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### **Donor coordination for effective government policies?**

#### Implementation of the new aid effectiveness agenda in health and education in Zambia

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#### **Abstract**

There is a growing interest in the debate on aid effectiveness to assess the impact of aid not only on economic growth and poverty reduction, but also on intermediate outcomes such as health and education. This paper reviews evidence from recent in-depth country work on the impact of government policies and service provision in health and basic education in Zambia, and examines to what extent new aid approaches have contributed to the observed outcomes. It finds that lack of coordination and non-adherence to good aid principles undermine the effectiveness of these approaches. The discussion of the findings sheds light on the underlying political economy and incentive structures on both sides of the aid relation that lead to lax adherence to the principles for more effective aid in these new aid approaches. It

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Keywords: aid effectiveness, health, education, coordination, political economy

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argues that most of the observed coordination failures can be explained by collective action problems on the part of both donors and recipients. If the international aid effectiveness agenda is to move forward, it will have to devise adequate mechanisms to address these coordination disincentives.

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## **Acronyms**

Given at the back of the paper

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## 1 Introduction

The question whether development aid is effective and contributes to growth and poverty reduction is as old as aid itself. Since the mid-1990s, however, the academic debate on aid effectiveness gained significant momentum with the fundamental scepticism expressed in the work by Boone (1995), Easterly (2001, 2003, 2006) and others. While more recent synthetic work such as Mekasha and Tarp (2011) points to an overall positive impact of aid, the debate on whether aid contributes to economic growth or simply increases unproductive government consumption and waste remains controversial.<sup>1</sup>

At the same time, the relevance—or rather focus—of this debate on growth as the main outcome of aid itself is increasingly put into question,<sup>2</sup> mainly for two reasons: for one, as noted by Roodman (2007) and Bourguignon and Sundberg (2007), the causality chain leading from aid to ultimate outcomes (usually growth) has been largely ignored in the empirical literature. Bourguignon and Sundberg (2007: 316) argue that unless this ‘black box’ is opened and the relevant transmission channels better understood, little progress can be expected from the debate on the impact of aid on growth.

In addition, Arndt, Jones and Tarp (2011), who address the challenge of unpacking this black box by decomposing transmission channels from aid to outcomes, argue that the interest in these transmission channels is also important in itself. This is because many intermediate outcomes of aid such as basic health or primary education are valued regardless of their contribution to growth, as achievements in these sectors are considered crucial for development progress and poverty reduction based on a multi-dimensional poverty concept (*ibid.*: 1).<sup>3</sup>

As a matter of fact, at least for the past decade, a significant share of aid has been directed towards the Millennium Development Goals (MDGs),<sup>4</sup> in particular those related to health and educational outcomes. For instance, according to OECD-DAC data, education aid almost doubled in real terms between 1995 and 2010, averaging 9 per cent of total official development assistance (ODA), while health allocations almost tripled, accounting for 5 per cent of total ODA.<sup>5</sup> Total health sector funding reportedly quintupled between 1990 and 2011 from US\$5.82 billion to US\$27.73 billion (Álvarez and Acharya 2012: 1). Hence, there is a growing interest in understanding what works and what does not with aid aimed at specific intermediate goals and sector outcomes, such as health and education, rather than evaluating its macroeconomic impact on growth rates.

In two recent survey studies, Álvarez and Acharya (2012) and Riddell (2012) review the existing evidence on the effectiveness of aid on health and education, respectively. They find that aid has made a positive contribution in both sectors but that its effectiveness has been

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<sup>1</sup> For a recent study that questions the growth impact of aid, see Nowak-Lehmann et al. (2012).

<sup>2</sup> For example, see Clemens, Radelet and Bhavnani (2004; 2011); Dreher, Nunnenkamp and Thiele (2006); Michaelowa (2004); or Mishra and Newhouse (2009).

<sup>3</sup> Arndt, Jones and Tarp (2011) find that health and physical investment represent the most important transmission channels through which aid has a positive effect on growth. They also find a positive effect of aid on education outcomes, albeit with an ambiguous growth effect.

<sup>4</sup> See [www.un.org/millenniumgoals/](http://www.un.org/millenniumgoals/) (accessed 8 March 2012).

<sup>5</sup> OECD/DAC International Aid Statistics (CRS) (accessed 8 March 2013).

undermined by systemic weaknesses and failures in its provision, in particular with regard to fragmentation and insufficient coordination of aid efforts. Most interestingly, both studies argue that the introduction of new aid approaches and instruments such as sector-wide approaches (SWAPs) and budget support in the past 10 to 15 years had the potential to (and probably did) make aid in these sectors more effective. However, both studies conclude that the effectiveness of these new approaches to sector aid could have been greater, had they been implemented more rigorously, with more comprehensive adherence to ‘good aid’ principles such as harmonization, alignment and ownership (Álvarez and Acharya 2012: 30; Riddell 2012: 22, 36-37).

Notwithstanding such generally positive assessments, evidence on the effectiveness of SWAPs and budget support in health and education is still patchy. This paper therefore aims to complement the cited research by investigating to what extent these findings are supported by evidence from a recent in-depth country work in Zambia, commonly regarded as one of the showcases of early adoption of ‘good aid principles’ and new aid approaches. It presents findings from recent evaluations that examine the impact of government policies and service provision in health and (primary) education and examines to what extent reformed aid approaches have contributed to the observed outcomes.

There are good reasons for choosing Zambia as a case study: Zambia is commonly perceived as one of the forerunners with respect to adopting the new aid effectiveness agenda. Second, and probably in part a consequence of the first point, the body of research on aid effectiveness in Zambia is fairly large, in particular with respect to the ‘aid darling’ sectors, health and primary education, where the aid effectiveness agenda has arguably been taken forward most consistently.

This paper focuses on donor coordination and alignment as the principles for more effective aid, and attempts to trace the effectiveness of donor support to health and education in Zambia for the success or failure in implementing these principles. It analyses insufficient coordination as a main determinant of incomplete implementation of new aid approaches and sheds light on the underlying political economy and incentive structures on both sides of the aid relation.

Based on this analysis this paper asks: did new aid modalities really help to improve the effectiveness of aid in Zambia? Or more specifically: in the provision of aid to Zambia’s health and (primary) education sectors through new aid modalities such as sector-wide approaches (SWAPs) or budget support, what works, what does not and why? Based on the findings, the paper then goes on to ask whether the increasing donor scepticism towards new aid approaches and more comprehensive aid coordination is justified by empirical evidence in the case of Zambia.

The remainder of this paper is structured as follows. Section 2 provides the background on the international aid effectiveness debate and the efforts to make aid more effective through adherence to internationally agreed principles. Section 3 presents Zambia as a showcase for the early adoption of this agenda but also discusses to what extent the implementation of the principles remained incomplete. Section 4 describes developments in the country’s health and education sectors and reviews the evidence that improved donor coordination and alignment under the new aid approaches contributed to development outcomes. It also discusses to what extent the incomplete implementation of aid effectiveness principles has constrained the effectiveness of those approaches. This discussion largely relies on the findings of a recently

conducted impact evaluation of budget support in Zambia (de Kemp, Faust and Leiderer 2011) and other evaluation studies. The final section presents explanations for the observed coordination failures from a political economy perspective, draws conclusions and discusses the implications for the shaping of the future international aid effectiveness debate.

## **2 Background: the international debate on aid effectiveness**

Somewhat disconnected from the academic debate on the impact of aid, but by no means less heated and controversial, is the aid effectiveness debate that has been ongoing in the international political arena since the turn of the millennium. Beginning with the Millennium Declaration (primarily calling for more aid) and followed by the so-called High Level Fora, in Rome, Paris, Accra, and most recently in Busan, a broad international consensus on the principles for more effective aid has been shaped, and is commonly referred to as the international aid effectiveness agenda.

At first glance, this international aid effectiveness agenda and its principles have prompted significant policy re-orientations, institutional and procedural reforms and the introduction of new aid modalities and instruments. This was accompanied by substantial investments in capacity and time to monitor and evaluate the implementation of this agenda. However, while most assessments argue that the agenda has helped to significantly improve donor coordination and the quality of aid, there is still no clear picture as to whether foreign aid has become more effective in terms of achieving the poverty reduction and development objectives.

At the same time, weaknesses of the agenda have become apparent and, more importantly, there is increasingly strong evidence of a certain ‘coordination and harmonization fatigue’ among donors and diminishing political will to follow through with the reform agenda. It is against this background that one of the questions this paper asks is whether the apparent disenchantment of donors with the aid effectiveness agenda is based on evidence of a lack of impact or whether there are good arguments to continue pushing for implementation of the core principles and commitments of this agenda.

### **2.1 What we know does not work: the criticism of ‘traditional’ aid**

Regardless of the academic debate on whether robust proof of a positive impact of aid on growth and poverty reduction in developing countries does or does not exist, there is a nearly universal consensus that aid has certainly not been as effective as it could have been. This insight stems less from the ever more increasingly sophisticated quantitative research into aid’s effectiveness than from the plethora of experiences and (often anecdotal) evidence on the inefficiencies and perverse incentives created by the way aid has been provided for the past 60 years or so.

Much of the criticism expressed by practitioners and researchers alike has to do with the fragmented and ‘supply-driven’ mode of aid delivery that has evolved since western governments’ aid to developing nations picked up in 1960s. The ‘standard’ mode of aid delivery then was the stand-alone project and, thus, the criticism mostly focuses on the inefficiencies and disincentives created by this type of aid projects, including, alia:

- high transaction costs;

- an emphasis on donor rather than recipient priorities, generating little ownership by recipients for the development process;
- a weakening of recipients' own administrative and political capacities due to parallel systems for managing aid resources;
- only locally and temporally confined effects, with little impact on structural and systemic challenges in developing countries, and
- an overall lack of allocative and operational efficiency due to nontransparent and unpredictable provision of resources with a strong bias against financing recurrent costs (Leiderer 2012: 2).

As a consequence, projects have widely been associated with ineffective, costly, unsustainable and donor-driven aid.<sup>6</sup> What is more, project-based aid was not only the result of, but promoted in itself, the fragmentation of the international aid system. It is this fragmentation of aid agencies, instruments and processes that is widely blamed for creating the inconducive incentives on both sides of the aid relation that undermine the overall effectiveness of aid (Acharya et al. 2006; Aldasoro, Nunnenkamp and Thiele 2009; Bigsten 2006; Frot and Santiso 2009; Halonen-Akatwijuka 2004; Knack and Rahman 2004; OECD/DAC 2009).<sup>7</sup> Against this background, one of the main priorities of the new aid effectiveness agenda that began to take shape around the turn of the millennium was thus to reduce fragmentation by promoting coordination and harmonization among aid donors (Ashoff 2004; Bigsten 2006: 1; OECD-DAC 2003).

## **2.2 The 'new' aid effectiveness agenda: from Rome to Busan**

The present international aid effectiveness agenda was shaped predominantly through the international 'High Level Fora' that took place in 2003 (Rome), 2005 (Paris), 2008 (Accra) and 2011 (Busan) and the respective outcome documents.

The Rome Declaration of 2003 primarily emphasized the general need for more harmonization among donors in order to reduce transaction costs of aid and thus increase its effectiveness. The Paris Declaration on Aid Effectiveness (High Level Forum, HLF 2005) in turn went much further by prescribing five principles (ownership, alignment, harmonization, mutual accountability, managing for results) and a total of 56 'commitments' from both sides (aid donors and recipients) to increase the effectiveness of aid. The 'Accra Agenda for Action' (HLF 2008) mostly reconfirmed commitments made in Paris four years earlier.

From the outset the Busan meeting (HLF 2011) was less ambitious with regard to new commitments and binding principles. Its main objective consisted of balancing two opposing challenges: (i) to maintain the effectiveness agenda momentum of earlier years with the actors who had been involved from the beginning; and (ii) to attract new entrants because economically successful Asian states and private foundations (such as the Bill and Melinda Gates Foundation) were gaining significance—and not only from a financial point of view—

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<sup>6</sup> It should be noted that these criticisms do not apply to each and every project ever implemented. Depending on circumstances, projects can have—real or perceived—advantages over other forms of aid, for instance when it comes to implementation efficiency or fiduciary risks. Moreover, a project approach does not automatically imply that the Paris principles are not—at least partly—respected.

<sup>7</sup> Knack and Rahman (2004), for instance, show that aid fragmentation undermines the quality of government bureaucracy in recipient countries.

thus rendering the ‘traditional’ OECD donor group less important (Klingebiel and Leiderer 2011).

At the level of aid modalities and instruments, the Paris/Accra Agenda strongly advocates for the use of the recipients’ own systems and processes for planning, managing and controlling the use of aid resources. At the centre of this new aid philosophy are so-called ‘programme-based approaches’ (PBAs) that the OECD-DAC defines as a way of engaging in development cooperation based on the principles of coordinated support for a locally owned development programme, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organization. According to this definition, PBAs are characterized by: (i) leadership by the host country or organization; (ii) a single comprehensive programme and budget framework; (iii) a formalized process for coordination and harmonization of donor procedures for reporting, budgeting, financial management and procurement; (iv) efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation (OECD-DAC 2006: 37).

While the Accra Agenda for Action (HLF 2008) was mostly a reconfirmation of the principles and guidelines formulated in the Paris Declaration, the Busan outcome document (HLF 2011) is perceived by some observers as a step backwards with respect to concrete agreements and commitments on how to strengthen the effectiveness of aid (Better Aid and Open Forum 2012; CABRI 2012; Kindornay and Samy 2012). This is because prior to the recent HLF in Busan, the ‘traditional’ OECD donors faced a fundamental dilemma. They had to make the difficult choice between *broadening* the consensus on the agenda by getting new actors such as the economically successful Asian states and increasingly important private foundations (such as the Bill and Melinda Gates Foundation) involved in the future architecture for aid and development; or *deepening* the agenda by continuing to work towards adherence to the Paris/Accra principles and agreement to new and concrete commitments to overcome the implementation backlog (Klingebiel and Leiderer 2011).

The choice that was ultimately taken was arguably the option of broadening rather than deepening the agenda. The Busan HLF has been highly praised for getting ‘new’ stakeholders (most prominently China) involved in the future development effectiveness architecture, but it has also been criticized for backtracking on more concrete commitments.

But not only do many perceive the Busan agreement to be a compromise on—if not legally, then at least politically binding—some of the concrete commitments made in the Paris Declaration in the interest of ‘enlarging’ the partnership. There is also a widespread impression of a growing ‘harmonization and coordination fatigue’ among traditional OECD-DAC donors and the fear that much of the momentum to implement the Paris Declaration principles has been lost (Álvarez and Acharya 2012: 31; Bigsten and Tengstam 2012: 6; IEG 2011: 24; Kachingwe 2009; KPMG 2011: 5; Wood et al. 2011: 59). There is a clear risk that important donors may back down on the implementation of the agenda for various reasons, including frustration with cumbersome coordination processes as well as mostly unrelated domestic political dynamics (Faust et al. 2011).<sup>8</sup> It seems that bilateral donors in particular

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<sup>8</sup> This overall impression is reinforced by the post-Busan process currently under way, which points to a much less binding future architecture following a ‘global light—country heavy’ philosophy in which issues such as donor fragmentation are to be dealt with in so-called building blocks. In these largely self-organized building blocks, discussions are to be led at an explicitly non-technical level (i.e., abstract and without clear commitments) (Kindornay and Samy 2012; OECD 2012).

are beginning to doubt whether the gains in aid effectiveness promised by the Paris/Accra Agenda are worth its political costs in terms of loss of influence and visibility of individual donors (Vollmer 2012). Taken together, these developments could mean that the ‘peak’ of Paris/Accra Agenda is already over before it could prove its worth.

### **2.3 Does it work? How little we know**

The new aid effectiveness agenda has clearly had a major impact on the global aid architecture and many aspects of western aid provision. Compared to 20 to 25 years ago, aid is argued to have become more transparent, better coordinated and in many instances less donor-driven (Killen 2011; Wood et al. 2011: xii). An international evaluation of the implementation of the Paris Declaration found that while these changes may not yet have reduced the overall burdens of aid management as hoped, they do seem to have contributed to a better quality of aid, to more transparent and effective partnerships, and to supporting rising volumes of aid (Wood et al. 2011: xii). More specifically the evaluation claims that the ‘campaign has made several significant differences to aid effectiveness by clarifying and strengthening norms of good practice, contributing to movement towards the eleven outcomes set in 2005,<sup>9</sup> improving the quality of aid partnerships, and supporting rising aid volumes’ (Wood et al. 2011: xiii). Country studies that were conducted as part of this evaluation reportedly find evidence that the reforms in the spirit of the Paris Declaration have led to more focused, efficient and collaborative aid efforts, particularly at the sector level, contributing to better and more sustainable development results (ibid.: 56).

This positive assessment is somewhat surprising as it appears to be in stark contrast to the results of the 2011 Survey on Monitoring the Paris Declaration, which finds that at the global level, and despite considerable progress on most targets, only one (‘strengthen capacity by coordinated support’) out of the 13 targets formulated for the implementation of the Paris Declaration had been met by 2010.<sup>10</sup> According to this study, it is the donors who lag behind in fulfilling their commitments (OECD 2011c: 15).

Implementation of the agenda is thus very sketchy. In addition, there are so far very few attempts to rigorously assess the impact of ‘Paris-compliant’ aid modalities such as sector-wide approaches or budget support, and the evidence base is still very thin.<sup>11</sup> It is in that context that the question arises whether the development results observed among aid-

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<sup>9</sup> In order to assess whether aid effectiveness would improve, the Paris Declaration opening paragraphs conceptualized eleven intended outcomes that were seen as the solution to the main problems of aid (HLF 2005: 1; Wood et al. 2011: xiii).

<sup>10</sup> Notably, the only indicator assessed as ‘met’ in the 2011 survey (measured by the percentage of technical cooperation implemented through coordinated programmes consistent with national development strategies, with a target value of 50 per cent for 2010) had already been exceeded in 2007, pointing to an arguably under-ambitious target.

<sup>11</sup> A first major international effort to evaluate the effectiveness of budget support was undertaken in 2004/5 with seven case studies (IDD and Associates 2006) but concluded that it was too early to assess impact. A second round of evaluations was undertaken in 2010/11 in Mali, Tunisia, and Zambia, producing overall positive findings with regard to the effectiveness of this aid modality (Caputo, de Kemp and Lawson 2011). Other studies have assessed the effectiveness of sector budget support (e.g., ODI and Mokoro 2009) or sector-wide approaches (e.g., Pearson 2010), but so far there is little general evidence beyond individual case studies.

recipient countries can really be attributed to the—evidently incomplete—implementation of the Paris/Accra Agenda.<sup>12</sup>

### 3 Showcase Zambia: an early adopter in the aid effectiveness debate

#### 3.1 Zambia’s history of aid

After its independence in 1964, Zambia experienced a brief period of financial autonomy (Wohlgemuth and Saasa 2008: 1). However, since the 1970s, the country has relied to varying degrees on financial assistance from external donors. In an attempt to cope with severe external shocks on its undiversified economy, Zambia began engaging in financing agreements with external donors, which by 1984 had resulted in the world’s highest debt-to-GDP ratio (138.3) of that time (Fraser 2007: 13; Saasa and Carlsson 2002: 39). But aid flows dried up when the government abandoned the IMF-prescribed structural adjustment agenda and refused to comply to debt service regulations in the late 1980s (de Kemp, Faust and Leiderer 2011: 54).

Only after a change of government in 1991 did the new administration take up the structural adjustment agenda again and make attempts to re-attract international donors. In the following years aid flows rose to unprecedented levels at an annual average of US\$951 million between 1990 and 1994. ODA receipts in 1995 reached a record high of US\$2.1 billion but declined drastically by 70 per cent in 1996 as donors began to increasingly questioning government policies. Nonetheless, in 2000 Zambia was declared eligible for debt relief under the Highly Indebted Poor Country (HIPC) Initiative and in 2005 its total foreign debt was reduced from US\$7.1 billion to US\$4.5 billion, significantly reducing the debt service burden (see Table 1). In 2006 Zambia’s debt stock was further reduced under the Multilateral Debt Relief Initiative (MDRI) to around US\$0.5 billion.

As Table 1 shows, aid flows during the 2000s remained high but after the debt relief, Zambia’s dependence on foreign aid diminished. Net ODA as a percentage of government expense dropped from a peak of 137 per cent in 2002 to a mere 33 per cent in 2010.

Table 1: Total net aid to Zambia, US\$ million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Grants	523	589	699	931	974	1909	4711	910	1032	954	780
Loans (net)	272	-18	113	-157	156	737	-3244	98	84	313	134
Total	795	571	811	775	1130	1172	1467	1008	1116	1267	914
Aid % of GNI	25.8	16.4	22.8	18.3	22.2	17.8	15.4	10.0	8.4	11.1	6.4
Aid per capita (US\$)	78	55	76	71	101	102	125	84	90	100	71
Aid as % of government expense	n/a	99	137	100	104	71	81	39	37	57	33
Total debt service as % of GNI	6.1	5.4	6.4	13.3	9.3	4.3	1.5	1.2	1.3	1.4	1.0

Source: OECD-DAC Statistics/World Development Indicators.

<sup>12</sup> This doubt is fortified by the fact that even the Paris Declaration evaluation report concedes: ‘The strongest evidence of this effect is in the health sector, examined in depth in the country evaluations. Beyond this “tracer” sector, this evaluation does not have sufficient evidence to track contributions of aid reforms to wider development results such as accelerating achievement of the other Millennium Development Goals’ (Wood et al. 2011: xv).

According to some sources, the share of aid recorded in the government's budget dropped from an average 43 per cent between 2000 and 2005 to 30 per cent in 2007 and around 20 per cent by 2009 (Chigunta and Matshalaga 2010: 7-8; de Kemp, Faust and Leiderer 2011: 54-55; Wohlgemuth and Saasa 2008: 2-3). Despite its declining role as a share of the national budget, aid nevertheless remains important for the government's actual fiscal space and public investment expenditure, as domestic revenue barely covers the government's (mostly statutory) recurrent expenditure (de Kemp, Faust and Leiderer 2011: 126-27).

According to the Zambian Ministry of Finance, by the end of 2010 there were 28 donors providing ODA<sup>13</sup> to the country and aid was strongly concentrated with just three donors (European Commission [EC], United States, the UK) providing around one third of total ODA receipts between 2006 and 2009 (RoZ 2011: 13). The ten largest donors between 2006 and 2009 were all signatories to the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

Despite this concentration of ODA from a handful of supposedly like-minded donors, coordinating donors and managing aid resources posed a major challenge for Zambia's government prior to the implementation of the Paris-Accra Agenda. This was partly due to inadequate structures on the government's side, but was also exacerbated by poor donor coordination and 'unharmonized' procedures (see box in Annex). To overcome such coordination failures, donors in Zambia began experimenting as early as the mid-1990s with new mechanisms such as a sector-wide approach (SWAp) in the health sector, supported through pooled (or 'basket') funding mechanisms with the explicit aim to improve harmonization and alignment of donor support. Similar mechanisms were later introduced in education and to support a comprehensive public financial management reform programme.

In 2002, the EC started to provide general budget support to Zambia, and later in April 2005, the World Bank, the UK and the Netherlands joined the EC and, together with the government, signed a joint memorandum of understanding on the provision of poverty reduction budget support (PRBS). They were soon joined by Sweden, Norway, Germany, Finland and the African Development Bank (Leiderer and Faust 2012: 75), forming a PRBS group of nine donors. Between 2005 and 2009 budget support from the PRBS group (including loans) increased steadily from US\$75.8 million to US\$225.5 million, a level that was roughly maintained at US\$220.9 in 2010 (de Kemp, Faust and Leiderer 2011). In 2005, the EC also began to provide sector budget support for roads and to support the public financial management reform programme PEMFA.<sup>14</sup> In addition, from 2006 to 2008, the EC initiated a pilot sector budget support (SBS) programme in health, disbursing some US\$27.7 million between 2007 and 2009 (Leiderer and Faust 2012: 78).<sup>15</sup>

The basis for these programme-based aid approaches in the second half of the 2000s was the Zambian Fifth National Development Plan (FNDP). As successor to the country's first

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<sup>13</sup> There are reports of more aid flows being channelled to the country but these are not always well documented, making it difficult to assess their importance (RoZ 2011: 13). The OECD's Creditor Reporting System lists 37 countries, institutions, and programmes providing ODA to Zambia between 2006 and 2009 ([www.stats.oecd.org/Index.aspx?datasetcode=CRS1#](http://www.stats.oecd.org/Index.aspx?datasetcode=CRS1#), accessed 18 March 2013).

<sup>14</sup> Public Expenditure Management and Financial Accountability.

<sup>15</sup> From 2006-07, the UK earmarked some US\$5 million of its general budget support to the health sector. In 2008, however, the UK gave up the traceability requirement for its health sector budget support and henceforth only nominally earmarked a share of its PRBS for the Ministry of Health (Leiderer and Faust 2012: 78).

poverty reduction strategy paper (2002-04), the FNDP, covering the period 2006-10 articulated the country's medium-term strategic goals and priorities in 20 sectors. It represents the first stage of the nation's long-term plan 'Vision 2030' (Chigunta and Matshalaga 2010: 11; Leiderer et al. 2012).<sup>16</sup>

### **3.2 Implementing the aid effectiveness agenda in Zambia**

#### *The promises...*

In many respects, Zambia is a showcase for the adoption of the new aid effectiveness agenda. Various instruments and initiatives linked to this agenda, including one of the first SWAps and basket funding mechanisms, were pioneered by the Zambian government and its development partners. Zambia was also one of the first countries to introduce a joint assistance strategy and a formalized division of labour (DoL) between donors (Pereira 2009: 8).

Some of these initiatives predate the 2005 Paris Declaration on Aid Effectiveness and even the Rome Declaration on Harmonization of 2003. A 'harmonization in practice' (HIP) study was undertaken as early as 2002 (Saasa and Claussen 2003), identifying immediate steps as well as a longer-term process to improve the effectiveness of aid to Zambia (OPM 2010b: 7). Already one year after the HIP document<sup>17</sup> was signed by seven donors (Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom) in March 2003, it was replaced by a new memorandum of understanding (MoU) to create the 'Wider Harmonization in Practice' (WHIP) group, following the decision of all the major donors remaining in the country to join the initiative (Chigunta and Matshalaga 2010: 14).<sup>18</sup>

The signatories to the WHIP memorandum of understanding (MoU) agreed to eight joint coordination and harmonization principles, including the commitment to deliver development assistance in accordance with Zambia's needs and priorities as outlined in its poverty reduction strategy; to align with the government's own systems for budgeting, financial management and monitoring; to promote coordination and harmonization at all levels; and to work towards further division of labour and delegated cooperation and improved information-sharing (RoZ and CPs 2004: 2).<sup>19</sup> One of the key WHIP recommendations was the formulation of an aid policy and strategy by the government to provide guidelines and procedures for coordination and harmonization, ODA agreements, technical assistance, and financial and accounting systems (ibid.: 3; OPM 2010b: 7).<sup>20</sup>

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<sup>16</sup> Compared to other African countries, the PRSP formulation process involved relatively strong participation of civil society, which according to some analyses went beyond mere consultation (Eberlei and Siebold 2006; Eberlei 2008). There is no particular evidence that the FNDP process was unduly driven by donor priorities, although donor interest and participation in the process were high (Eberlei 2005: 99).

<sup>17</sup> This was the 'Harmonization of Donor Practices for Aid Effectiveness in Zambia'.

<sup>18</sup> Germany, the World Bank and the United Nations mission in Zambia joined first. Japan, Canada, France, Italy, the European Union soon followed suit and in July 2006, the United States appended its signature to the WHIP MoU (Chigunta and Matshalaga 2010: 9).

<sup>19</sup> The WHIP MoU contains an annex with specific actions and associated deadlines intended to promote ownership, alignment, and harmonization through such actions as increased use of budget support, establishment of more SWAps, increased reliance on government systems for procurement, fund management and auditing (Chigunta and Matshalaga 2010: 9-10).

<sup>20</sup> The HIP and the WHIP initiatives also laid the groundwork for setting up a development assistance database (ZDAD) (OPM 2010b: 19). The ZDAD was intended as a survey instrument to collect data from CPs and track planned and actual donor resource inflows. Officially launched in 2008, it has not been implemented to date,

Zambia's aid policy and strategy (RoZ 2005), developed during 2005, was adopted by the government in 2007. Although it has been criticized as mostly constituting an administrative document, focusing predominantly on problems within Zambia's bureaucracy (Wohlgemuth and Saasa 2008: 6),<sup>21</sup> it does formulate guiding principles for aid policy in Zambia, including respect for country ownership and the enhancement of true partnership through dialogue, coordination, harmonization, alignment and information-sharing (RoZ 2005). Based on these principles, the strategy makes detailed commitments for strengthening the government's planning, budgeting and financial management systems (Wohlgemuth and Saasa 2008: 6) and outlines the challenges in its implementation, most importantly the political will to assume local ownership and leadership of aid management; the commitment to dialogue, coordination and information-sharing; and the need for capacity building and capacity retention (GRZ 2005: 33-34). However, failure to reach an agreement with donors (or 'cooperating partners', CPs) on the coordination framework and implementation of the aid policy and strategy meant that the process remained somewhat incomplete (OPM 2010b: 7).

Another key initiative for better aid coordination following the HIP/WHIP process was the formulation of a 'joint assistance strategy' for Zambia (JASZ) in 2007 as the CP's joint response to government's aid policy and strategy, its Vision 2030 and the Fifth National Development Plan (Cooperating Partners 2007a: 3; Wohlgemuth and Saasa 2008: 7-8). In essence, the JASZ represents a medium-term framework for donor coordination along the five Paris principles, formulating commitments and actions aimed at making aid to Zambia more effective (OPM 2010b: 7). Signed by 16 donors,<sup>22</sup> who form the so-called Cooperating Partners Group (CPG), it is arguably the most important dialogue forum in Zambia for donor harmonization and coordination.<sup>23</sup> Table 2 provides an overview of the most important policy agreements for taking the aid effectiveness agenda forward in Zambia.<sup>24</sup>

One core element of JASZ was a formalized division of labour (DoL) process. Under this arrangement, a 'lead partner' is appointed for each sector, thematic area and sub-sector to lead and coordinate the support and dialogue of other partners in that area.<sup>25</sup> In each theme, the lead donor is expected to speak and act on behalf of the other CPs active within that particular sector (OPM 2010b: 41).

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partly due to CPs refusal to provide solicited data in the required format (Leiderer and Faust 2012: 172; Liebenthal 2007: 18; OPM 2010b: 37).

<sup>21</sup> Originally, the draft aid policy and strategy included two chapters on a framework for the implementation of the aid policy, and an aid coordination framework. These chapters, however, were not adopted as part of the final policy stance because of pressure by CPs to exclude them (OPM 2010b: 21; Saasa 2010b: 49).

<sup>22</sup> Twelve bilateral donors plus the EC, the UN, the World Bank and the African Development Bank.

<sup>23</sup> The CPG, in turn, consists of two dialogue and coordination fora, namely, the CPG Heads of Cooperation (HoC), who address operational multi-sector issues as well as strategic development policy issues, and the CPG Heads of Mission (ambassadors), who handle the more strategic dialogue at the highest government level (OPM 2010b: 12,19). The CPG HoC is led by a troika of two bilateral and one multilateral donor agency, which also serves as the group's secretariat. Non-signatory CPs may attend these fora as observers only (OPM 2010b: 19).

<sup>24</sup> In 2008, building on the JASZ, the CP group also developed a 'code of conduct on capacity development'. Based on 15 principles on the provision of technical assistance, the document is aimed at improving the 'effectiveness, efficiency and impact of technical assistance from both project support and direct budget support to Zambia'. However, this code of conduct seems have very little practical relevance (CPG 2008: 1; Leiderer and Faust 2012: 108).

<sup>25</sup> In some cases, leadership is assumed by a group of donors through the so-called troika arrangements (OPM 2010b: 41).

Table 2: Policy agreements for aid harmonization in Zambia

Year	Policy agreement
2003	HIP
2004	WHIP
2005	PRBS MoU
2006	Zambia Aid Policy and Strategy
2007	JASZ

Source: Based on Saasa (2010b).

Another element was the commitment by the CPs to respect the government's preference for budget support as much as possible and to coordinate their support through the sector advisory groups (SAGs), which had been introduced as part of the PRSP process (OPM 2010b: 23). The 21 SAGs, chaired by permanent secretaries of the leading ministries, are to monitor the implementation of the national development plan and to review sector outcomes and performance. The purpose of the SAGs is to bring together the government and all major stakeholders, including donors, civil society bodies, and members of the private sector (Gerster and Chikwekwe 2007: 11). Their mandate covers the discussion of intra-sectoral allocation of resources and related expenditures, and ensuring that annual sector budgets presented to the Ministry of Finance reflect sector priorities, and that they are in line with the goals and objectives of the FNDP and are linked to local development plans at the district level (MoFNP 2008: 5).

Pre-dating the JASZ, the introduction of multi-donor budget support in 2005 provided the PRBS donors with a formalized platform for implementing the principles of the aid effectiveness agenda in line with government preferences outlined in the aid policy and strategy. Around the PRBS, a comprehensive dialogue and coordination framework was established, involving different fora such as a 'joint steering committee', 'joint executive committee', and bi-annual meetings which take place as part of the 'joint annual review' (JAR) process that provides the link to the sector dialogue conducted in the SAGs (Leiderer and Faust 2012: 64).

As a consequence of these processes and initiatives, the formal elements to effectively implement the Paris/Accra Agenda for more effective aid were in place in Zambia by 2007: including a comprehensive national poverty reduction and development strategy; a formalized dialogue structure to involve and coordinate a broad range of stakeholders (including donors) in sector policy formulation and budget planning; a joint donor strategy to align foreign assistance to national priorities, working through the provided coordination mechanisms, and improving efficiency through a formalized division of labour between donors; and mechanisms to provide assistance through programme-based approaches such as sector pools and sector and general budget support.

*... and the reality*

At first glance, Zambia thus does indeed appear to represent an early and comprehensive adoption of the Paris/Accra aid effectiveness agenda, at least in terms of commitments made and strategies formulated. A closer look, however, reveals that even though actual implementation of the agenda has been more successful in Zambia than in many other countries, at the same time the process has been less than smooth and certainly far from complete.

Zambia took part in all three rounds of the Paris Declaration monitoring surveys conducted in 2006, 2008 and 2011. OECD's most recent survey finds that Zambia since 2005 has made progress towards applicable targets on eight indicators (including on 'alignment' and 'harmonization'), but recorded setbacks in four. However, only three targets were met and substantial gaps remain, in particular with regard to the use of common arrangements and aligning aid with national priorities. The survey also finds that Zambia moved backwards on 'mutual accountability' while progress on the principle 'managing for results' was slim (OECD 2011a: 1).

Zambia also participated in both phases of the international evaluation of the Paris Declaration (with results for Zambia published in 2010 and 2011).<sup>26</sup> Phase I of the evaluation was mainly a stocktaking exercise of the implementation progress, whereas the declared objective of Phase II was to trace the contribution of aid to development results (RoZ 2011: 1), with health and agriculture serving as case studies. While the Phase II country report for Zambia may not fully satisfy the ambitious goal of rigorously attributing to aid's development results and the Paris/Accra Agenda,<sup>27</sup> it does produce valuable insights into the extent to which the Paris principles were or were not implemented and how this arguably affected the effectiveness of international aid.

With regard to the Paris principle of 'ownership', for instance, the evaluation finds that government leadership and ownership for the development process have increased as reflected in the collaborative development planning processes, national strategies and operational frameworks. However, ownership is not uniform across sectors and weak capacities in critical areas have limited the potential benefits of these processes, as the link to budgeting and prioritization—and thus to implementation—has been weak (RoZ 2011: 32, 67). In particular, analytical capacity of the country's aid coordination institutions was generally very limited, especially at sector and sub-national level. As a result, the government's aid coordination efforts very often were reduced to the collection of basic data on aid flows, rather than actively setting development priorities through interaction with donors (Chigunta and Matshalaga 2010: 14; OPM 2010b: 17).

This weak coordination capacity on the government side played out most visibly in the relatively poor performance of the SAGs. In principle, the SAGs offer a platform for dialogue among all stakeholders involved in or affected by specific sector issues. However, most SAGs are institutionally weak, poorly managed, and the quality of the policy dialogue is very heterogeneous and overall below expectations, especially those of the donors (Gerster and Chikwekwe 2007: 13; (MoFNP 2008: 3, 11-12). At the same time, donor willingness or ability to provide adequate information about their activities to allow for effective discussions on strategic sector objectives and intra-sector allocations seems limited (MoFNP 2008: 12). This is indicative of a general weakness with regard to mutual accountability in Zambia. Even the donors themselves considered the implementation of this principle weak in the absence of effective systems and processes for strengthening the mutual accountability principle (OPM 2010b: 36). Taken together, these weaknesses have a detrimental effect on

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<sup>26</sup> Phase I of the Paris Declaration evaluation was originally timed to feed into the 2008 High Level Forum in Accra. The Zambia case study, however, was delayed due to 'unforeseen circumstances' and the country report (Chigunta and Matshalaga 2010) was published only in 2010.

<sup>27</sup> The evaluation report correctly concludes that the methods for assessing the contribution of aid to development outcomes need to be improved further (RoZ 2011: 72).

the quality of policy dialogue within in the SAGs as well as on their functioning as an effective self-coordination mechanism for the donors.

With a more general regard to coordination, and in particular division of labour (DoL), the various evaluations find that there is ‘evidence of progress towards enhancing aid effectiveness in Zambia following the operationalization of the JASZ/DOL process’ (Chigunta and Matshalaga 2010: 14). A closer look at the DoL process, however, reveals serious doubts about donors’ willingness to implement the Paris/Accra Agenda, when it runs against their individual (sector) interests and the extent to which donors accepted government ownership of the development process (Chigunta and Matshalaga 2010: 14).

This view is strongly supported by the findings of a JASZ evaluation conducted in 2010.<sup>28</sup> Initially, the government had proposed a DoL with no more than five donors in each of the 19 sectors identified under the national development plan, the FNDP. However, donors were reluctant to move out of their preferred sectors, especially the ‘darling’ sectors of health and education (OPM 2010b: 41). After a lengthy consultation process, a DoL matrix was finally agreed (see left-hand side of Table 3). The result, however, reflected more the commitments and preferences of donors than the government’s preferences and requirements for the implementation of the FNDP (OPM 2010b: 9).

Clearly, the resulting number of active or lead donors in most sectors is a far cry from the government’s proposal of having an even distribution of donors across sectors. The DoL was revised in 2009, leading to some—albeit not necessarily substantial—decongestion in some of the more oversubscribed sectors. While the number of active or lead donors decreased in some sectors (most notably in education where the number of active or lead CPs was reduced from ten in 2004 to seven), some other sectors saw new donor entrants, most importantly in macroeconomics (from nine to 13) and private sector development (seven to nine) (see Table 3). Arguably, these shifts were not the result of increased efforts by donors to improve the division of labour, but were more likely to reflect a change in donor policy preferences. On balance, the average number of six active/lead donors per sector remained the same. Only three sectors (environment, energy, decentralization) met the government’s target of five active/lead donors.<sup>29</sup>

With regard to the harmonization of aid delivery procedures, although it is one of the donor commitments in the Paris Declaration to increase the use of country systems, the adoption of common arrangements and country systems has not been very successful in Zambia (OECD 2011a: 9). However, even if the 2011 PD Monitoring Survey for Zambia states that donors ‘are committed to increasing the country’s systems if they meet recognized standards’, the two sub-indicators gauging the use of the country’s public financial management system (5a)

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<sup>28</sup> This evaluation was conducted in early 2010 with the aim to examine design and implementation of the JASZ, as well as to assess its relevance, effectiveness and efficiency (OPM 2010b: 12).

<sup>29</sup> Note that this is not to say that an even distribution of donors across sectors or the relatively arbitrary number of five donors per sector is necessarily desirable from an aid effectiveness point of view. However, the DoL experience gives a good indication of how seriously the principle of government leadership in the coordination process is taken by donors. The findings of the JASZ evaluation from interviews with donor representatives in this respect are quite revealing: while some donors reportedly believed the function of the DoL was merely to identify the lead donors and reduce the number of donors in the more congested sectors, others thought that the overriding principle was to reduce the number of sectors each donor would be involved in; no donor respondent seemed to recognize that the function of the DoL was to ensure a minimum of donor support to each sector identified in the FNDP (OPM 2010b: 49).

and of the country's procurement system (5b) both show significant setbacks from 2007 to 2010 (after substantial increases from 2005) (OECD 2011a: 9-10). This is in spite of the fact that Zambia's public financial management system's performance has improved in virtually all dimensions (Leiderer and Faust 2012: 115).

Moreover, despite the early and, to some extent, exemplary adoption of common and aligned mechanisms in Zambia, this in most cases has been in addition to rather than in lieu of bilateral interventions (OPM 2010b: 34). For instance, the country's aid policy and strategy articulates the government's explicit preference for general budget support as the aid modality of choice. But even though this preference is explicitly acknowledged in the JASZ, there has been no real shift from the more traditional aid modalities to budget support. In fact, even though budget support has been steadily increasing since 2005, it clearly has not replaced other forms of aid from DAC donors and multilateral agencies. Budget support as a share of total ODA receipts (excluding debt relief) was at its highest in 2008 at 22 per cent (Leiderer and Faust 2012: 80).<sup>30</sup>

The establishment of basket funding mechanisms as part of sector-wide approaches (SWAs) in health and education was not enough to break the dominance of project-based approaches, even though they seem to have helped to improve coordination in these sectors (OPM 2010b: 40): Budget support and basket funding together have never exceeded 30 per cent (2007) of total ODA receipts (Leiderer and Faust 2012: 80). As Table 4 shows, project-type aid, at least for bilateral donors, was still by far the dominant aid modality in Zambia, accounting for

Table 3: Donor sector presence 2006 and 2009

	2006				2009			
	Active Lead	Active (non-lead)	Background or phasing out	Total active/lead donor	Active Lead	Active (non-lead)	Background or phasing out	Total active/lead donor
Agriculture	3	5	2	8	4	4	-	9
Decentralization	3	3	3	6	2	3	1	5
Education	2	8	4	10	2	5	6	7
Energy	1	3	2	4	2	3	2	5
Gender	1	3	-	4	1	4	-	5
Governance	3	7	2	10	2	7	3	9
Health	3	6	2	9	3	6	3	9
Housing	-	2	1	2	-	-	3	-
HIV/AIDS	3	4	2	7	3	4	3	7
Macroeconomics	3	6	4	9	3	10	1	13
Private sector development	3	4	4	7	3	6	1	9
Social protection	2	2	1	4	2	1	2	3
Science and technology	-	-	1	0	-	1	1	1
Tourism	2	2	-	4	1	1	1	2
Water	2	5	2	7	3	4	3	7
Transport	1	6	2	7	1	6	2	7
Environment	1	3	1	4	2	3	-	5

Source: Author's compilation based on Cooperating Partners (2007b) and OPM (2010b).

<sup>30</sup> For PRBS donors alone, the share of budget support in their ODA reached almost 59 per cent in 2008, but fell again after that (Leiderer and Faust 2012: 80).

Table 4: ODA (gross disbursements) to Zambia by types of aid in 2010 in US\$ millions

	Total ODA	Project-type ODA	Experts & technical assistance	Core contributions & pooled funds	Budget support
Total	922	494	35	97	286
DAC countries	596	357	32	92	108
Multilaterals	326	137	3	5	178

Note: Other types (scholarships, debt relief, administrative costs) not reported.

Source: OECD/DAC Creditor Reporting System.

some 54 per cent of total ODA and some 60 per cent of DAC countries' ODA. Pooled funds and budget support together accounted for a mere 42 per cent of total ODA (34 per cent for bilateral, 56 per cent for multilaterals).

The 2011 Paris Declaration Monitoring Survey (OECD 2011c) finds that the share of aid using common arrangements or procedures (indicator 9) had fallen from 47 per cent in 2005 and 2007 to 45 per cent in 2010 (OECD 2011a: 2), a far cry from the 66 per cent target for programme-based approaches set by the Paris Declaration.

In sum, it is clear that even though considerable efforts have been made in moving forward with the aid effectiveness agenda in Zambia, its implementation even in this 'showcase' country is far from complete. The following sections investigate to what extent this has affected aid effectiveness in health and education.<sup>31</sup>

#### 4 What worked and what did not in Zambia's social sectors?

Against the background of mixed findings on the implementation of the Paris/Accra Agenda, the question arises as to what extent was it able to contribute to development results in Zambia.

With per capita gross national income reaching US\$1,070 in 2010, Zambia was re-classified as a middle-income country in 2011 (OECD 2011a: 1). Yet, despite positive growth rates and increased aggregate income, Zambia remains one of the least developed countries in the world. Its human development indicator (HDI) in 2011 was 0.430 (rank 164), up from 0.371 in 2000. Its HDI score over the entire decade was consistently lower than the average for the group of low-human development countries or the regional average for sub-Saharan Africa (SSA) and it is not only the health and education sectors that continue to face enormous development challenges in Zambia.

##### 4.1 Zambia's health sector

As a result of poor economic performance during the 1980s and 1990s, Zambia's health sector entered the new millennium burdened with a plethora of problems, ranging from dilapidated infrastructure, chronic shortage of drugs and medical supplies and demoralized health workers. The population was afflicted with cholera, tuberculosis, HIV/AIDS (causing a dramatic increase in the number of orphaned children) and endemic malaria (de Kemp, Faust and Leiderer 2011: 55). Other diseases such as worm infestations and diarrhoea also contributed (Leiderer et al. 2012; RoZ 2006: 164). By 2000, life expectancy at birth had

<sup>31</sup> The sector focus is essentially on the sub-sectors of basic health and basic/primary education.

fallen to 42 years, the second lowest reported for that year in the HD indicators One, if not the major, concern was what became to be labelled as the health sector's 'human resource crisis', as some 69 per cent of professional posts were unfilled (Leiderer et al. 2012; Picazo and Zhao 2009: 15).

### *Health sector revitalization and performance in the 2000s*

Despite important challenges still remaining, the health sector in comparison to the 1980s and 1990s, has overall performed relatively well over the first decade of the new millennium. Tuberculosis has been tackled, malaria incidence has decreased and infant, child and maternal mortality had all been reduced significantly (see Table 5).<sup>32</sup>

At the same time, progress on the three mortality rates was not strong enough to be on track to reach the MDGs (de Kemp, Faust and Leiderer 2011: 164). Similarly, despite improvements, performance with regard to malaria and tuberculosis also lagged behind the FNDP targets (Chigunta and Matshalaga 2010: 6). Life expectancy at 49 years (2011) continues to be almost 10 years below the average of the low human-development country group, but has been increasing after the record low of just 42 years in 2000 (UNDP 2011).

Table 5: Development of key health indicators, 2000-10

	2000	2005	2006	2007	2008	2009	2010
Tuberculosis (notifications)	52,600	53,300	51,200	50,400	47,300		
Tuberculosis (incidence)	602	588	547	506	468	433	
Malaria*	316	373	412	359	252	203	
Malaria (deaths)	9,400	7,700	6,500	6,200	3,800	3,900	
Respiratory infection:*							
- non pneumonia	119	161	192	219	198		
- pneumonia	35	42	39	35	31		
Diarrhoea (non-bloody)*	65	75	81	76	69		
Under-weight under-fives (%)	29			15			
Under-five mortality*	168			119			
Infant mortality (WDI data)*	94	84	80	78	74	71	69
Infant mortality (MoH data)*	95			70			
Infant mortality (WHO data)*	99					86	
Under-five mortality (WHO)	166	155				141	
Maternal mortality**	729			591	449		

Note: \* per 1,000; \*\* per 100,000.

Source: Augmented from de Kemp, Faust and Leiderer (2011) based on data from Picazo and Zhao (2009); MoH (Annual Health Statistical Bulletin, various years); MoFNP, PRBS progress reports (various years); World Development Indicators 2012. WDI estimates developed by the UN Inter-agency Group for Child Mortality Estimation (UNICEF, WHO, World Bank, UN DESA, UNPD).

Clearly, the observed positive developments in the sector can be attributed to substantial increases in health expenditure as well as better policies in recent years. On the financial side, the government's health budget almost doubled in real terms between 2004 and 2010 (de Kemp, Faust and Leiderer 2011: 270). On the policy side, the national health strategic plans (NHSP) for 2001-05 and 2006-10 provided important impetus to improve overall sector management (ibid.: 142-62; Saasa 2010a: 9). A core element of the NHSPs was the

<sup>32</sup> As Chigunta and Matshalaga (2010) note, estimates of mortality rates in Zambia tend to vary widely across sources.

development and implementation of a basic healthcare package that comprises health services in ten priority areas, which are provided free or on a cost-sharing basis (Leiderer et al. 2012; RoZ 2006: 162).

The government's integrated malaria control interventions, covering preventive and curative measures, have produced some significant successes (RoZ 2011: 35). As one component of this programme, nearly six million bed nets were distributed between 2003 and 2008, mostly in rural and other poorly served areas (Chizema-Kawesha et al. 2010: 481). The impact was significant: between 2001-07, the share of households reporting to have owned at least one bed net increased from 28 to 71 per cent. According to a recent impact evaluation (Elbers et al. 2011) this has saved the lives of about 18,000 children (de Kemp, Faust and Leiderer 2011: 165-66).

As a result of strategic investments in infrastructure and large-scale recruitment of frontline health workers in combination with the cancellation of user fees, the utilization rates of health facilities increased, and basic service coverage such as immunization, antenatal care and supervised deliveries has improved (de Kemp, Faust and Leiderer 2011: 162).<sup>33</sup> More importantly, these policies had a significant impact on health outcomes. Elbers et al. (2011) find a significant impact of the quality of service delivery at district health centres<sup>34</sup> on child mortality and maternal perinatal mortality: according to this analysis, one standard deviation more of DPT (against diphtheria, whooping cough and tetanus) vaccine stocks per capita is associated with a 17 per cent drop in child mortality (per patient). The impact on child mortality of supervised deliveries is even higher, with a fall of 25 per cent. Stocks of antibiotics have a strong impact on maternal deaths: one standard deviation more of stocks per capita reduces mortality by 50 per cent. In addition, health centres have become more accessible and the outreach of these facilities is important: the more the health centres are used, measured as the number of patients per capita, the greater the drop in child mortality per treated patient (de Kemp, Faust and Leiderer 2011: 165).

Yet, in spite of the relatively high per capita health expenditure and the achieved successes, enormous challenges remain. Most importantly, health indicators in Zambia do not necessarily perform better than in such neighbouring countries as Malawi, Mozambique and Tanzania, which spend less on health per capita (ODI and Mokoro 2009: 7). Moreover, notwithstanding the advances made in staffing levels, the human resources crisis in Zambia's health sector is unresolved<sup>35</sup> and health centres, especially in rural areas, face shortages of drugs and medical supplies on a regular basis due to an ineffective and inefficient distribution system (Leiderer et al. 2012).

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<sup>33</sup> In the course of implementing the FNDP, construction was started on some 27 hospitals, of which eight were completed by the end of 2010. Similarly, work began on 231 health posts as well as the rehabilitation and expansion of a number of health centres. Between 2008 and 2009 alone, the number of health staff increased from 24,400 to 27,520. The number of frontline health workers (doctors, certified medical professionals, clinical officers, nurses and midwives) increased from 12,000 in 2005 to 17,000 in 2010 (de Kemp et al. 2011: 162).

<sup>34</sup> Measured in terms of availability of DPT vaccines as administered by trained traditional birth assistants.

<sup>35</sup> The total number of health staff is still far below the estimated requirement of 39,000. For Zambia to meet the basic WHO recommendations on staff-population ratios (1:5000 for doctors and 1:700 for nurses), an additional 1,500 doctors and 10,000 nurses would be required (de Kemp, Faust and Leiderer 2011: 162-63).

### *Donor contributions to the health sector*

Faced with the negative experiences of fragmented project-based aid, Zambia's health sector was one of the first to develop a SWAp already in 1993 to improve efficiency in the use of domestic funds and externally-sourced development assistance by integrating these into a joint sectoral framework. Under the SWAp a common district basket funding mechanism was established through which donor resources were pooled and channelled directly to districts (Chansa et al. 2008: 244-45), before later being transformed into a general health basket financing mechanism (de Kemp, Faust and Leiderer 2011: 55-60; Liebenthal 2007: 16; RoZ 2011: 34).<sup>36</sup> In 2006, the European Commission piloted a SBS programme for the health sector (disbursing some US\$10.8 million over 2007-08), expanding this in 2009 to US\$16.9 million (de Kemp, Faust and Leiderer 2011: 63, 65) and the UK earmarked some US\$5 million of its general budget support for the health sector.<sup>37</sup> In the second half of the 2000s, external support to the sector thus employed the full range of aid modalities, from projects to basket funding and sector and general budget support.

Following the introduction of the SWAp, donor funding became increasingly important in the health sector. Between 2001 and 2005, the share of donor funding in total health expenditure grew from 15 to 47 per cent, while domestic contribution fell from 41 to 20 per cent. By 2009 the share of external resources in health funding in Zambia exceeded that of any other country in the region (Picazo and Zhao 2009: 22). However, most of this increase was the result of vertical funds operating outside the sector basket mechanism (de Kemp, Faust and Leiderer 2011: 142). This is because, despite the shift to basket funding and budget support, most external support to the health sector remained outside government budget (Sundewall 2009), as some of the most important donors operated outside government systems. The largest donor was the US President's Emergency Plan for AIDS Relief (PEPFAR), which alone provided US\$269 million in 2008. In 2007, the Global Fund to Fight AIDS, Tuberculosis and Malaria and PEPFAR provided almost US\$340 million against a mere US\$51 million from OECD-DAC countries (Pereira 2009: 7). The GAVI Alliance (2012) committed some US\$133 million for the 2001-16 period.

At the same time, there were claims that the shift to general budget support by donors who had previously provided direct (project) support to the health sector led to a significant loss of resources towards the second half of the decade (e.g., Pereira 2009: 15). The medium-term review of the NHSP IV puts the amount of the sector's resource losses at close to US\$25 million. However, the evidence from a recent evaluation of budget support to Zambia does not support this claim. Increases in the MoH's budget were much larger than the reduction of resources resulting from CP's migration to other sectors and general budget support (de Kemp, Faust and Leiderer 2011: 144).

Figure 1 shows the government's health expenditures since 2004, indicating a substantial (real) increase and suggesting that while it is true that sector basket funding gradually diminished, overall on-budget donor financing for the sector was roughly of constant magnitude, with sector and general budget support inflows compensating for the loss of

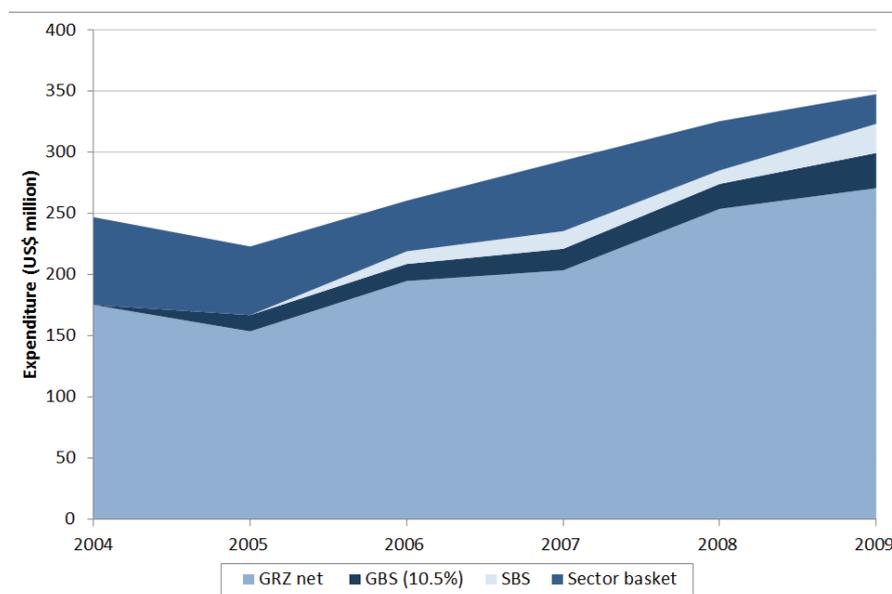
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<sup>36</sup> Basket funds were US\$37.4 million for 2006, US\$42.24 million for 2007 and estimated at US\$40 million for 2008 (RoZ 2011: 43).

<sup>37</sup> Both donors pursue a somewhat different approach with their health sector SBS, however, neither of the two imposes strict additionality requirements for this (see Leiderer and Faust 2012: 60 based on ODI and Mokoro 2009 and EC 2008a, 2008b).

basket funding.<sup>38</sup> Yet in terms of predictability, the observed shifts may have impacted negatively on the availability of funding for the sector. While both general and SBS disbursements have been fairly predictable in Zambia with regard to overall volume,<sup>39</sup> due to administrative problems on both sides of the aid relations, these were frequently and seriously delayed (sometimes by more than six months, or even one year, as exemplified by one SBS case) (de Kemp, Faust and Leiderer 2011: 82; RoZ 2011: 45).

Figure 1: On-budget health expenditure 2004-2009 (constant 2008 prices)



Note: Project support not included; general budget support (GBS) calculatory.

Source: Based on De Kemp, Faust and Leiderer (2011).

### *Coordination and alignment in the health sector*

According to a recent evaluation of the JASZ, genuine commitment seems to exist on both the donor and the government side to implement the Paris Declaration principles in the health sector (OPM 2010a: 30). The SWAp has been instrumental in harmonizing donor assistance and aligning it with national health strategies (RoZ 2011: 34). Under the SWAp arrangement, sector coordination takes place at three levels. The highest forum is the annual consultative meeting (chaired by the Minister of Health) where policy dialogue and the annual review of the ministry's previous year's performance under the SWAp arrangement take place. It also serves as a coordination platform where donors make tentative financial commitments for the

<sup>38</sup> Note that the figures for GBS are calculated based on the assumption that PRBS funds are allocated to expenditure items in proportion to their share in the domestic budget. This is likely to underestimate the share of budget-support resources used for health expenditure, as health—after 'economic affairs' and 'social protection'—was the item with the strongest increase between 2006 and 2008. The share of health expenditure as a percentage of total budget increased from 10.4 in 2004 to 11.9 per cent in 2009 (de Kemp, Faust and Leiderer 2011: 270). Of the total (nominal) expenditure growth of 79 per cent between 2006 and 2009, roughly 12.5 per cent or 10 percentage points (with substantial year-on-year fluctuations due to exchange rate effects) were funded through budget support (Leiderer and Faust 2012: 150). Other estimates suggest that approximately 20 per cent of the GBS funds go to health (OPM 2010a: 26; Pereira 2009: 8).

<sup>39</sup> While this is true for disbursements, it may not necessarily hold for available funds as these are heavily influenced by exchange rate effects. For instance, while a 28 per cent increase in budget-support disbursement in US dollars between 2005-06 translated into a year-on-year increase in ZMK of only 3.56 per cent, a US dollar increase of a mere 1.81 per cent from 2008 to 2009 corresponded to an increase in ZMK of more than 37 per cent (Leiderer and Faust 2012: 132).

following year (Saasa 2010a: 17). The next tier of the dialogue structure is the SAG, which brings together MoH and other ministries' officials, donors, civil society and the private sector (Saasa 2010a: 17) twice a year to discuss and coordinate policy implementation (Liebenthal 2007: 16; Pereira 2009: 8).<sup>40</sup>

The SWAp basket mechanism, together with general and sector budget support, is in line with the Paris/Accra principles, as it is fully harmonized and aligned with government systems (RoZ 2011: 43). However, the coordinating function of the SWAp architecture has been undermined by increasing amounts of funding made available through large initiatives and vertical funds such as the Global Fund and PEPFAR. These have brought in significant amounts of funding through disease-specific initiatives that are not channelled through the common SWAp basket (Picazo and Zhao 2009: 245; RoZ 2011: 44). Moreover, almost all other donors, including those contributing to the basket as well as the signatories to the Global IHP Compact also provide direct off-budget funding (RoZ 2011: 43).<sup>41</sup> According to the NHSP IV Mid-term Review between 2006 and 2010, only 10 per cent of all donor support for health was channelled through government systems to support general health expenditures—the remaining 90 per cent were earmarked for disease-specific programmes, particularly HIV/AIDS (RoZ 2011: 37-38). These off-budget funds commonly operate their own separate planning, budgeting and reporting formats, much like in the traditional mode of project aid, thus increasing transaction costs and workload for the administration (especially at lower level) and leading to duplication of activities. Various studies argue that these parallel aid-delivery systems created by vertical funds reduce the effectiveness of the SWAp mechanism and complicate donor coordination as well as accountability and alignment (Pereira 2009: 13-14; Picazo and Zhao 2009: 247; RoZ 2011: 34; Sundewall et al. 2009).

Division of labour in the health sector has been implemented through a so-called troika arrangement under which three donors act as lead on a rotating basis (RoZ 2011: 37). However, as Table 6 shows, DoL has not made great advances since its inception in 2005/6 in terms of reducing the overall number of active donors in the sector. Chansa et al. (2008: 247)

Table 6: Division of labour in the health sector

	Lead	Active	Background	Phasing out
2005/06	UN Sweden United Kingdom	European Commission World Bank Canada Japan the Netherlands United States		Denmark Ireland
2009	UN Sweden United Kingdom	European Commission World Bank Canada Japan United States	AfDB	Denmark Ireland the Netherlands

Source: de Kemp et al. (2011) based on Wohlgemuth and Saasa (2008) and Chigunta and Matshalaga (2010).

<sup>40</sup> A 2008 review of the SAGs' performance found the health SAG to be the best performing of all advisory groups. The review did, however, identify the need for improvement in areas such as discussion of performance versus key performance indicators of the FNDP and expanding group membership to cover a broader selection of stakeholders (MoFNP 2008: 20).

<sup>41</sup> For the UK, for instance, the Phase II Paris Declaration Evaluation finds that direct earmarked funding (US\$9.125 million) is approximately the same as its basket and SBS (US\$9.2 million) together. Most directly earmarked funding is heavily skewed towards HIV/AIDS (RoZ 2011: 44).

find that the DoL agreement covers only a small segment of stakeholders active under the SWAp arrangement: in the first ten years, the number of donors pooling their resources through the basket mechanism increased from the initial five in 1993 to nine in 2003, out of 15 donors participating in the SWAp meetings. By 2006 the number of SWAps participating donors had risen to 19, whereas the number of donors contributing to the basket had dropped to seven.<sup>42</sup> Off-budget modalities were particularly relevant in HIV/AIDS-related donor activities, where in 2004 two donors alone operated some 97 sub-projects (Chansa et al. 2008: 247).

The SWAp and its associated basket mechanism as well as the IHP Compact thus were not sufficiently embraced by all donors to act as an effective coordination mechanism that would bring all external assistance under a common framework (Chansa et al. 2008: 244).

More importantly, most of the activities supported by vertical funds were undertaken in an off-budget and poorly coordinated manner. The major donors for HIV/AIDS (including PEPFAR) set priorities outside national and sub-national structures, making it difficult for the government to coordinate the multiple health aid programmes and hold them to account for the effectiveness of their schemes. For instance, the Global Fund's so-called 'country coordinating mechanism' operated in parallel to the National AIDS Council (NAC) and other national coordination structures (Ndubani et al. 2009: 83-84; Spicer et al. 2010: 8,10). There are signs, however, that this situation might be improving with some important actors such as the World Bank's MAP, USAID, PEPFAR and the Global Fund becoming more supportive of the aid effectiveness agenda and national coordination mechanisms, and some, for instance, have started to attend SAG meetings (Ndubani et al. 2009: 83; Pereira 2009: 14), arguably not least under pressure from bilateral stakeholders.

At the same time, there is evidence that the SWAp-specific and other coordination processes induce substantial workload and absorb significant time resources on both sides of the aid relationship. Given that these activities are in addition to the planning, monitoring and reporting activities of the more traditional forms of aid, overall transaction costs of health aid cannot be expected to have fallen (RoZ 2011: 38).<sup>43</sup>

Box 1 lists the continuing challenges of the health SWAp as identified by the Zambia country case study which was conducted as part of the second phase of the Paris Declaration evaluation in 2011 (RoZ 2011). The evaluation also hints that the increasing fragmentation in aid modalities in the health sector may be a reflection of donor disillusionment with the inadequate direction and responsiveness of the government and its inability to provide clear policy leadership. At the same time, anecdotal evidence seems to suggest that the Ministry of Health actively requests donors to provide funds for programmes as stand-alone projects even when these could have been funded from the sector basket (RoZ 2011: 44). This observation is supported by the findings of a recent evaluation of budget support in Zambia, which notes that strong incentives exist for sector ministries for not undertaking serious efforts to overcome fragmentation and the collective action problems, as this would mean that they would have to relinquish their privileged negotiating position and the chance to receive resources directly from cooperating partners (de Kemp, Faust and Leiderer 2011: 85).

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<sup>42</sup> Not all donors who participate in SWAp meetings provide pooled resources through the basket mechanism (Chansa 2008: 247).

<sup>43</sup> The Zambia country case study of the Paris Declaration Evaluation Phase II argues that this is compounded by the fact that no attempts have been undertaken to assess these transaction costs (RoZ 2011: 38).

#### Box 1: Continuing challenges of the health SWAp

- Health system still administratively inefficient due to high frequency and comprehensiveness of meetings; different modes of support; and use of parallel systems especially in USAID-funded projects and Global Health Initiatives. USAID and other CPs perceive the government systems to be unsafe for management of aid as they are still too weak. As CPs are under severe scrutiny from their home country taxpayers, they cannot use systems that are weak; occasionally there have been reports of theft or financial misappropriation. Hence, duplication and high transaction costs;
- Low level of funding compared to needs. The Zambian public health system needs US\$33 per capita per year against the available US\$23 per capita;
- Minimal achievements in allocative efficiency due to over-emphasis at the district level, leading to inefficient intra-sectoral resource allocation;
- Inadequate support for cost items such as drugs and human resources, making it difficult to provide quality healthcare;
- More has to be done in the area of procurement and accountability with respect to performance; and
- Inability of the system to take care of sudden, drastic losses in funding due to exchange rate fluctuations.

Source: Republic of Zambia (2011).

#### *Effectiveness of new aid approaches the health sector*

Despite numerous evaluations and reports on Zambia's health sector, it is not easy to assess to what extent donors have had a positive influence on policy formulation and implementation or were able to contribute to more effective policies.

It does seem clear, however, that the health sector benefited from strong donor presence through the SWAp dialogue system and that the SWAp and budget-support arrangements have contributed to a more harmonized and coordinated donor engagement, while at the same time strengthening government ownership (de Kemp, Faust and Leiderer 2011: 145). The additional work invested in donor coordination at sector level has resulted in improved analytical support to the ministry, and much greater coordination of shared donor position on policy matters (OPM 2010b: 40). But at the same time, the established dialogue mechanisms are process-intensive and create a substantial burden on the scarce staff capacities of the government. Furthermore, the presence of donors in literally all committees seems to have created a sense of 'donor invasion' that threatens national ownership and leadership (de Kemp, Faust and Leiderer 2011: 144; Saasa 2010a: 20-21). For instance, in a report prepared for the 2011 annual PRBS review, the government correctly pointed out that two out of three health indicators were beyond its control and could not be expected to change on a year-to-year basis because immunization campaigns, for example, were largely carried out through vertical funds and other off-budget interventions (de Kemp, Faust and Leiderer 2011: 167). Such misalignment of policy dialogue can be expected to have weakened the effectiveness of coordinated donor input to improve government policy formulation and implementation.

Taken together, these findings appear to imply two things for the health sector. On one hand, a major share of aid resources to the sector are provided outside government systems in a manner that does not seem to be precisely in line with the Paris principles of ownership, alignment, harmonization and mutual accountability. The established parallel systems and processes bypassing the government imply that there is a lack of coordination and no decline in overall transaction costs (Sundewall 2009). As a result, Zambia's health sector expenditure is still fragmented with significant duplications and lack of transparency (de Kemp, Faust and Leiderer 2011: 145; Health 2008: 133). Consequently, some of the important developmental results achieved in Zambia's health sector cannot be attributed to the country's supposedly

exemplary implementation of the Paris/Accra Agenda. This is particularly so, because some of the outcomes, as in fighting HIV/AIDS, for example, may not even be attributed to (donor supported) government policies at all, but are the outcome of the massive off-budget interventions through vertical funds (de Kemp, Faust and Leiderer 2011: 192).

On the other hand, the existence of a coordinated basket mechanism and the increasing use of sector and general budget support meant that at least part of the available aid resources channelled through government systems were in line with the aid effectiveness principles. This helped to realize important improvements in the sector, including better service delivery in rural health facilities and more effective supply of essential drugs. Perhaps even more important, the move to sector and general budget support helped the government to address the paradoxical situation of a severe human resource shortage in a sector flooded with aid resources, a problem partly caused by the inability of vertical and basket funds to formally finance staff wages (de Kemp, Faust and Leiderer 2011: 166; Picazo and Zhao 2009: 63).

In sum, this can be interpreted as evidence that the move to Paris-style aid modalities did make a positive contribution to Zambia's health outcomes. At the same time, a clear lesson can be drawn: namely that the mere introduction of new aid approaches such as SWAp or sector and general budget support is not enough in itself to improve overall aid effectiveness. Zambia's health SWAp experience shows that such a mechanism can provide an important framework for coordination and alignment, but does not necessarily create significant changes if donors continue to channel aid outside this arrangement. Importantly, there is no evidence to indicate that new aid modalities and arrangements are ineffective but rather that the incentives to align all aid within these mechanisms are still weak for both sides of the aid relationship.

## **4.2 Zambia's basic education sector**

Similar to health, Zambia's economic problems of the 1980s and 1990s had a major impact on the education sector. Between 1980 and 1995, average real government expenditure in the sector fell by 40 per cent (de Kemp, Faust and Leiderer 2011: 55). Severely underfunded and with little donor support, the basic education sub-sector in particular suffered from declining enrolment rates and low educational quality (de Kemp, Faust and Leiderer 2011: 168; IOB 2008: 31). By the early 1990s, annual per capita expenditure for pupils at primary school level had dropped to US\$17, down from twice that amount in 1985 (Leiderer et al. 2012; MoE 2007: 12). According to the HDI, in 1990 only 65 per cent of the population aged 15 or older were literate, with significant disparities between the genders, and between urban and rural populations (RoZ 1990: 44). By 1999, 37 per cent of school-aged children were not enrolled (IOB 2011: 29); moreover, about 75 per cent of the children graduating from school were illiterate, as a 2001 public expenditure review noted (World Bank 2001: 70).

### *Education sector's revitalization and performance in the 2000s*

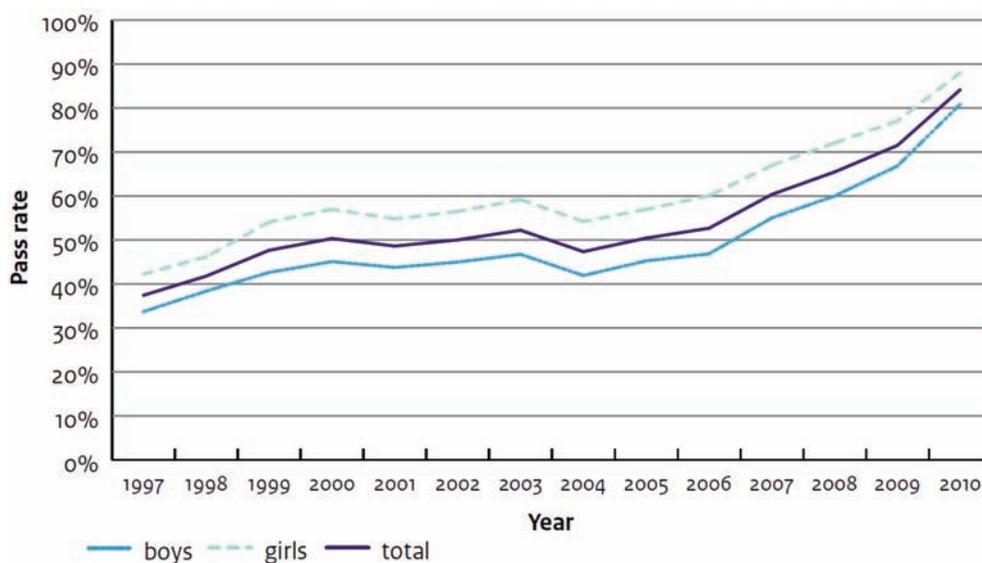
It was not until the second half of the 1990s that the government began to undertake efforts to invest in education and to have donors re-engage in the sector. The 1996 policy document 'Educating Our Future' prioritized basic education and laid the foundations for a joint strategy, in which donors and the government would work on a sector-wide approach (Development Cooperation Ireland 2004: 23-24). In 1998, the government developed the 'Basic Education Sub-Sector Investment Programme' (BESSIP) for the period 1998-2003, followed by the 'Ministry of Education Strategic Plan' (MoESP), which later became the 'Education Sector National Implementation Framework', expanding the focus of the plan to

the entire education sector (de Kemp, Faust and Leiderer 2011: 168; IOB 2011: 30; Leiderer et al. 2012).

These plans and investment programmes formed the basis for substantial increases in education spending in the first decade of the new millennium, both by donors as well as the Zambian government (de Kemp, Faust and Leiderer 2011: 168). Government expenditure on education grew from US\$192 million in 2000 to US\$624 million in 2009 before falling back to US\$590 million in 2010.<sup>44</sup> Real expenditure on basic education rose by more than 50 per cent between 2005 and 2009 alone (IOB 2011: 51). Between 2000 and 2010 the number of primary schools rose from around 5,300 to approximately 8,400, classrooms from 25,000 to 44,000 and the number of teachers from 37,000 to 63,000, a 70 per cent increase (de Kemp, Faust and Leiderer 2011: 169).

From 2005 to 2010 alone, the total number of pupils rose by half a million from 2.85 million to 3.35 million. Forty per cent of this increase was the result of population growth, 22 per cent was attributable to the increased number of teachers (9,300), another 22 per cent to new schools (of which 16 percentage points to community schools) and 9 per cent to the construction of new classrooms (IOB 2011: 63). In total, as a result of increased expenditures (in combination with the cancellation of school fees and of mandatory school uniforms in 2002), primary enrolment (grades 1-7) increased by more than 80 per cent between 2000 and 2010. The investments in the education sector also contributed to a large increase in the number of examination candidates. While average examination results have remained largely stable over the years, grade 7 passing rates improved from 50 to 84 per cent (Figure 2) and the gender gap had almost disappeared at (middle) basic education level (de Kemp, Faust and Leiderer 2011: 169, 71).

Figure 2: Passing rates for examinations at grade 7, 1997-2010



Source: IOB (2011).

<sup>44</sup> Measured in constant 2008 US dollars.

Despite the improvements in access and passing rates, important challenges remain in the education sector, notably with regard to the quality of education and school management, especially in rural areas (IOB 2011: 35, 106, 09).<sup>45</sup>

#### *Donor contributions to the education sector*

Similarly to health, education has long been one of the most ‘congested’ sectors in Zambia (OPM 2010a: 13). Aid to the sector during the 1990s was characterized by uncoordinated project-based activities with often insufficient support at the national level. This contributed to incoherent policies and institutional fragmentation, without sustainable development results (IOB 2008: 40).

Thus, when the BESSIP was launched in 1999, a key element was the set-up of a basket fund mechanism, to which initially four donors contributed (OPM 2010a: 14). By 2003, some 14 donors had become involved in the SWAp (de Kemp, Faust and Leiderer 2011: 56). When the consecutive programme, the MoESP was launched for the period 2003-07 to expand the scope to the entire education sector, the BESSIP basket mechanism was extended into a sector pool, which became the main MoESP funding modality to be supported by nine donors (de Kemp, Faust and Leiderer 2011: 56; IOB 2011: 34; World Bank 2006: 20). More important, however, this reportedly did not result in donors reducing the number of projects in the education sector (OPM 2010b: 34).<sup>46</sup>

Donor contributions to the sector pool totalled some US\$438 million between 2000 and 2010 compared to some US\$180 million for (reported on-budget) projects (de Kemp, Faust and Leiderer 2011: 169). According to a recent evaluation, budget support and the sector pool accounted for about 12 per cent of the total resources of the Ministry of Education and about 30 per cent of its discretionary expenditures (IOB 2011: 35).

With the introduction of general budget support, several donors discontinued their contribution to the sector pool. There is, however, no evidence to suggest that this led to an overall reduction in sector funding.<sup>47</sup> On the contrary, real (domestic) expenditure on education almost doubled between 2005 and 2009 (IOB 2011: 47). As Figure 3 shows (similarly to the situation in health), a major share of the increases in education on-budget expenditure came from domestic sources, financed from significant increases in domestic revenue.<sup>48</sup>

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<sup>45</sup> One notable example is the inefficient allocation of teachers. Teachers are deployed according to the number of pupils rather than in accordance with the number of classrooms. This has led many schools to operate a rotation system where two or even three classes (each with their own teacher) use the same classroom in shifts, significantly reducing teachers’ working hours and contact time with students (IOB 2011: 77, 92).

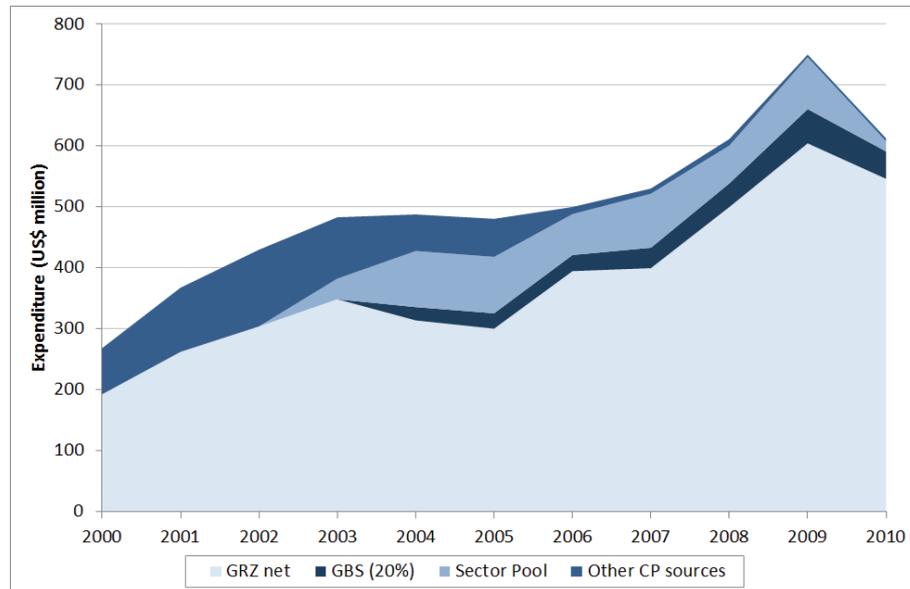
<sup>46</sup> It has also been argued that the separation of basket funds from the government’s own financing had resulted in the SWAp becoming more of a ‘mega-project’ rather than a fully integrated sector approach (Boak and Ndaruhutse 2011: 19).

<sup>47</sup> There is, however, some evidence that the unpredictable timing of budget support disbursements may have impacted negatively on policy implementation. Releases by the Ministry of Finance are often very late (usually in the fourth quarter), preventing effective utilization of resources, e.g., for classroom construction (IOB 2011: 48).

<sup>48</sup> Domestic revenue grew by 50 per cent between 2002 and 2008, mostly from non-tax revenue and mining taxes (Leiderer and Faust 2012: 136).

As shown by a recent basic education impact evaluation conducted as part of the evaluation of budget support in Zambia, there is clear evidence that on-budget funding has enabled the government to implement important policies aimed at achieving the MDG education targets and the introduction of free basic education (IOB 2011: 50). The investments in teachers, classrooms and books had a significant positive effect on the learning achievements of the pupils (IOB 2011: 110).

Figure 3: On-budget education expenditure 2000-2010 (constant 2008 prices)



Source: Based on de Kemp, Faust and Leiderer (2011).

### *Coordination and alignment in the education sector*

Prior to the formulation of the BESSIP, donor support in education was highly fragmented and aid was provided in the form of stand-alone projects with only loose and informal donor coordination (OPM 2010a: 13). It was only with the introduction of the BESSIP that donor coordination and harmonization began to improve in earnest (IOB 2008: 33; OPM 2010a: 13). Yet, donors supported the BESSIP through different aid modalities, from pooled contributions to the basket mechanism, earmarking funding and projects. Moreover, in the beginning, donors still relied on their own regulations and processes, and targeted funds to support their own priorities. In addition to contributing to the BESSIP, a number of donors (Netherlands, Ireland, Norway) continued to implement their individual province-wide programmes (IOB 2008: 33-34). In the absence of a formal division of labour or ‘lead’ arrangement under the BESSIP and the MoESP, the government had to deal with as many as twelve bilateral and multilateral donors plus numerous international NGOs, each of whom had their own reporting requirements, demanding attention from the ministry, and conducting individual review missions (OPM 2010a: 15).<sup>49</sup>

Although some further efforts at harmonization were undertaken in the first half of the 2000s, this situation improved significantly only with the more formalized DoL under the joint assistance strategy (JASZ), which established several coordination structures between various

<sup>49</sup> Anecdotal evidence suggests that this lack of a formal arrangement led to a loss of trust as individual donors, in some instances, implied that they presented a coordinated position and were speaking on behalf of the entire donor group when, in fact, they were not (OPM 2010a: 15).

educational stakeholders as well as a lead donor arrangement under which two donors would act jointly as sector lead (IOB 2011: 37; OPM 2010a: 15).<sup>50</sup> In the course of the DoL, the number of active donors was formally reduced from the initial 12 in 2005 to ten (see Table 3) of which only four or five participated regularly in various meetings (OPM 2010a: 18). When the DoL matrix was updated in 2009, there was no change within the lead donors in education, but the number of formally active donors was reduced to seven.<sup>51</sup> But apparently these DoL structure changes were not in response to the ministry's expressed preferences or needs, but were driven instead by donor country requirements (OPM 2010a: 18).

Key elements of the formal framework for donor coordination and policy dialogue in Zambia's education sector were shaped well before the Paris Declaration principles were formally agreed on in 2005. Nonetheless, the move to a Paris-style programme-based approach in the form of a basket mechanism as well as the formalized DoL under the JASZ have helped to improve coordination and alignment in education (OPM 2010a: 24). Overall, education is without a doubt the sector in Zambia where coordination and alignment have been taken the furthest, a reflection of the broad congruence of sector interests and priorities among donors and the government. This had a visibly positive effect, at least for a while, on the quality of policy dialogue (de Kemp, Faust and Leiderer 2011: 146, 92-3).

#### *Effectiveness of the new aid approaches in the education sector*

Aid has been better harmonized and aligned in the education sector than in the health sector, and cooperation was significantly better than in other sectors, due not only to the absence of large vertical funds such as those affecting the health sector but also due to apparent high government ownership for development outcomes in the (sub-)sector. The congruence of government and donor priorities in the sector, in combination with sufficiently strong analytical and dialogue capacity on both sides, have enabled donors—through budget-support related policy dialogue—to have a (positive) influence on the country's education policies (de Kemp, Faust and Leiderer 2011: 193). At the same time, overall transaction costs of education aid appear to have been reduced substantially as a result of the move to basket and budget financing, and donors' division of labour (IOB 2011: 49).

Nonetheless, policy dialogue at the sector level also had its weaknesses and recent developments point to a deterioration in cooperation. The decrease of active donors—while a positive development in terms of harmonization and division of labour—seems to have resulted in the loss of critical analytical and dialogue capacity needed to attend to various subsectors and themes. According to the recent 2010 JASZ evaluation, the withdrawal of various donors meant that the burden on 'genuinely active' donors has grown steadily as fewer and fewer donor staff share the labour-intensive task of attending various committee meetings and discussing highly technical issues (OPM 2010a: 18).

Despite—or perhaps because of—its broad-based membership, the education SAG seems to function less well than the average SAGs in Zambia. While it appears to be relatively effective at making broad policy recommendations and discussing relevant monitoring issues

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<sup>50</sup> This arrangement, which differs from the 'standard' JASZ model of a troika lead, was a compromise between MoE's preference for a single lead and donor concerns about their individual ability to sustain the effort required from the lead donor (OPM 2010a: 15-16).

<sup>51</sup> Canada and Finland had phased out completely by 2007; the UK, the EU and Norway changed from active to background donors because of a shift to general budget support (in the case of EU and the UK) and because of a lack of capacity (Norway) (OPM 2010a: 18).

or development of the sector's key performance indicators, it fares less well with regard to addressing budgetary and financial issues (MoFNP 2008). One explanation is the variety of ministries and government agencies that the SAG covers (*ibid.*: 22). Also, it would seem that some government institutions lack motivation to participate regularly in meetings (de Kemp, Faust and Leiderer 2011: 148), which undermines their usefulness for effective policy dialogue.

These shortcomings, unfortunately, have triggered a donor reaction that is counterproductive to the effectiveness of the sector policy dialogue. Until recently, the 'Joint Annual Review' (JAR) dialogue mechanism was perceived to be a well-functioning instrument for sector dialogue, not least because of the comprehensive involvement of stakeholders from the donor community, government ministries, provincial education officers, civil society and private sector representatives, usually more than 150 attendants (OPM 2010a: 15). But there is now strong evidence of a general loss of interest in the mechanism on both government and donor side, as JAR is perceived to provide a 'rather impressionistic picture' of sector performance and to serve primarily as an outlet for dissatisfaction within the sector (IOB 2011: 38). In addition, with the withdrawal of one lead and one active donor from the sector, crucial analytical capacity and sector expertise on the donor side have been lost.<sup>52</sup> As a result, budget-support donors have shifted the focus of their dialogue to the PRBS annual review processes which they perceive to be a more effective forum for discussing sector issues with a smaller group of stakeholders and at a higher political level.

This shift has had advantages as well as disadvantages for the quality and effectiveness of the sector policy dialogue. Donors, by bringing sector dialogue to the PRBS level, were able to discuss important issues relating to the education budget or geographic distribution of resources (IOB 2011: 48).<sup>53</sup> The stronger donor focus on financial issues and sector management also led to more important capacity-building efforts within the ministry, where donors have helped to strengthen sector planning and budgeting capacities, improve transparency and financial management and pushed for decentralization in the sector (IOB 2011: 48). At the same time, there is evidence that the move to budget support and the resulting focus on financial and fiduciary concerns may have resulted in an inappropriate shift away from development outcomes and specific implementation issues (IOB 2011: 50).<sup>54</sup> This has led to a certain disconnect between sector-level policy dialogue and the dialogue on education at the PRBS level. Discrepancies and inconsistencies became particularly evident in 2010, when some donors withheld NIF basket funding, because they felt progress was too slow, while at the same time the PRBS annual review assessed education to be one of the best performing sectors and thus contributed to the disbursement of budget-support funds (IOB 2011: 48, 50).

Compared to the health sector, donor support in education is notably better coordinated and aligned with government strategies, systems and processes (de Kemp, Faust and Leiderer 2011: 146). Arguably, this is not only the result of fewer off-budget and stand-alone activities

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<sup>52</sup> In 2011 the Netherlands together with Denmark (one of the active donors in education) decided to end bilateral cooperation in Zambia, mostly out of domestic considerations. As no other donors stepped in, this had a direct effect on the sector budget (IOB 2011: 51).

<sup>53</sup> PRBS donors have insisted on spending more on education, on recruiting more teachers and on constructing more classrooms, focusing on urban-rural disparities and the need to invest more in rural areas (IOB 2011: 36).

<sup>54</sup> This was arguably exacerbated by the fact that the PAF indicators—while instrumental for the sector-related PRBS dialogue—were not particularly well suited to monitor progress in the sector (IOB 2011: 48).

or the absence of vertical funds. The coordinated support and, in particular, the use of aligned aid modalities have contributed to substantial improvements in education. At the same time, coordination and alignment have not necessarily translated into a more effective sector dialogue. In fact, it would seem that, to a certain extent, there is ‘too much’ coordination in the form of division of labour. The withdrawal of even formally active donors from the sector dialogue seems to have led to a possible under-investment in analytical and dialogue capacity on the donor side (ibid.: 148; OPM 2010a: 17-18). Thus, there is a clear trade-off between reducing the number of active donors in the interest of harmonization and coordination and maintaining a critical mass of analytical and dialogue capacity on the donor side. It seems that in Zambia, the balance has shifted too far in favour of harmonization, inducing a negative impact on the quality and effectiveness of the education policy dialogue. This has been only partly compensated by policy dialogue conducted within the framework of general budget support.

## **5 Summary of findings, political economy interpretation and the way forward**

### **5.1 Summary of evaluation findings**

Zambia has seen significant developmental improvements in the past decade, both at the macroeconomic and sector levels with regard to health and education. At the same time, Zambia is a country where the Paris/Accra aid effectiveness agenda has been implemented earlier and in greater depth than in many other countries. It is thus tempting to attribute the observed development achievements to aid that was presumably more effective under this agenda.

And the reviewed evidence suggests, in fact, that where aid was provided in line with the Paris principles, it helped to empower the government to formulate and implement effective health and basic education policies, and produce significant development results.<sup>55</sup> In particular, the evaluations of budget support (de Kemp, Faust and Leiderer 2011) of Zambia’s joint assistance strategy,<sup>56</sup> and of the implementation of the Paris Declaration (Chigunta and Matshalaga 2010; RoZ 2011) provide evidence that improved donor coordination and alignment under the new aid modalities have allowed donors to support government policies effectively, which had a positive impact on key sector outcomes such as primary school enrolment and educational achievements or the use of health facilities and maternal and child mortality (de Kemp, Faust and Leiderer 2011; Elbers et al. 2011; IOB 2011; Leiderer and Faust 2012).

At the same time, these evaluations also show that Zambia’s implementation of the Paris Agenda is far from complete and evidently not comprehensive enough to overcome the many persisting weaknesses of ‘traditional’ development assistance, which limit aid’s overall contribution to the country’s development success.<sup>57</sup> More specifically, the evidence shows

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<sup>55</sup> Maybe just as important is the fact that there is no evidence that the fiduciary risks commonly discussed in association with these instruments (Leiderer 2012: 3) have materialized to an extent that would undermine these positive effects.

<sup>56</sup> OPM (2010a, 2010b).

<sup>57</sup> In fact, there are strong indications that a good share of the significant advances in recent years have more to do with strong economic performance (mostly due to increased global demand for copper, Zambia’s main export commodity) and debt relief than with international aid (de Kemp, Faust and Leiderer 2011).

that where the Paris principles were not fully respected, this undermined the effectiveness of donor efforts to support Zambia in implementing its development strategy and making good use of the provided aid resources. This, above all, applies to the harmonization and alignment principles because despite the fact that both principles were strengthened through various initiatives and instruments (arguably more successfully in education than in health), donors continue to be caught in the dilemma of attempting to work collectively at the country level and responding to the diverging priorities and concerns of their respective headquarters (RoZ 2011: 50).

Evidence from Zambia's health sector shows that despite all the efforts at harmonization and alignment, significant portions of aid are still channelled outside coordinated structures. A recurrent argument of the traditional donors is that the non-involvement of emerging donors such as China weakens the harmonization and alignment agenda (Chigunta and Matshalaga 2010: 13). However, even in a country like Zambia, where China in particular plays an important role as a 'new donor' (de Kemp, Faust and Leiderer 2011: 132), the major obstacle to the harmonization and coordination agenda appears to be vertical funds and the bilateral western donors themselves, who continue to provide a substantial share of ODA in uncoordinated, unharmonized and unaligned ways, disregarding government systems and preferences. This appears to be one of the most important impediments to a more comprehensive implementation of the Paris principles: the fact that donors in general—even those strongly engaged in Paris-style arrangements such as general and sectoral budget support or SWAps—are reluctant to give up their substantial and off-budget activities that are based on parallel processes and systems. Similarly, they are often not ready to withdraw from the popular 'darling' sectors, which may possibly lead to an overall, inefficient allocation of aid resources. The continued fragmentation of aid approaches and modalities adversely affects capacities on both the donor as well as on the recipient side, keeps transaction costs high, undermines the overall quality of cooperation and fails to generate effective incentives for better policy choices.

The findings of recent evaluations on Zambia thus strongly support the claim made by Álvarez and Acharya (2012) and Riddell (2012)<sup>58</sup> that new aid approaches such as SWAps and budget support have the potential to make aid targeted at health or education outcomes more effective. But the findings also support the arguments of these and other authors that a more comprehensive implementation of the Paris principles would be needed to make these approaches work to their full potential.

In sum, there is very little evidence in the case of Zambia to support the increasing scepticism of taking the Paris/Accra Agenda forward. On the contrary, various studies conducted in Zambia over the past years support the assessment of the global evaluation on the implementation of the Paris Declaration (Wood et al. 2011) that where implemented, the agenda does indeed contribute to more effective aid. Thus, while 'broadening' the international aid effectiveness agenda, as undertaken in the Busan Global Partnership to include actors like China, is certainly not irrelevant, the most pressing issue with respect to aid effectiveness in a country like Zambia seems to be a more comprehensive application of the Paris principles by OECD-DAC donors themselves through deepening coordination and alignment of all their aid.

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<sup>58</sup> Quoted in the introduction to this paper.

If this is the case—and given the evidence of the effectiveness of the Paris principles—the next question then is, what drives donors to ignore these principles or fail to implement new approaches more comprehensively? Evidently, there is a possibility that donors are hesitant because of the fiduciary risks commonly associated with most Paris-style aid modalities, such as budget support. However, in the case of Zambia, for instance, the evidence does not support the perception that these approaches are prone to greater fiduciary risks, be it from embezzlement of funds or due to fungibility of resources.<sup>59</sup> What is more, this argument would also not fully explain why donors engage in both programme-based and project-based aid in parallel, nor most of the other observed coordination failures.

More specifically, experience at the global as well as country level seems to indicate that the main challenge in implementing the Paris principles is not exaggerated risk aversion or technical or administrative difficulties, but a crucial gap in the current aid effectiveness architecture, which does not adequately address the political economy aspects of putting the agreed principles into practice. The following section discusses some of these aspects and the resulting incentives or disincentives for donors to adhere to the harmonization and alignment principles.

## **5.2 Principal-agent versus collective action: the political economy of non-coordination**

The Paris Declaration has frequently been criticized for being a ‘bureaucratic’ or ‘technocratic’ document that ignores the political (economy) dimension of adhering to the formulated principles (see, for instance, Gaynor 2007; Geddes 2011; Marks 2010; Petit 2011; Roberts 2009). Yet, this is not entirely true. In fact, the Paris principles can be argued to have their basis in political economy explanations for the poor record of traditional aid (Booth 2011: 3; Faust and Leiderer 2008: 147; Leiderer 2010: 1). Instead, they are founded on the traditional political economy perspective on foreign aid, which frames the donor-recipient relationship predominantly as a (sometimes multiple) principal-agent problem that assumes that donors are committed to public-good objectives such as poverty reduction, but rely on the recipient government as an agent to achieve these objectives (Booth 2012: 9-10; Williamson 2010: 19-20).<sup>60</sup> This perspective implies that in order to make aid more effective, it suffices to reduce information asymmetries and to align incentives between donors (the principals) and the recipient government (the agent), which—in essence—is what the Paris principles are aimed at.

What the principal-agent perspective on aid tends to neglect, however, is that collective action problems on each side of the donor-recipient relationship are at least as important factors for the (in-)effectiveness of aid (Booth 2012: 10). It is only relatively recently that this perspective has received wider attention, for instance in such works as de Renzio et al. (2005) or the seminal *The Samaritan’s Dilemma* by Gibson et al. (2005).<sup>61</sup> And yet, this strand of literature provides valid explanations for most of the observed coordination failures.

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<sup>59</sup> The latter point is also strongly supported by theoretical arguments, which indicate that fiduciary risks due to fungibility do not differ fundamentally between aid modalities (Leiderer 2012).

<sup>60</sup> For an overview, see for example Paul (2006) or Bigsten et al. (2011).

<sup>61</sup> Whittington and Calhoun (1988), admittedly, analysed donor-side incentives already 25 years ago and found that the incentive structure of individual donors may render specialization and the coordination problem ‘much more intractable than is commonly realized’ (Whittington and Calhoun 1988: 295).

One core argument in the collective action perspective on donor coordination is, for instance, that development results represent a public good for donors, allowing individual donors to free-ride on other donors' efforts (Kemp 1984: 6; Olson 1965). In addition, the greater the number of uncoordinated donors in a country or sector, the more diffused becomes the responsibility for the success or failure of producing that public good (Bigsten 2006: 4). This argument, for example, can explain the observed under-investment in analytical capacity by individual donors active in such 'congested' sectors as health or education.

Also related to the free-riding argument is the problem that the more donors there are in a country, the greater the temptation for each donor to focus their efforts on obtaining good (and visible, i.e., attributable) results from their own projects at the expense of maximizing overall aid effectiveness (Acharya et al. 2006: 10-11; Knack and Rahman 2007: 177). This is because aid agencies have the incentive to retain maximum influence and report to their headquarters and local constituencies about successful project implementation in order to increase their visibility and legitimacy domestically to secure future financing (Aldasoro, Nunnenkamp and Thiele 2009: 5; de Renzio et al. 2005: 11; OECD 2011b: 23; Vollmer 2012: 33). This can explain why most donors in Zambia (and elsewhere), in addition to engaging in coordinated approaches such as pooled sector funding or budget support, continue to implement their own projects and programmes in the same sectors. It can also explain the observation that sector pool and budget-support donors in Zambia's education sector tend to concentrate sector dialogue on fiduciary rather than policy issues. The fact that donors tend to introduce outcome indicators into performance assessment frameworks, which are beyond the control of recipient governments but which measure instead the success of donors' off-budget activities (as described above for the health sector) is most likely related to this issue.

In a similar strain, the half-hearted division of labour observed in Zambia (and other countries), where donors tend to crowd 'darling sectors' such as health and education, while other 'orphan sectors' receive insufficient donor support can also be explained as a collective action phenomenon. On the administrative side, most donor decision-making processes continue to be highly centralized,<sup>62</sup> which makes delegating responsibilities to other donors difficult because of specific requirements by their own internal monitoring and reporting systems or because headquarters prefer reports that clearly demonstrate their contribution as an individual donor.<sup>63</sup> But there is also an obvious issue of trust among donors that impedes more effective division of labour and delegated cooperation (Chigunta and Matshalaga 2010: 27; OPM 2010b: 9) and some authors argue that with the harmonization of goals and objectives, coordination problems between donors would be reduced (Bigsten 2006: 4-5; Faust, Koch and Leiderer 2011). However, even when donors have similar preferences and the lack of trust in the intentions of one another is not the issue, collective action failure can lead to the emergence of 'darling' and 'orphan' sectors and inefficient aid allocations. In fact, as Halonen-Akatwijuka (2007) shows in a model of donor decisions on sector allocation with incomplete information (in this case, on other donors' budgets), the more similar donor preferences are, the greater the scope for this type of collective coordination failure.

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<sup>62</sup> This is not to say that there is no political economy explanation for this administrative setup as well, but in this case this seems to be related more to specific principal-agent relations between donor headquarters and country offices than to collective action problems.

<sup>63</sup> As observed by Whittington and Calhoun (1988: 307) already in the 1980s: 'All donors want to coordinate, but no one wants to be coordinated' (Aldasoro, Nunnenkamp and Thiele 2009: 5).

As this brief discussion indicates, collective action arguments can explain most of the coordination failures that undermine the effectiveness of aid. The question remains, what conclusions can be drawn from these insights to determine the best option for moving forward with the international aid effectiveness agenda.

### **5.3 Which way forward? Not less of the Paris principles, but more**

It has been suggested that one way to overcome donor coordination failures that arise from collective action problems is to give recipient governments a more prominent role in aid coordination, the argument being that the incentives to ensure coordination can be assumed to be stronger within the aid receiving governments than within donor agencies (Bigsten and Tengstam 2012: 19; Woods 2011: 13).

In essence, this would require a substantial strengthening of the Paris principle ‘mutual accountability’. Of course, donors so far have not shown particular enthusiasm in implementing this principle,<sup>64</sup> putting in doubt donors’ incentives to do so in the future. More importantly, however, evidence from country case studies such as the ones on Zambia as well as theoretical arguments suggest that collective action problems on the recipient side may be just as detrimental to incentives for better aid coordination and alignment as those on the donor side. For instance, not necessarily all government officials and politicians have an interest in more transparent and aligned aid modalities. On the contrary, as argued by Acharya et al. (2006: 10), these officials may have strong incentives to protect their vested interest in particular projects by excluding or misrepresenting them in planning and budget processes. This theoretical argument is supported by observations made in the evaluation of budget support in Zambia, which found a general perception among sector ministry staff that—due to greater transparency of aid flows and the shift away from the direct receipt of donor funds to donor support through the Ministry of Finance—sector and general budget support tended to erode sector ministries’ ownership and influence. The same seems true for the presence of donors in government decision-making processes, which can constrain the discretionary power of ministry staff (de Kemp, Faust and Leiderer 2011: 144; Saasa 2010a: 20-21). As a consequence, some sector ministries show little interest in adhering to the coordinated dialogue structure and overcoming the collective action problems of recipient-side organizational fragmentation (de Kemp, Faust and Leiderer 2011: 84; Leiderer and Faust 2012: 90-91; OPM 2010b: 27f.).<sup>65</sup> Thus, in the medium to short run, there is little hope that governments in aid recipient countries such as Zambia are willing and able to enforce serious sanctions against donors who do not comply with their coordination, harmonization and alignment commitments.

Another suggested proposal for overcoming donor coordination failure is the multilateralization of aid, i.e., the delegation of aid by bilateral donors to international agencies such as the UN or the World Bank. Woods (2011: 8) argues that donor coordination in terms of information-sharing and a division of labour is not ambitious enough to overcome fragmentation, as it serves merely to prevent inadvertent damage caused by donors’

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<sup>64</sup> The Phase II evaluation of the Paris Declaration at the global level finds that, together with ‘managing for results’, ‘mutual accountability’ is the principle on which donors have advanced the least (Wood et al. 2011: xv, 38-39).

<sup>65</sup> The Ministries of Health and Education were reportedly among those most willing to integrate themselves at least rhetorically into budget support coordination structures because they would have the most to gain—at least financially—from budget support (Leiderer and Faust 2012: 91).

ignorance of each other's actions. According to this line of reasoning, to substantially improve aid effectiveness, what would be needed is 'true' cooperation, defined as donors working together to plan and deliver aid, for instance by using multilateral agencies instead of bilaterally providing aid (Woods 2011: 6).<sup>66</sup> This theory is also shared by other authors, e.g., Aldasoro, Nunnenkamp and Thiele (2009: 4). However, this proposition seems to ignore the fact that the motivation for bilateral donors to delegate their development cooperation to multilateral agencies is as weak as it is for delegation to other bilateral donors, and for much the same reasons (the need for visibility and control) (Acharya et al. 2006; de Renzio et al. 2005; Weinlich 2011; Weinlich and Zollinger 2012).<sup>67</sup> What is more, multilateral aid itself is highly fragmented (OECD-DAC 2012: 16), and there is no *a priori* reason to assume that collective action problems would not apply to multilateral agencies just as much as they do for the bilateral ones.

In sum, it seems that the observed collective action problems cannot be solved by simply delegating the responsibility for donor coordination to either recipient governments or multilateral institutions. This would simply circumvent the inherent incentive problems that prevent donors from abiding by the principles they have agreed to. If this is true, then the overall effectiveness of aid cannot be expected to improve significantly unless this underlying incentive structure itself is addressed. In other words, what future international arrangements need to ensure is more, not less, of the Paris/Accra Agenda. With this conclusion in mind, the question is how to move forward with the international aid effectiveness architecture.

#### **5.4 Better incentives for better coordination**

The reviewed evidence suggests the main challenge of the Paris/Accra Agenda, in principle, is not with its effectiveness but with its practical implementation. This is due to the fact that while the Paris/Accra Agenda arguably formulated the right principles, it did not fundamentally change the underlying incentives and mechanisms that led to a lack of aid effectiveness in the first place; and donors who do not comply with the generally agreed rules face no relevant sanctions.

The Busan HLF has to be commended for bringing on board new actors to the international aid effectiveness agenda. But this broadening of the agenda will remain meaningless unless the traditional donor community can manage to establish more effective incentives for themselves and the new actors for resolving the widespread collective action problems that hamper the implementation of the agreed principles. Future negotiations around the international aid effectiveness architecture will thus have to address the crucial challenge of translating political commitment into behavioural change much more explicitly and effectively than has been the case in the past. This entails not only formulating standards and norms but also establishing mechanisms on both sides of the aid relation to make the incentive on the principles and commitments compatible at a political, institutional, and individual level (de Renzio et al. 2005: 8, 17). In order to achieve this, donors will have to devise mechanisms that ensure their own compliance with international commitments both at

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<sup>66</sup> Woods (2011: 8) argues that aid coordination is in fact important only because so little genuine cooperation in the form of delegation to multilateral agencies takes place.

<sup>67</sup> As Woods (2011: 10) acknowledges, only 20 per cent of ODA is channelled through multilateral agencies. OECD-DAC puts the share of multilateral aid by DAC donors in 2010 at 28 per cent, but reports that, together with bilateral aid channelled through multilateral programmes, some 40 per cent of ODA makes, at least partly, use of the multilateral system (OECD-DAC 2012).

headquarters and at the country level. The following outlines a few of the elements that these types of mechanisms could involve.

Against the background of the political economy arguments discussed above, one way to strengthen the incentives for donors to ‘walk the talk’ could be through a stricter application of the peer pressure principle in future aid architecture. While the DAC Peer Reviews have established some degree of group pressure at the OECD-DAC level on individual donors to reform their aid systems, virtually no pressure is exercised at the operational level in aid recipient countries.<sup>68</sup>

Evidently, peer pressure on donors to abide by their commitments, can only emerge at country level if relevant decisions are actually taken by donors at that level and that they can be insulated against headquarter interference. Decentralization of donors’ aid systems will thus have to become a much more prominent and the binding cornerstone of the future aid effectiveness agenda and aid architecture if more substantial advances in aid effectiveness are to be made.

But decentralization alone (for which many donors seem to have little interest) will not be enough to strengthen the motivation for coordination and alignment. Another important element could be through the strengthening of the lead donor function in the framework of formalized DoL arrangements at the country level. For instance, if lead donors were equipped with a clearer and more attractive mandate (such as speaking on behalf of other donors) but also with stronger accountability obligations towards other donors, the motivation to invest the necessary capacity into analytical work and policy dialogue would be stronger. This could be achieved by having lead donors elected by all donors active in a particular sector, instead of conducting DoL negotiations behind closed doors.

Any such an arrangement should be complemented by collective investment by all donors for the necessary analytical and coordination capacity of the lead donor. For instance, being an active or passive donor in a sector could come with the obligation to (co-)finance a ‘lead donor secretariat’ embedded within the agency of the lead donor. A similar requirement for all active and passive donors would conceivably be to strengthen analytical, dialogue and coordination capacities on the recipient government’s side. This could also help to address the insufficient institutional memory on both sides of the aid relation.

These are but a few elements of potentially more effective incentivizing mechanisms for deepening coordination within and between aid agencies, between donors and recipient governments and within and between government institutions. Their concrete design is obviously a demanding challenge. But this kind of mechanism design is certainly an area where the international aid community so far has seriously under-exploited the insights from economic theory and its applications in other policy arenas. Further research into these issues and learning from other fields could make a highly relevant contribution to better policy formulation and the effectiveness of aid in the future.

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<sup>68</sup> de Renzio et al. (2005: 11) find that where such peer pressure at country level exists, it does indeed have a disciplining effect on poorly harmonized donors.

## Acronyms

BESSIP	Basic Education Sub-Sector Investment Programme
CPG	Cooperating Partners Group
CPs	cooperating partners
CRS	Creditor Reporting System of OECD-DAC
DAC	OECD's Development Assistance Committee
DoL	division of labour
DPT	diphtheria, whooping cough and tetanus
EC	European Commission
EU	European Union
FNDP	Fifth National Development Plan (of Zambia)
GoZ	Government of Zambia
HDI	human development indicators
HIP	harmonization in practice
HIPC	Highly Indebted Poor Country Initiative
HLF	high level forum
IBE	International Bureau of Education
JASZ	joint assistance strategy for Zambia
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MoESP	Ministry of Education Strategic Plan
MoH	Ministry of Health
MoU	memorandum of understanding
NHSP	national health strategic plans
NIF	Education Sector National Implementation Framework
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PBAs	programme-based approaches
PRBS	poverty reduction budget support
SAGs	sector advisory groups
SBS	sector budget support
SWAp	sector-wider approach
WHIP	wider harmonization in practice
ZDAD	Zambia's development assistance database

## Annex

### Issues in aid management in Zambia at the turn of the millennium

In early 2000 during the time when the harmonization agenda was taking root at the global level, it was increasingly being recognized that government systems in Zambia were part of the problem. It was realized that one of the most important prerequisites to effective aid management and donor harmonization was a functional and thought-out national institutional framework within which external resources were mobilized and finally utilized in ways that safeguarded the country's priorities. The typical donor-aided project in Zambia at the time received limited guidance from the government at almost all levels. The lack of cooperation/coordination among different and functionally disjointed wings of government that include MoFNP, the Bank of Zambia (central bank), sector ministries, and statutory bodies further worsened the situation. Most sector ministries continued to receive aid with only a rudimentary system of reporting to the supposedly central coordinating body (MoFNP).

At the macro level, the Zambian government suffered from serious structural capacity limitations that include weak organizational systems; inadequate and unreliable policy-cum-planning database; and poor financial management and accounting systems that had tended to threaten accountability and, thus, encouraged donors to either include capacity-threatening 'gate-keeping' functions in their aid support and/or simply work around the government system altogether by creating parallel project management and implementation systems and structures, including the running of separate bank accounts for donors' supported projects. Moreover, the analytical capacity of the aid coordination institutions in the country was generally limited to the collection of basic data on aid flows with very little effort towards policy-relevant analyses that would have guided government to better interaction with donors in setting development priorities. Behind these shortcomings was the lack of adequate, well-trained, adequately remunerated, motivated and experienced personnel that were needed to perform the basic functions of aid coordination and management.

The weaknesses in the processes of aid coordination and management as described above resulted in the marginalization of external resources in national planning and budgeting. Although the periodic Consultative Group (CG) meetings between Zambia and its main external resource providers did allow for a certain degree of dialogue on the setting up of priority areas for aid intervention, such consultations and the timing of the disbursement of pledged resources were still not adequately synchronized. Consequently, not only was it difficult to integrate external aid and national development planning and budgeting but, equally important, the counterpart funds needing to be sourced from the government's internally-generated revenue for complementing external flows were often non-existent or had to be obtained from extra-budgetary sources. All these factors persistently threatened the effectiveness of aid.

Source: Based on OPM (2010b).

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