DEval
GERMAN INSTITUTE FOR DEVELOPMENT EVALUATION

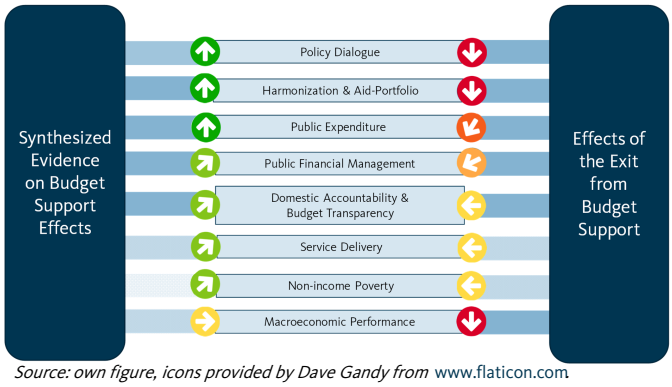
DEval Country Sheet 4/2018

THE EFFECTS OF THE EXIT FROM BUDGET SUPPORT IN ZAMBIA

This 'country sheet' is a summary of findings on Zambia from the evaluation on the future of integrated policy-based development: lessons from the exit from general budget support (GBS). The larger evaluation analyses the exit from GBS in the country cases of Malawi, Rwanda, Uganda and Zambia, and compares the effects observed post-exit to effects during the budget support (BS) period examined in previous evaluations and lately corroborated in DEval's evaluation synthesis on the effectiveness of BS (Orth et al., 2017).

Evaluations across many countries during the GBS period found mostly positive effects (see figure below). These positive effects stand in contrast to the negative developments found after exit. The effects for Zambia are mostly negative, showing they were not robust against the exit. One exception is the sustained level in public expenditure since the exit from GBS.

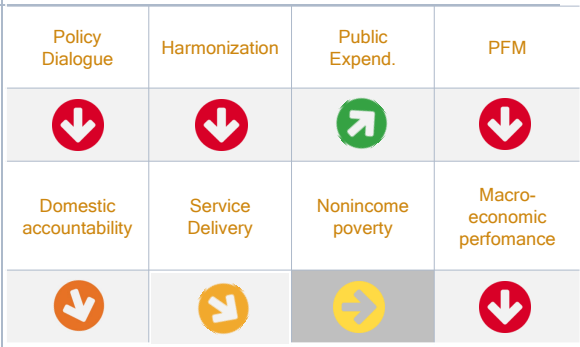
General results of budget support and the exit from budget support



Source: own figure, icons provided by Dave Gandy from www.flaticon.com

Note: The arrows indicate the effect direction and effect magnitude. Arrows facing vertically up/down indicate a strong positive/negative effect. Diagonal arrows indicate that the effect is predominantly positive/negative. Horizontal arrows indicate that there were no or contradictory effects. The shading of the bars indicated the quality of the evidence base from good (solid), medium (darker shade) to weak (lighter shade).

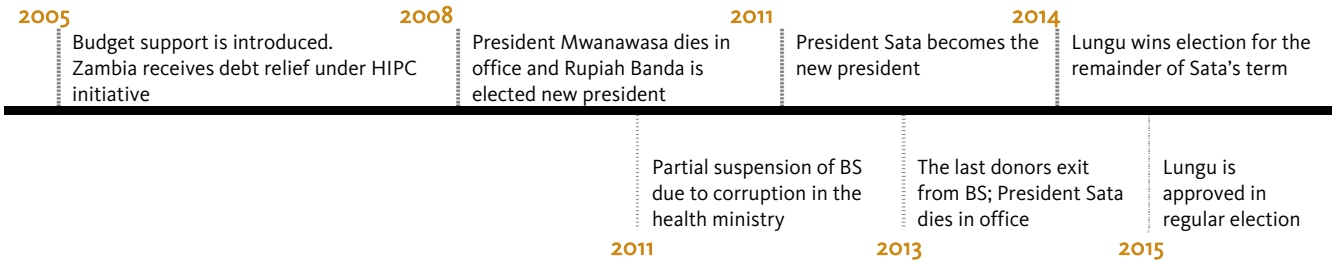
Results for Zambia



Moderately positive effect
No change or opposing effects
Slightly negative effects
Moderately negative effects
Strong negative effects
Good evidence base
Poor evidence base

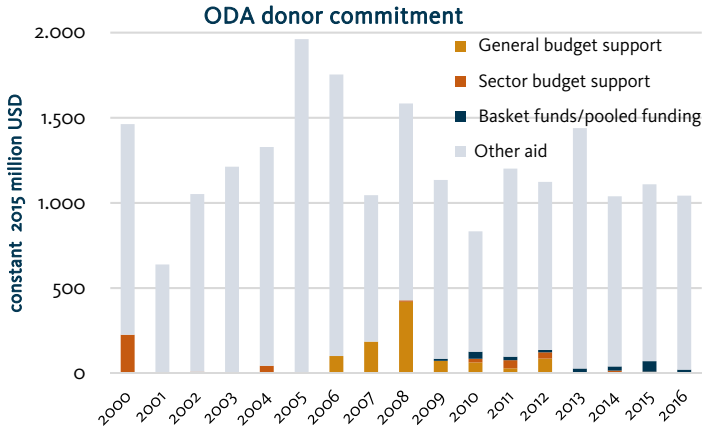
The exit from GBS in Zambia was not the result of one major scandal, but of a gradual process of declining importance of BS. BS disbursement steadily declined from contributing 7% of the budget in 2010, to 3.2% in 2011, reducing further to 0.9% by 2013 and 0.5% by 2014. The reason for this decline was a combination of three main factors: (1) performance indicators were not met; (2) Zambia had developed into a LMIC in 2011; and (3) the general donor appetite for BS per se was decreasing. Due to this evolution, it is hard to say when BS ended exactly. The relevance of BS was only marginal already between 2012 and 2014.

As the world market price for copper reached record highs between 2006 and 2008, foreign investments increased and access to the global capital market (Zambia issued its first sovereign bond on international markets in 2012), allowed the country to become independent from BS and decreased the incentives to meet conditionalities.



Source: own figure.

Changes in aid portfolio, policy dialogue and harmonization



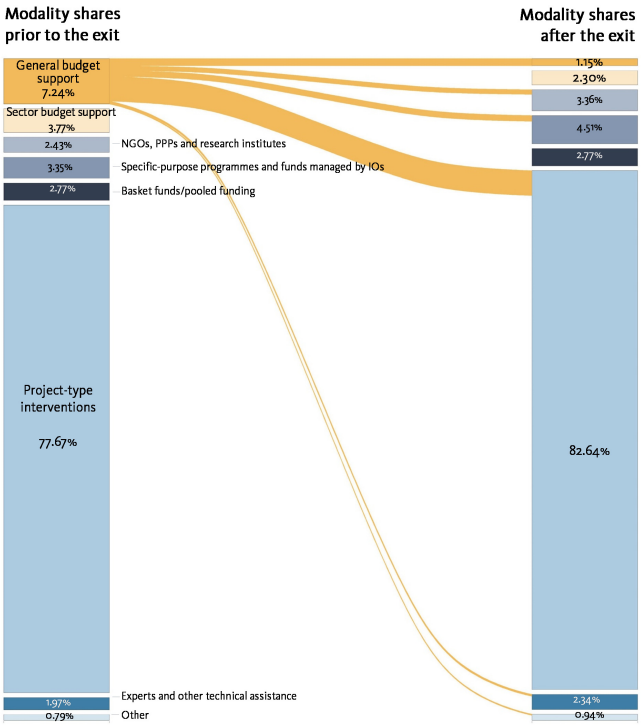
Source: OECD Crditor Reporting System

Since the exit, GBS funds have been reprogrammed mostly towards project-type interventions and some pooled funding. GBS was virtually absent since 2013 and has only partly been replaced by new pooled funding. After the exit, funding was increasingly delivered through project-type interventions and to a lesser degree to multilateral programmes or as funding for private bodies. The level of total ODA increased slightly after the exit.

The donor landscape shifted from harmonization to bilateralization after the exit from GBS. Already towards the end of GBS, harmonization had been declining as the disagreement regarding performance indicators and disbursement decisions became more substantial. The decline of harmonization since the exit is manifested by the increase in off-budget project support. The IMF is considering a return to Zambia with a programme that would focus on fiscal consolidation. This could signal to other donors and investors that confidence in the economy is increasing. The return of an IMF programme has been anticipated since 2014, but has not yet materialized due to two presidential elections, which made the required reforms politically unattractive.

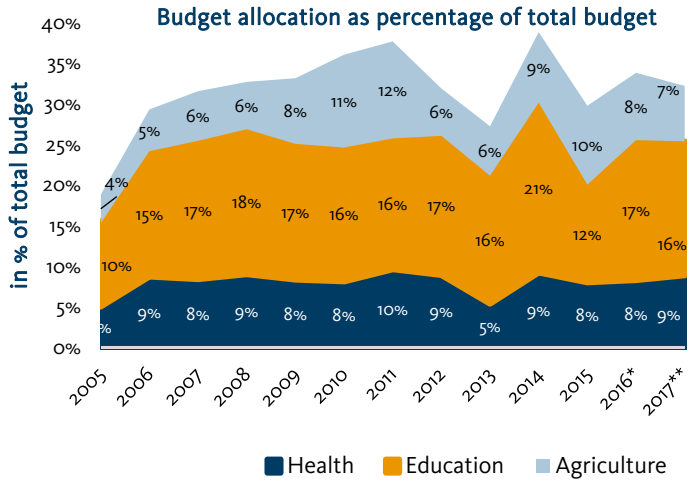
Ending GBS reduced the frequency, quality and inclusiveness of policy dialogue, especially at a higher political level. The abandoned high-level political dialogue was partly replaced by dialogue in the context of the Cotonou Agreement. However, this dialogue forum is less inclusive than that under BS, because only the Government of the Republic of Zambia (GRZ) and representatives of EU member states participate in it. Sector advisory groups are mostly still active, for example in energy and health, but include fewer stakeholders and depend strongly on the priorities of the GRZ and donors. Generally, there seems to be much less willingness of the government to participate in dialogue with the donors than was the case during the disbursement of BS.

Shares of aid modalities before and after the exit



Source: own figure, based on OECD Creditor Reporting System.

Public expenditure



Source: own, based on MoF data

After the exit from GBS, the level and share of public expenditure for education, health and agriculture was sustained, maybe even improved. The budget share for health and agriculture were at higher levels in 2017 than they were in 2013 and earlier. The budget share for education is fluctuating around a 10-year average of 16.5%. Similarly, the level of public expenditure in the three sectors is constant and, if anything, slightly higher than during most of the GBS period. Two presidential elections after the exit (2014–17) seem to be the reason for sustained levels of public expenditure. Public expenditure was probably one way to gain voter's approval for the sitting government. It is surprising that government expenditure increased after the exit, although the exit has eliminated sources of public revenue, which points towards rather unsustainable and debt-reliant fiscal policies.

Public finance management

Since the exit from GBS, the performance in PFM reforms has declined, which can be attributed to the exit from the modality. The omission of a high-level policy dialogue between the GRZ and donors and the associated lack of accountability is one key component in explaining the declining PFM performance. Another reason for the decline can be found in excessive government spending that resulted from the incentives to secure votes in the ongoing elections and avoid budget cuts. To maintain this level of expenditure it was necessary to increase borrowing after the exit. Zambia's debt has increased since the exit – from around 20% of GDP in 2011 to 58% of GDP in 2015. Once the revenues declined owing to the omission of budget support and to declining copper prices, the GRZ did not make the necessary expenditure adjustments, resulting in a substantial build-up of debt.

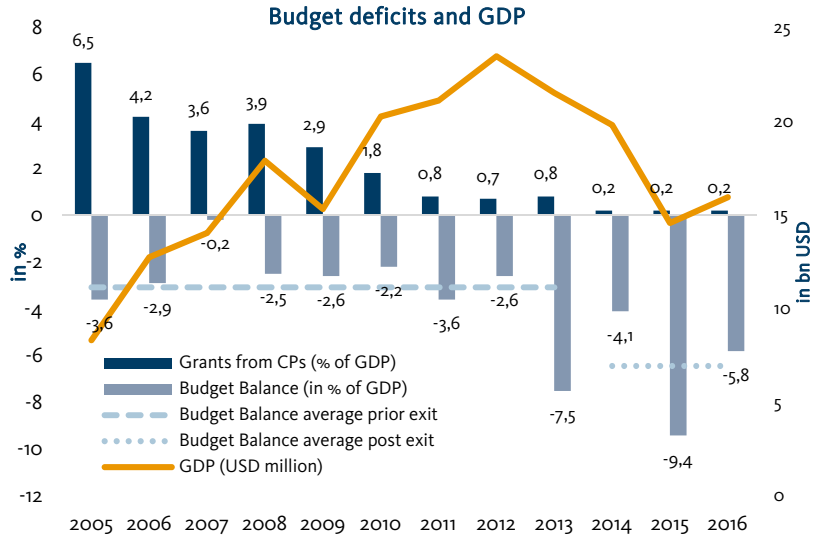
Domestic accountability

The evidence shows that domestic accountability has been declining due to the exit from GBS. Especially the omission of external control and incentives had adverse effects on budget transparency and the supply-side of domestic accountability. The absence of policy dialogue further eliminated the participation of CSOs in the budget formulation process. In addition, the GRZ curtailed press freedom, thereby eliminating communication options for CSOs. The Office of the Auditor General has little or no formalized leverage to enforce or follow up on recommendations. The provided budget documents formally fulfil the conditions for transparency; yet, transparency with practical relevance has been declining since the exit. For example, the information provided cannot be easily interpreted, and in some cases the data is even incorrect.

Service delivery and non-income poverty

The data availability for service delivery allows only a very limited analysis, but **it shows a slightly negative tendency in the area of education service delivery**. It appears that **non-income poverty has not been negatively affected by the exit.** The available data allows few conclusions regarding the effect of the exit on non-income poverty. Between 2013 and 2015, the data does not show substantial changes in the general trends. This is not surprising given that public expenditure in the social sector remained high and that effects might only be detectable after some time.

Macroeconomic performance



Source: own figure, based on MoF data.

Zambia experienced a dramatic decline in terms of macroeconomic performance towards the end of GBS and after the exit. The contribution of GBS to this decline is at best small because GBS had virtually lost relevance for the Zambian budget by the time the macroeconomic performance was deteriorating. As external conditions deteriorated, includ-ing slower regional and global growth and a sharp decline in the price of copper, the fiscal deficit rose and large arrears were building up. The fiscal deficit (including external grants) rose to 9.4% in 2015, up from 2.6% in 2012. Prior to the exit in the period 2005–13 the budget deficit averaged 3.1% of GDP, while after the exit the deficit averaged 6.4% of GDP (see figure above).

The financial gap created by the suspension of GBS was offset by external debt, especially through Eurobonds and new non-concessional sources, which led to a huge increase in the total debt level. Following the exit from GBS, Zambia issued Eurobonds and received non-concessional loans from several countries, including China. At the end of 2014, external public and private debt stood at 24% of GDP compared to 15% in 2011. Because of these external sources, Zambia shifted from a balance between domestic and external debt to a now predominantly externally indebted economy. Moreover, the total level of debt increased from around 30% of GDP before the exit (2013) to levels around 55% in the years following the exit.

Based on

Orth, M., Birsan, M. and Gotz, G. (2018), *The Future of Integrated Policy-Based Development Cooperation. Lessons from the Exit from General Budget Support in Malawi, Rwanda, Uganda and Zambia*, German Institute for Development Evaluation (DEval), Bonn.

Further sources

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Orth. M. et al. (2017), *What We Know about the Effectiveness of Budget Support*. Evaluation Synthesis, German Institute for Development Evaluation (DEval), Bonn.

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