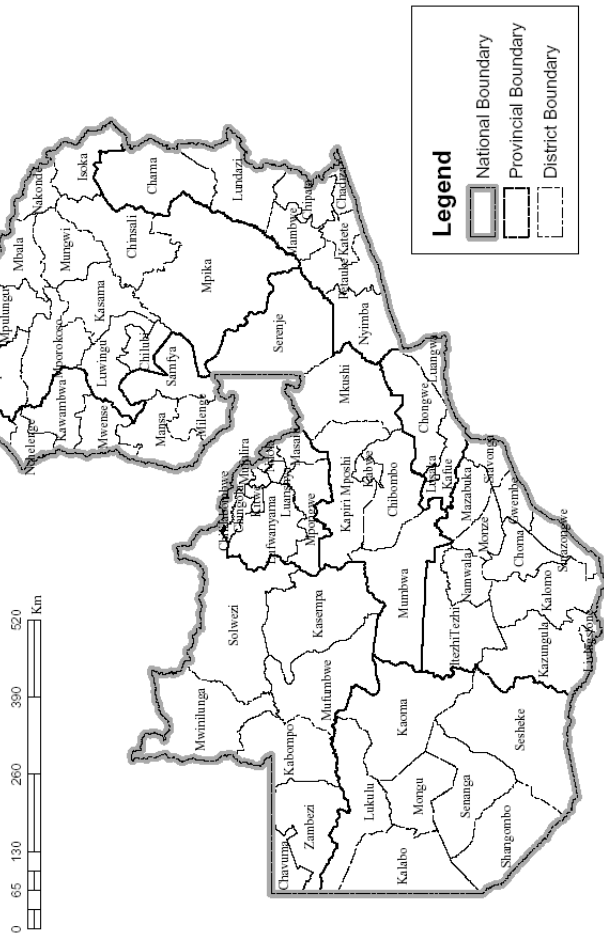
Oscar, Mr.	Desk Officer for the UNICEF Quality Education Provision Programme	Ministry of Education
Pain, Chris	Macroeconomic Advisor to MoFNP	GTZ
Perznowska, Veronica	First Secretary  Programme Officer Health and HIV/AIDS	Swedish Embassy
Phillips, Martin	Fiscal Decentralisation	MoFNP
Phiri, Mr.	District Education Standards Officer	DEB Chadiza
Phiri, Mr.	Nurse (acting clinical officer)	Madzaela Health Post
Phiri, Mr.	Health Centre Community Chairperson	Chimuza Health Centre
PTA Chadiza	n/a	Chadiza Basic School
Rademacher, Georg	WZ Referent	German Embassy
Mabenga , Raphael	Director and CEO	NRFA
Rieger, Gudrun	Country Director	DED
Sakala Silavwe, Beauty	Accounts Assistant	DEB Mkushi
Sakala, Adamson	Water and Sanitation Officer	District Council Chadiza
Sakala, Esther Mwansa	DEBS	DEB Chadiza
Sakala, Stellia	DHMT Pharmacist	DHMT Chadiza
Scheffler, Ulrich	Programme Manager Decentralisation	DED
Shawa, Stenford	Accountant Jackson	DHMT Katete
Shimwambwa, Lennox	District Commissioner Mumbwa	Office of the President

Siame, Nkumbu	Principal Engineer - Roads	MoLGH
Sianga, Christopher	Acting Director Treasury	District Council Mumbwa
Simasiku, Dominic M.	Acting Council Secretary	District Council Mumbwa
Simon, Mr.	Deputy Treasurer	District Council Katete
Spillsbury, Angela	Health Officer	DFID
Stembala, Fidelis	Assistant Director of Works	District Council Chadiza
Stoll, Uwe	Country Director	KfW
Sulu, Simon	Engineering Assistant	RRU Eastern Province
Suya, Dixon	Provincial Health Officer Central Province	Ministry of Health (Provincial Level)
Sverken, Karin	First Secretary Budget Support and Public Sector Reforms	Swedish Embassy
Tembo, Mr.	DEBS	DEB Katete
Tembo, Jacob	Headmaster	Chadiza Basic School
Thole, Mr.	Senior Road Inspector/ Planning	RRU Eastern Province
Waitolo, Mr.	Headmaster	Bulungu Basic School
Yashiki, Hiroko	JICA consultant	Ministry of Local Government and Housing/JICA



### Annex 3: Map of Zambia

## Administrative Divisions (Year 2000)



Source: Central Statistical Office (2003)

## **Annex 4: Interview guidelines**

### **Education**

Can you give us an overview of the sector in your district?

How is budgetary planning undertaken for the district?

What proportion of the resources you originally requested (planned for) has been approved by central government?

How do you prioritise your activities in budgetary planning?

What proportion of your allocated (approved) resources do you actually receive?

How does the procurement of learning and teaching materials (including textbooks for pupils) proceed?

How does the distribution of learning and teaching materials (including textbooks for pupils) within the district proceed?

How does the construction of classrooms in your district proceed?

Are the existing rules and guidelines appropriate for you to perform your duties?

How does coordination within the sector in the district proceed?

Do contributions from non-governmental sources (e.g. Churches, cooperating partners, NGOs, etc.) affect your work?

What are your personal job responsibilities?

How does reporting and auditing proceed for the education sector in the district?

## **Health**

Can you give us an overview of the sector in your district?

How is budgetary planning undertaken for the district/facility?

What proportion of the resources/drugs you originally requested (planned for) has been approved by central government?

How do you prioritise your activities in budgetary planning?

How does drug distribution within the district proceed?

What proportion of your allocated (approved) resources/drugs do you actually receive?

Do you face drug stock-outs or overflows?

Are the existing rules and guidelines appropriate for you to perform your duties?

How does coordination within the sector in the district proceed?

Do contributions from non-governmental sources (e.g. Churches, cooperating partners, NGOs, etc.) affect your work?

What are your personal job responsibilities?

How does reporting and auditing proceed for the health sector in the district?

## **Roads**

### **Local road authorities**

When and why was the Local Road Authority established? Who was in charge of rural road maintenance at district level before the LRAs were established?

What is your professional background, and how did you come to work for the LRA?

Who are the staff members of your department, and what are their responsibilities?

Have you been trained to perform the tasks assigned to you? Do you feel you receive sufficient support, and from whom?

What equipment do you have to do your job? What equipment would you like to have? Where did you receive equipment from? If it is lacking, why?

How do working conditions affect your job (equipment, time, resources)?

How do you plan your rural road maintenance activities, and who do you plan with?

Did you receive the funds on which you based the planning of your latest projects?

What is your role in the procurement process?

Do you have guidelines for the procurement process? What role do they play?

Do you feel able to carry out the whole process? If not, why not?

How do you ensure the quality of work in your district?

Do you have a reporting system, and what role does it play?

Do you think rural road maintenance is paid sufficient attention by other actors?

Are other actors involved in road maintenance in your district?

What are the major constraints on your work?

What are your recommendations for improvement?

**Regional and senior road engineers (RDA at provincial level)**

What is your role in rural road maintenance?

What is your professional background?

Do you think the transfer of responsibility for rural roads to LRAs is appropriate? Why?

How do you plan your rural road maintenance activities?

Did the local road authorities receive the planned funds?

How does the procurement process proceed?

What relationship do you have with the RRUs?

How do you ensure the quality of work done in the districts?

What are the major constraints on the efficient maintenance of rural roads?

What are your recommendations for improvement?

**Rural road units (under the MWS at provincial level)**

What is your role in rural road maintenance?

What is your professional background?

Do you think the transfer of responsibility for rural roads to LRAs is appropriate? Why?

What do you think of the cooperation between LRAs and the Regional Road Engineer?

How do you plan activities?

Who do you coordinate with?

How do you prioritise the work to be done in which districts and when?

Who has called on your services? Were local road authorities involved?

Do you think the LRAs are capable of performing the tasks assigned to them? If not, why not?

Have you implemented projects in the districts we have selected? Have they been completed, or are they still on-going? Why?

How were LRAs involved?

How and by which agency/actor was the project financed?

Who controls the quality of the roads maintained?

Do you think that LRAs are capable of supervising/monitoring road maintenance?

What are the main constraints on the efficient maintenance of rural roads?

What are your recommendations for improvement?

## Annex 5: PEMFA reform programme

<ol style="list-style-type: none"> <li>1) Commitment control and Financial Management Systems (FMS),</li> <li>2) Integrated Financial Management System (IFMIS) implementation,</li> <li>3) Improved fiscal policy and economic planning,</li> <li>4) Reformed budget preparation and budget execution,</li> <li>5) Improved debt management,</li> <li>6) Improved internal audit,</li> <li>7) Better external finance and coordination,</li> <li>8) Legal and regulatory framework,</li> <li>9) Strengthened external audit,</li> <li>10) Enhancing parliamentary oversight,</li> <li>11) Accountancy training and regulation,</li> <li>12) Public procurement reform, and</li> <li>13) Centralised computer services department</li> </ol>
...and its achievements so far (2008)
<ul style="list-style-type: none"> <li>– Financial regulations and manual for GRZ drafted,</li> <li>– Cash flow framework and profiles developed and incorporated into the FMS system,</li> <li>– Commitment control module developed and included in the FMS system,</li> <li>– IFMIS blueprint developed,</li> <li>– Web publication of financial reports,</li> <li>– Non tax revenue training module developed,</li> <li>– Revised account of charts presented,</li> <li>– Change management strategy developed,</li> <li>– Provincial and district committees trained in National Development Policy (NPD) monitoring,</li> <li>– Improved MTEF Green Paper produced,</li> <li>– Formula and manual for intergovernmental grants proposed,</li> </ul>

- District planning in Activity-based Budget format introduced,
- Draft debt management strategy developed,
- Draft public procurement legislation prepared,
- Provincial audit offices built or being finalised,
- Parliamentary staff attached to other parliaments as an exchange and learning exercise,
- Public financial management included in accounting syllabus and new training materials at the Zambia Institute of Chartered Accountants,
- Training needs assessment carried out and preparation of training plans, and
- Various training and capacity-building activities undertaken for the components and their staff

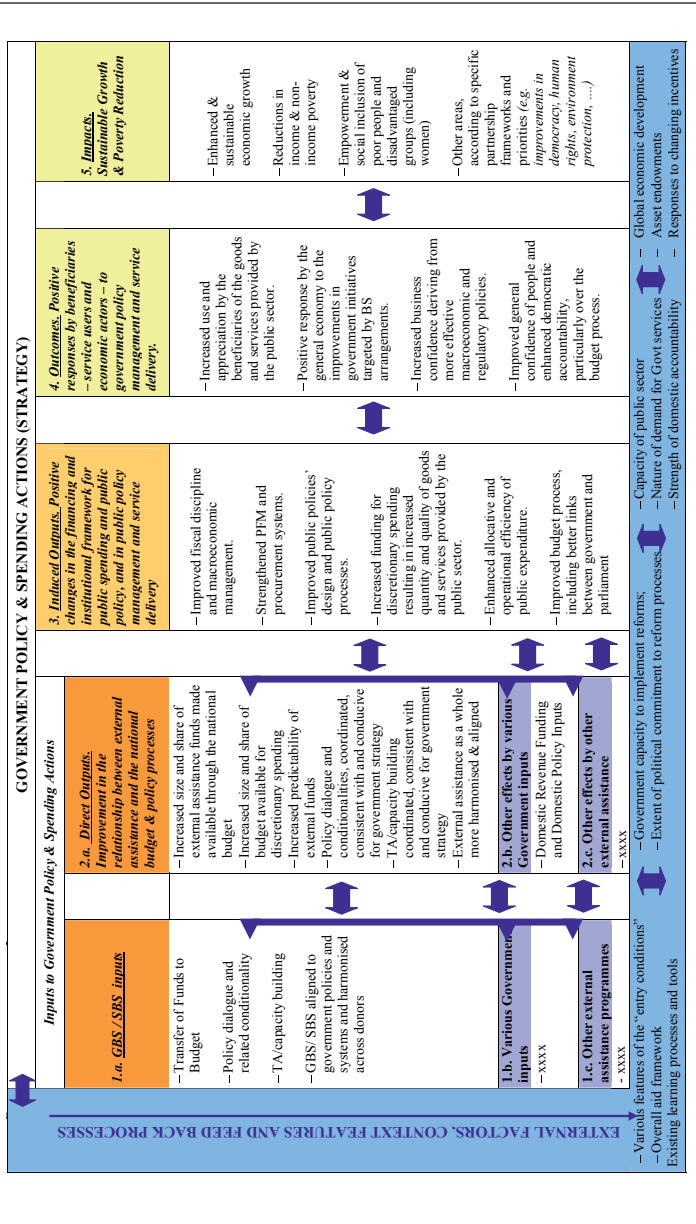
Source: Republic of Zambia (2008)



<b>Annex 6: Timetable</b>			
<b>Phase</b>	<b>Duration</b>	<b>Location</b>	<b>Research activities</b>
1. Desk research	14 weeks	Bonn (Germany)	Extensive review of literature and official documents Expert interviews (EAZ, BMZ, KfW, GTZ) Collection of “grey literature” Identifying interview partners and planning fieldwork Drafting and presentation of preliminary report
2. Preliminary data collection and district selection	4 weeks	Lusaka (Zambia)	Expert interviews (sector ministries, lead CPs of the sector, CSOs) Document and data collection Development of coding system and drafting of final interview guidelines Contacting district authorities, sector ministry representatives, service users and providers, CSOs in the selected districts

3. Data collection	3 weeks	Mkushi and Mumbwa Districts, Central Province and Chadiza and Katete Districts, Eastern Province (Zambia)	Expert interviews with District Councils, sectoral boards, service users and providers, CSOs  Observations  Informal conversations  Collection of documents (District Annual Work Plans, financial reports, existing guidelines)
4. Data analysis and report drafting	3 weeks	Siavonga (Zambia)	Data analysis and drafting of final report
5. Presentation and wrap-up	1 week	Lusaka (Zambia)	Follow-up research activities  Presentations and discussion of preliminary results with stakeholders in Lusaka
6. Finalisation of the report	4 weeks	Bonn (Germany)	Finalisation of a draft report  Presentations and discussion of findings with German stakeholders at DIE

Annex 7: Causality map budget support



Source: Caputo / Lawson / van der Linde (2008, 14)

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*Loewe, Markus:* Soziale Sicherung in den arabischen Ländern: Determinanten, Defizite und Strategien für den informellen Sektor, 286 p., Nomos, Baden-Baden 2010, ISBN 978-3-8329-5586-1 (Entwicklungstheorie und Entwicklungspolitik 7)

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