The age of choice: Zambia in the new aid landscape

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Research Report

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Abbreviations

AfDB	African Development Bank
CHAZ	Churches Health Association of Zambia
COMESA	Common Market for Eastern and Southern Africa
CPG	Cooperating Partners Group
CPs	Cooperating Partners
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DoL	Division of Labour
EITI	Extractive Industries Transparency Initiative
EU	European Union
FDI	Foreign Direct Investment
GAVI	Global Alliance for Vaccines and Immunisation
GDP	Gross Domestic Product
GFATM	Global Fund to Fight Aids, Tuberculosis and Malaria
GNI	Gross National Income
GRZ	Government of the Republic of Zambia
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
HLPG	High-Level Policy Dialogue
IFC	International Finance Corporation
IMF	International Monetary Fund
JASZ	Joint Assistance Strategy for Zambia
LDCF	Least Developed Countries Fund
LFA	Local Fund Agent
LIC	Low-income Country
LMIC	Low and Middle-income Country
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiatives
MIC	Medium-income Country
MoFNP	Ministry of Finance and National Planning
MoH	Ministry of Health
NTDA	Non-traditional Development Assistance
NTP	Non-traditional Partners
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
PRBS	Poverty Reduction Budget Support
PWC	Price Waterhouse Cooper
SAG	Sector Advisory Group
SCCF	Special Climate Change Fund
SNDP	Sixth National Development Plan
SWAP	Sector Wide Approach Programme
TDA	Traditional Development Assistance
UNDP	United Nations Development Programme
VfM	Value for Money
WHIP	Wider Harmonisation in Practice

Executive summary

The years 2011 and 2012 represented a watershed for Zambia in its access to sources of traditional and non-traditional development finance. Following a positive macroeconomic performance since the mid-2000s, Zambia rejoined the lower-middle income country group in 2011. This caused some traditional donors to start to rethink their country strategy and scale down their development assistance programmes. In September 2012 the Government of the Republic of Zambia (henceforth, the GRZ) issued $750 million 10-year Eurobonds, which were oversubscribed 24 times. This diversification of development finance sources demonstrated Zambia's potential to access international capital markets and reduce its dependence on external development assistance.

This study is one of three conducted to explore the implications of this new global landscape for partner country governments (Greenhill et al., 2013). It examines the challenges and opportunities experienced by governments in managing the new landscape, particularly the growth of what we here call 'non-traditional development assistance' (NTDA). By NTDA, we mean cross-border sources of finance that are provided to developing countries for a public or philanthropic purpose, and which have an element of concessionality, but are not 'traditional' bilateral or multilateral official development assistance (ODA). The distinction between traditional and non-traditional is, at best, a useful approximation that inevitably involves a degree of subjective judgement. It does not imply that so-called 'traditional' providers do not innovate or that 'non-traditional' assistance is new. It nevertheless provides a useful conceptual distinction for the purposes of our study. Against this backdrop, this case study aims to answer the following research questions:

1. How have the volume and composition of total development assistance, and the breakdown between traditional and non-traditional sources, changed since the early 2000s?

2. What is the economic, political and aid management context that determines Zambia's ability to mobilise and utilise development assistance and shapes the outcomes of negotiations between government and providers?

3. What are the GRZ's priorities concerning the volume, purpose and 'terms and conditions' of development assistance? To what extent do these priorities differ between different types of providers?

4. In which arenas does the GRZ seek to engage with providers, and which strategies does it employ to negotiate with them? How do these arenas and strategies differ between different types of providers?

5. To what extent is the GRZ achieving its objectives when it comes to negotiating with providers? How has the existence of non-traditional providers of aid helped or hindered the GRZ in achieving its objectives?

Following an adapted version of the framework developed by Fraser and Whitfield (2008) and Olsom et al. (2001) (and summarised in Greenhill et al. 2013), we have identified a series of economic, political and governance factors that influence negotiating strategies and outcomes in relation to traditional and non-traditional providers of development assistance in several ways. These are:

- **Zambia's new middle-income status and improved access to capital markets, combined with falling ODA volumes, is likely to orient its priorities more towards external private sector flows than ODA.** Compared to the other case-study countries- both low-income countries (LICs) - Zambia has a high share of Foreign Direct Investment (FDI) inflows as a proportion of GDP; while ODA/GDP ratios are now well below the LIC average.[1]

- Zambia's **recent economic performance and significant debt cancellation under the HIPC (Heavily Indebted Poor Income Countries) and MDRI (Multilateral Debt Relief) initiatives are likely to increase its negotiating power in relation to traditional and non-traditional providers.** Zambia has

[1] Figures are compared to the LIC average because Zambia only became a MIC in 2011, and most time series that were analysed relate to 2010 or earlier.

experienced a good macroeconomic performance, and income growth outpaced both regional and income-group averages.

- On the other hand, Zambia is **no longer a geo-strategically important country.** This had a negative impact on its negotiating power vis-à-vis both traditional and non-traditional development assistance providers. Zambia does have long-standing relationships with both China and India, unlike some other LICs, and South African companies have expanded their FDI outflows, especially in the retail sector.

- **Recent corruption scandals in the Ministry of Health,** which led the GFATM to suspend disbursements, are likely to weaken perceptions of the GRZ as a responsible aid recipient and reduce its negotiating position. However, the effects of this should be off-set against Zambia's relatively positive assessment on a number of governance indicators.

- **Historically, Zambia has struggled to articulate clear priorities and strategies in relation to donors**, although this tended to vary according to the party in power and the price of copper. It remains to be seen how the country's recent change of government, combined with sustained growth, debt cancellation and a high copper price will impact on the GRZ's ability to formulate a clearer strategy in relation to its traditional and non-traditional providers.

To sum up, the main messages that emerge from the case study are as follows:

- **The volume of NTDA in Zambia is relatively small and dominated by the GFATM.** According to the available data for 2009, overall NTDA flows stood at 7.1% of total development assistance, lower than Ethiopia and considerably less than Cambodia. However, global health funds account for almost 70% of NTDA. NTDA figures are understated since they do not include loans that are not classified as ODA but which have a subsidy component (see Greenhill et al., 2013 on lower- and upper-boundary estimates of NTDA).

- **By far the largest non-DAC official donor is China,** which contributed 3% of ODA from 2006 to 2009. Other non-DAC donors are of much smaller magnitude. However, this figure only includes ODA-equivalent Chinese assistance: the in-country perception is that the actual volume of China's assistance, including non-concessional, is much higher
.

- **Recorded flows from philanthropic organisations,** such as the Bill and Melinda Gates Foundation, the Clinton Initiative and the Open Society Forum, appear to be very small.[2]

- **Climate finance is a relatively new flow** and Zambia is progressively graduating to access LDCF funds. The country would benefit from a **coherent strategy on climate change issues**. We understand from interviews that the GRZ is elaborating a Zambia Climate Change Policy Strategy that will define national institutional mechanisms and manage climate finance resources, but it has not been confirmed when the strategy will be approved.

- **Government-stated priorities in terms of traditional and non-traditional development assistance draw heavily on Paris Declaration Principles on Aid Effectiveness,** and the use of aid modalities, such as budget support and grants. Assistance from non-traditional development providers is welcomed within this framework.

- Regarding negotiating arenas, official bilateral Cooperating Partners (CPs) that do not belong to the DAC (**China, India, Brazil and South Africa) participate in the cooperating partners groups and some sectoral advisory groups** (donor-GRZ groups); though with different frequencies and qualities of engagement. This differs from our findings in Cambodia and Ethiopia. Cooperating Partners Group (CPG) members, official CPs not part of the DAC, and the GRZ appear to value these coordination fora. Still, in contrast to Cambodia and Ethiopia, the health sector benefits from greater coordination across different stakeholders under the transitional special arrangement for Global Fund assistance; the UNDP – as Principal Recipient of GFATM assistance and representative of the UN system − has fostered coordination within the health sector as a CP.

[2] See Greenhill et al. (2013) for a brief discussion of estimates of philanthropic assistance at global and national level.

- In contrast to Cambodia and Ethiopia, **Zambia does not take a strategic approach in negotiations with either traditional or non-traditional providers, and there is mixed evidence on whether it is meeting its objectives.** This may be a legacy of Zambia's historic struggle to manage aid strategically, but it now reflects the country's greater access to alternative sources of finance (including the successful Eurobond issue in September 2012) and expected revenues from mining. Meanwhile, aid is falling due to Zambia's transition to MIC status, concerns about accountability and budget cuts in donor countries. This means that all sources of development assistance, both traditional and non-traditional, are of lesser (and declining) importance to the country, and so less time and effort is spent negotiating with providers.

1 Introduction

1.1 Background to the study

Development cooperation is changing rapidly. Both demand- and supply-side pressures suggest that 'traditional' development assistance from members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) is becoming less important. There are now numerous other sources of development assistance: non-DAC donors, such as China and India; philanthropic organisations, such as the Bill and Melinda Gates Foundation; and new 'social impact investors', such as the Shell Foundation and the Acumen Fund.

This study is one of three being conducted to explore this new global landscape for partner country governments (Greenhill et al., 2013). It examines the challenges and opportunities experienced by governments in managing the new landscape, particularly the growth of what we call 'non-traditional development assistance' (NTDA). By NTDA, we mean cross-border sources of finance provided to developing countries for a public or philanthropic purpose, which have an element of concessionality, but are not 'traditional' bilateral or multilateral ODA. The distinction between traditional and non-traditional is at best a useful approximation, inevitably involving a degree of subjective judgement. It does not imply either that the so-called 'traditional' providers do not innovate or that 'non-traditional' assistance is new. It nevertheless provides a useful conceptual distinction for the purposes of the study.

Within the category of 'non-traditional providers' (NTPs), we include non-DAC donors, climate finance, philanthropic organisations, social impact investors and global health funds. We do not focus on domestic resource mobilisation or purely private flows. The rationale for focusing only on NTDA flows is twofold: to limit the scope of the study; and because these flows are the most likely to complement, or substitute for, ODA, and will therefore be managed by governments in comparable ways.

The study is intended to provide further background for the Working Paper, 'The age of choice: Developing countries in the new aid landscape', which summarises the findings of all three case studies. The Working Paper also provides a more detailed taxonomy of traditional and non-traditional development assistance. Refer to Greenhill et al. (2013) for more detail on the study's background, rationale and scope.

1.2 Case selection, methodology and research questions

'The age of choice' project uses a three-country case study approach. We selected what background analysis suggested would be 'typical cases', in that they receive amounts of development assistance that are close to the average when measured as a share of gross national income (GNI). We also sought to select countries that represented a mix of regions, income classifications, fragility and natural-resource endowment. This led to the choice of Cambodia, Ethiopia and Zambia as initial case studies.

The methodology for the case studies is adapted from Fraser and Whitfield (2008) and Ostrom et al. (2001). The key insight from Fraser and Whitfield (2009) lies in seeing the process of engagement between governments and donors or NTPs as one of negotiation, in contrast to much of the literature on the political economy of aid. Governments and providers are assumed to have a possibly divergent set of objectives that they seek to reconcile through negotiation. Fraser and Whitfield (2008) also focus on the importance of context, both economic and political, in shaping country and donor negotiating capital and hence negotiation outcomes.

Unlike Fraser and Whitfield, however, we do not assume that there is a given set of objectives that countries seek to achieve through negotiations. One research question sought to understand country priorities with regard to the 'terms and conditions' of development assistance – by which we mean aspects of aid quality, such as concessionality, predictability, speed of delivery, and so on. We did not assume a given set of priorities, for example those expressed in the Paris Declaration Principles on Aid Effectiveness, but attempted to understand government's own priorities, and how successful they had been in securing assistance that responded to them. We also asked if government's priorities were identical when it came to flows from traditional donors and NTPs, or whether there were differences between the two.

We also draw on Ostrom et al. (2001)'s Institutional Analysis and Development Framework, which emphasises the importance of identifying the arenas in which countries and providers negotiate. However, we did not take the arenas as a given; we asked whether governments seek to negotiate with donors and NTPs in the same arenas, or different ones.

Drawing on this theoretical framework, we sought to answer the following questions in the three case studies:

1. How have the volume and composition of total development assistance, and the breakdown between traditional and non-traditional sources, changed since the early 2000s?

2. What is the economic, political and aid management context that determines Zambia's ability to mobilise and utilise development assistance and shapes the outcomes of negotiations between government and providers?

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The Zambia case study was conducted over a two-week period in September 2012. Overseas Development Institute staff worked in collaboration with Chrispin Matenga of the University of Zambia to hold interviews with key informants (see Appendix for a full list of the interviewees who agreed that their name or institution could be published). Some interviews took place by telephone in October-November 2012. Interview findings were combined with a background literature review and data analysis. The synthesis report (see Greenhill et al., 2013) examines the case study methodology and case-selection process in greater detail.

The case study report is structured as follows. Section 2 summarises the economic and governance context shaping aid negotiations following an adapted version of the framework developed by Fraser and Whitfield (2008) and Olsom et al. (2001), as illustrated in Greenhill et al. (2013). We review the key indicators between 2000 and 2010, comparing Zambia with the group of LICs.[3] Section 3 outlines trends in volumes and modalities of development assistance flows from the main non-traditional providers (official and private) since the beginning of the 2000s, notably China and the global health funds. Section 4 reviews the GRZ's priorities regarding the terms and conditions of development assistance flows, how they have evolved over time and whether the GRZ has been able to meet its objectives in negotiations with traditional and non-traditional providers. Section 5 describes the arenas in which government interacts and negotiates with non-traditional development partners and the implications for traditional aid coordination mechanisms. Section 6 concludes by summarising the main case study findings.

[3] The country performance is compared with the average performance of the LIC group as Zambia only joined the middle-income group in 2011. Once the indicator refers to 2011, we will compare Zambia with the lower-middle income group.

2 Contextual information

In this section, we discuss the context that has likely shaped Zambia's ability to manage assistance flows from traditional and non-traditional providers. The methodology used for the case study (see Greenhill et al., 2013) stresses the importance of context in influencing a country's ability to negotiate effectively with providers, both traditional and non-traditional. Contextual factors include: (i) economic conditions; (ii) political and governance conditions; and (iii) and a country's progress towards aid effectiveness targets.

2.1 Economic conditions

Traditional development assistance has nearly halved over the last decade, from $1.5 billion in 2000 to $852 million in 2010 in real terms. While the ODA-to-GDP ratio was 24% in 2000 and four times higher than the LIC average (6.4%), the ratio fell to 5.6% of GDP in 2010**,** well below the LIC average (9.5%). In 2010, ODA flows amounted to one third of government expenditure, while in 2002 the share was 136%.

From unsustainable debt to low risk of debt distress. In 1984, Zambia was one of the most indebted countries in the world in terms of share of GDP (Whitworth, 2012). Zambia benefitted from Heavily Indebted Poor Country (HIPC)[4] and of the Multilateral Debt Relief Initiative (MDRI) in the 2000s. While a review of Zambia's debt history is beyond the scope of this paper, the granting of HIPC status and implementation of MDRI assistance strongly influenced aid negotiations vis-à-vis traditional donors between mid-1990s and mid-2000s, particularly in the context of the privatisation of the mining sector (Fraser, 2008). Debt relief initiatives substantially eased the external debt burden and expanded fiscal space:[5] **external debt stock plummeted from 233% of GNI in 1992 to 24% in 2006. The external debt ratio continued to fall:** by 2010, it was 10%, one third of the LIC average (28.5%)**.** The latest IMF/WB Debt Sustainability Analysis (July 2012) rated Zambia as at **low risk of debt distress**.

Zambia is a resource-rich country[6] **highly dependent on copper exports:** in 2006-2008 nearly 80% of exports came from copper (Meller and Simpasa, 2011), or one third of GDP (IMF, 2012). However, **the sector's contribution to total fiscal revenues has been marginal** at around 1% between 2004 and 2008 (Meller and Simpasa, 2011).[7]

Zambia has registered a relatively good macroeconomic performance in the past decade with an average growth rate of more than 5% between 2003 and 2010 – in line with the LIC annual average of 5.3% over the same period. Furthermore, the economy has shown resilience to the knock-on effects of the financial and economic crisis hitting Western economies, outperforming both regional and income-group average growth rates since 2008. Monetary policy, shifting from monitoring policy to targeting inflation, has been one of the factors helping prices to remain stable: **inflation was 8.7% in 2011 and is projected to remain in single figures, though above the LMIC average of 7.6% in 2011.**[8] The **foreign exchange rate against the US$ has been relatively stable since 2009**, while between 2004 and 2006 the kwacha depreciated by 25%. Despite this strong economic performance, Human Development Indicators suggest a less positive picture. In 2011, the country's HDI ranking was 164 out of 187 countries (UNDP, 2012), below the regional average, despite comparatively high income levels.

[4] Zambia achieved the HIPC 'Completion Point', i.e. it fully benefited from multilateral debt relief, in 2005.

[5] As a result of external debt relief initiatives, debt service substantially dropped. The debt service to GNI ratio was on average 7% of GDP from 2001-2005, or roughly one third of ODA received in the same period; in 2010 the ratio was 1%, very similar to the LIC average.

[6] World Bank (2006) estimates that natural-resource rents – almost entirely from mineral revenues – were 27% in 2010, more than 10 times the LIC average for that year.

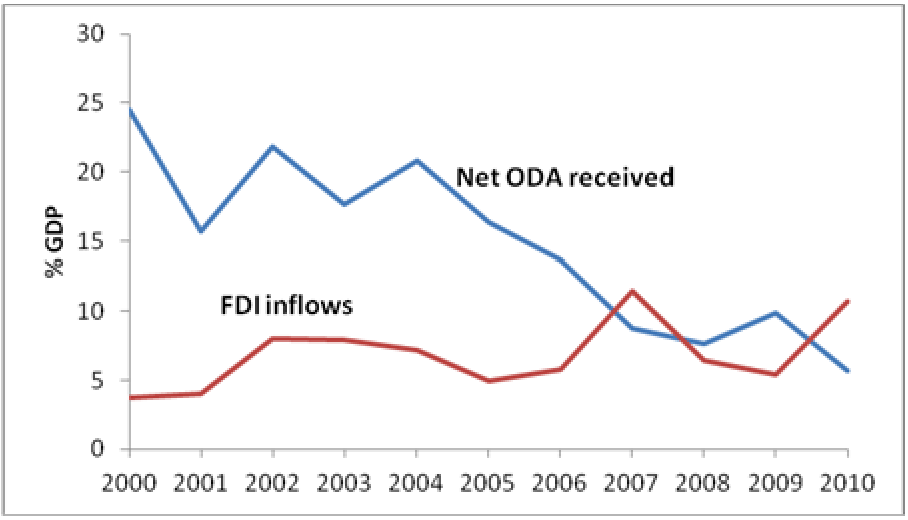
[7] This is motivated by at least two factors. First, in the late 1990s and early 2000s the parastatal copper mining company (Zambia Consolidated Copper Mines, ZCCM) was privatised and international mining companies negotiated tax benefits with the GRZ (under the so-called 'New Development Agreements'). Second, most mining companies had to undertake large capital expenditures to revive production and therefore had losses that they carried forward (IMF, 2012 Article IV). Despite limited fiscal revenues from the mining sector in the 2000s, tax revenues from minerals are projected to rise in the medium term (IMF, 2012 Article IV). First, mining companies will reach tax-payer status. Second, the GRZ has made significant changes to the fiscal regime in recent years with the goal of increasing revenues from the mining sector. Key measures include an increase in corporate income tax (i.e. a variable profit tax with a rate between 30% and 45%) and rise in royalty rates (from 3% to 6%, from an initial 0.3% ratio).

[8] However, the GRZ's expansionary fiscal policy to fund increased infrastructure spending and possible wage demands in the public sector may add to inflationary pressure (AfDB/OECD/UNECA, 2012).

FDI inflows as a share of GDP have expanded since the beginning of the decade, reaching a peak of 11.5% in 2007 (twice as high as the LICs average), **dominated by the mining sector** (ZDA, 2011). Since then, not only have ODA flows declined, but their relative importance as a share over GDP was equal to, or lower than, FDI inflows (Figure 1).

Compared to the two other case studies, **Zambia has access to a wide range of foreign, private-sector flows, and traditional and non-traditional development assistance are of less importance.** Zambia's peak FDI inflows of 11.5% in 2007 had nearly recovered by 2010, compared with 1% in Ethiopia, 7% in Cambodia and an LIC average of 3.1% in the same year. In September 2012, the GRZ issued $750 million worth of 10-year Eurobonds, which were oversubscribed 24 times (GRZ, 2012). This had implications for Zambia's management of traditional and non-traditional development assistance, as we will see later in the study.

Figure 1 ODA and FDI inflows to Zambia, share of GDP 2000-2010



Source: World Bank (2012a).

Compared to Cambodia and Ethiopia, **remittances are of negligible importance in Zambia.** These were only around 0.5% of GDP on average between 2005 and 2010, compared to an LIC average of more than 7%.

2.2 Governance and political conditions

Zambia has a multi-party system and has seen frequent changes of government (Fraser, 2008.) The present government, President Michael Sata's Patriotic Front, has been in office only since September 2011, which may have reduced the opportunity to create a decisive strategy in relation to donors and NTPs.

Zambia's geo-strategic importance has declined over the last two decades. After independence in the 1960s, Zambia enjoyed a strategic role as supporter of the liberation movements in Southern Africa (Chisala, 2006). However, after the deterioration of African economies, the demise of the Soviet Union and the fragmentation of the 'Third World' as countries in South East Asia grew rapidly and drew away (Chisala, 2006), Zambia's strategic importance weakened. Zambia has also had enduring relationships with China and India since independence. The TAZARA railway, for example, was the first and probably best-known example of China's engagement in Africa.

Over the last decade **Zambia has performed well in terms of macroeconomic management, although progress against governance indicators shows a mixed picture.** It remained level with the lower middle income country (LMIC) group for most public finance and accountability measures in the Country Policy and Institutional Assessment of 2011, but out-performed its peers in the macroeconomic management dimension

(4.0 compared to the LIC average of 3.7; 6 being the highest value). However, it lags behind on *transparency, accountability and corruption in the public sector* (2.5 against an average of 3.1). Also according to World Governance Indicators (World Bank, 2012b), Zambia performed badly in an evaluation of government effectiveness, control of corruption and regulatory quality.

Nonetheless, Zambia has performed well in other governance indicators. In the IFC's *Ease of doing business indicator*, the country ranked 84 out of 183 countries in 2011, though it had fallen four places since 2010.[9] In September 2012,[10] Zambia was declared **compliant with EITI standards** − the first country in Southern Africa to achieve this status. In 2011 Transparency International ranked Zambia 91 out of 183 countries surveyed with a 3.2 score **in the Corruption Perception Index, placing it in the group of less-corrupted countries in Sub-Saharan Africa**. Finally, according to World Governance Indicators (World Bank, 2012b), Zambia performed relatively well in the *political stability and absence of violence indicator* (65.4 percentile rank in 2010).

2.3 National strategies and aid management context

While the GRZ has developed a series of policy strategies over the past decade that articulate its relationship with development partners and the pillars of national development, historically the country Zambia has struggled to set clear priorities or take a strategic approach to managing donors. This section briefly reviews the main elements of national development strategies, aid policy and architecture, and progress toward implementing the Paris Declaration Principles on Aid Effectiveness.

Zambia's national development strategy and its relation with external actors are framed in three programme documents: *Vision 2030* (2006)*, the Sixth National Development Plan (SNDP) 2011-2015* (2011) and the *Aid and Policy Strategy* (2005)[11]. *Vision 2030* is a long-term strategy that identifies the main objectives and policy instruments to becoming *a prosperous dynamic industrial middle-income nation by 2030*. The Sixth National Development Plan (SNDP) goes into more detail about sectoral priorities, with three overarching objectives: infrastructure development, rural investment and poverty reduction, and enhancing human development. The SNDP also provides the main foundation for discussions with CPs. Finally, the *Aid and Policy Strategy* sets out the broad objectives for development cooperation, and external resource acquisition and management, with the ultimate goal of ensuring Zambia has a clear, systematic and well-coordinated approach to solicit for, acquire, utilise, manage, report, monitor and evaluate assistance from development cooperating partners (GRZ, 2005, p. 11).

The GRZ has an implicit strategy towards reducing dependence on external assistance and increasing reliance on domestic financing both at aggregate and sector levels. While the SNDP states that *development assistance will continue to constitute a vital financing source,* donor support to the national budget was projected to halve from 14.5% in 2010 to 7.7% in 2011, according to the 2011 budget speech, with other financing mechanisms, such as concessional and non-concessional borrowing, required to fill the $400 million financing gap. It is noteworthy that JASZ II (CPG, 2011) explicitly mentions that the achievement of '*greater capacity to lead on prioritisation and use of ODA and to mobilise and coordinate other external sources of financing should be one of the GRZ priorities as it prepares the countries to accomplish the transition from aid to self-financed development (including better systems and access to information)'*. **There are several push factors towards ending aid dependency**. **Some DAC donors have expressed their intentions to pull out of development cooperation programmes in Zambia**, namely the Netherlands, Denmark and Canada, over accountability issues after embezzlement in the health and roads sectors, aid budget cuts and limited development outcomes.

Regarding **debt sustainability,** the *Aid and Policy Strategy* in 2005 stated that the GRZ should maintain debt at manageable and sustainable levels, prioritise concessional finance and negotiate loans only with a minimum 35% grant element. Interviews with GRZ officials, however, suggest these criteria have not been systematically applied. The SNDP (GRZ, 2011a) further states that non-concessional loans may be contracted to finance projects with high economic returns, especially in infrastructure, although it emphasises that external and domestic borrowing should remain conservative to maintain debt sustainability. The GRZ

[9] Zambia particularly outperformed in mobilising credit to the private sector (the domestic lending rate also substantially decreased in recent years from 46.2% in 2001 to 18.8% in 2011, reflected in the access to credit dimension).
[10] http://eiti.org/news-events/zambia-declared-eiti-compliant#
[11] The Aid and Policy Strategy has been subsequently published in 2007.

reportedly agreed to share information with the IMF before contracting any non-concessional loans (AfDB/OECD/UNECA, 2012).

Zambia has historically struggled to articulate clear priorities or take a strategic approach to managing donors. Analysing the National Commercial Bank privatisation and negotiations on aid strategy in the mid-2000s, Fraser (2008) writes that 'the Zambian government has found it almost uniquely difficult to assert its own preferences'. However, Fraser also noted that this difficulty varied according to the party in office[12] and international copper prices.[13] More recently, Zambia's negotiating strength has been affected by staff corruption in the health and highways sectors (GRZ, 2011b).[14] Heavy indebtedness severely reduced Zambia's negotiating position until the recent HIPC and MDRI initiatives. The case study investigated the extent to which recent strong growth and improved access to the international capital markets may have affected Zambia's strategic approach to negotiations with development partners.

Progress towards full implementation of the Paris Declaration Principles on Aid Effectiveness has been mixed. Zambia has fully met three indicators,[15] but there are areas for improvement. While country ownership persists as an overarching principle in the *Aid and Policy Strategy*, there was a significant setback in 2010 of the remarkable improvement in aid flows aligned towards national priorities recorded in 2007. While this share rose from 52% to 74% from 2005 to 2007, it fell back to 52% in 2010.[16] Secondly, use of country PFM systems shrank from 59% in 2007 to 52% in 2010. This score largely related to the United States and the UN, two of Zambia's largest donors, which delivered only 5% and 22%, respectively, of their assistance through national systems.[17] Finally, both the number of joint missions and joint analytical work by donors improved, but both indicators fell short of agreed targets.[18]

Aid management is centralised within the Economic Management Department in the Ministry of Finance and National Planning (MoFNP), which signs agreements on the behalf of the GRZ. However, line ministries are also closely involved in aid negotiations. Interaction between MoFNP and line ministries is sometimes characterised by tensions over budget execution (GRZ, 2011b).

Aid coordination between the GRZ and CPs is structured in three levels [19] (CPG, 2011): [20]

[12] After independence in 1964, Zambia enjoyed a relatively strong position in aid negotiations with the unconditional nature of early aid transfers motivated by the international legitimacy of the ruling United National Independence Party (UNIP) and Zambia's strategic role as supporter of the liberation movements in Southern Africa (Chisala, 2006). After the transition towards a one-party system and the fall in copper price in the 1980s, UNIP lost much of its negotiating strength (Fraser, 2008). The lack of visible opposition once the MMD (Movement for Multiparty Democracy) came to power in 1991 was such that 'the government could not realistically claim to donors to be in fear of losing power' (Fraser, 2008). 'As the MMD lost popular goodwill, donors and the party leadership became mutually dependent '(Fraser, 2008).

[13] Fraser (2008) suggests that Zambian dependency on development assistance (and consequently its relative negotiating power) was highly inversely correlated to the international copper price. For example, the fall in the copper price in 2001 compromised fiscal revenues and the 'dependence of state budgets on donor assistance increased with weakened capacity to resist donor preferences' (Fraser, 2008).

[14] In the health sector, the GFATM froze $137 million of assistance in 2009 after funds could not be accounted for and the Netherlands and Sweden withdrew their funds in 2010. After alleged irregularities in the roads sector, the EU froze assistance of $33 million in November 2009.

[15] These are: (i) an operational development strategy (grade B, this refers to the SNDP); (ii) reliable PFM systems ; and (iii) the capacity to coordinate technical cooperation with country programmes (79% where the target is set at 50%), recording a large improvement from the 34% score in 2007. In the latter case, major donors, including the United States, the UN, Germany and Japan – which together provide 82% of total technical cooperation – easily exceeded the 2010 target of 50% of their technical cooperation towards a country-led model.

[16] On this indicator, some donors are performing relatively well by achieving the 85% target (i.e. the African Development Bank, EU institutions, Germany and Japan).

[17] A similar pattern is extended to the use of country systems (44% in 2005, 71% in 2007 and 54% in 2010) and the use of common procedures or arrangements (47% in 2005, 47% in 2007 and 45% in 2010). Setbacks in aid predictability (from 85% in 2007 to 0% in 2010) cannot be evaluated because data were submitted too late. (OECD, 2011).

[18] Both indicators rose (number of joint missions, 16% in 2007 to 27% in 2010; and joint analytical work by donors, from 46% to 50% over the same period). Targets are 40% and 50% respectively.

[19] The health sector includes additional consultative meetings beyond the above-mentioned sectoral architecture (e.g. Annual Consultative Meeting, the MoH/CP Consultative Policy Meeting and Technical Working Groups/Sub-Committees), reflecting the large share of assistance channeled to this sector. Furthermore, application to the GFATM has a separate coordination system (Country Coordination Mechanism). In addition, in 2007 GRZ signed the International Health Partnership (IHP), a compact that provides a framework for donor alignment and coordination to accelerate the attainment of health-related MDGs 4 and 5. The IHP was piloted by former UK Prime Minister Gordon Brown to accelerate the implementation of the Paris Declaration by building upon on-going efforts to strengthen effective aid delivery in the health sector (GRZ, 2011b).

[20] See the Appendix for a brief description of how the aid management system and the aid coordination mechanism have evolved in the country.

- **Dialogue at sector level.** The main fora[21] for dialogue at sectoral level are the **Sector Advisory Groups (SAGs),** consisting of cooperating partners, government and non-state actors who meet quarterly to discuss technical issues. Some SAGs are operational, but others have still to be established. The frequency of meetings, their effectiveness and the actors involved reportedly vary across groups. The main non-state actors represented are CSOs and the private sector; philanthropic organisations participate when relevant to the sector. The participation of bilateral official donors that are not members of JASZ II depends on how well the sectoral coordination mechanism functions, and the area of intervention.
- **Dialogue on cross-cutting issues.** This comprises four fora: the **PRBS review group, the PFM group, the joint M&E-Statistics group** and the **Mutual Accountability Group**, which review aid effectiveness and track progress on a JASZ II work plan.

- **High-level dialogue.** This takes the form of: (i) monthly discussions between the **Secretary of Treasury and the CPG Troika** on aid effectiveness issues; (ii) an **annual High-Level Policy Dialogue (HLPG)** in which the GRZ, in consultation with the CPG Troika, selects one or more themes for discussion; (iii) and an **Annual Poverty/SAG Conference**, which includes local government representatives.

The GRZ and its CPs are discussing a Mutual Accountability Framework (MAF) in line with the evolving debate on objectives in the Global Partnership on Effective Development Cooperation. Neither the GRZ nor the CPG has approved the document, and only CPs have signed JASZ II. We understand that the MAF will include an updated description of the aid coordination mechanisms effective in the country.

2.4 Context analysis: Implications for aid negotiations

We expect the contextual analysis included in previous sections to include Zambia's objectives, negotiating strategies and outcomes in relation to traditional and non-traditional providers of development assistance in several ways. We particularly compare Zambia to the cases of Cambodia and Ethiopia with some factors strengthening negotiating power, other weakening it:

- **Zambia's newly acquired MIC status and access to capital markets, combined with falling ODA volumes, is likely to orient its priorities more towards external private sector flows than ODA.** Compared to Cambodia and Ethiopia, both LICs, Zambia has a higher share of FDI/GDP, while ODA/GDP ratios are well below the LIC average.

- Zambia's **recent economic performance, and significant debt cancellation under the HIPC and MDRI initiatives, is likely to increase its negotiating power in relation to traditional and non-traditional providers.** Zambia has had a relatively good macroeconomic performance, and income growth is outpacing regional and income-group averages.

- Zambia is **no longer a geo-strategically important country,** and this will impact on its negotiating power with traditional and non-traditional development assistance providers. However Zambia does have long-standing relationships with China and India, unlike other LIC, and South African companies have expanded their FDI commitments, especially in the retail sector.

- **Recent corruption scandals in the MoH,** leading to suspension of Global Fund disbursements, have weakened the perception of Zambia as a responsible aid recipient and are likely to reduce its negotiating position. However, this must be balanced against the country's good assessment on a number of governance indicators.

- Zambia has **historically struggled to articulate clear priorities and strategies in relation to donors**, although this has varied according to the party in office and trends in copper price. It remains to be seen how the country's recent change of government, combined with a record of sustained growth, debt cancellation and high copper prices will impact on Zambia's ability to formulate a clear strategy in relation to traditional and non-traditional providers.

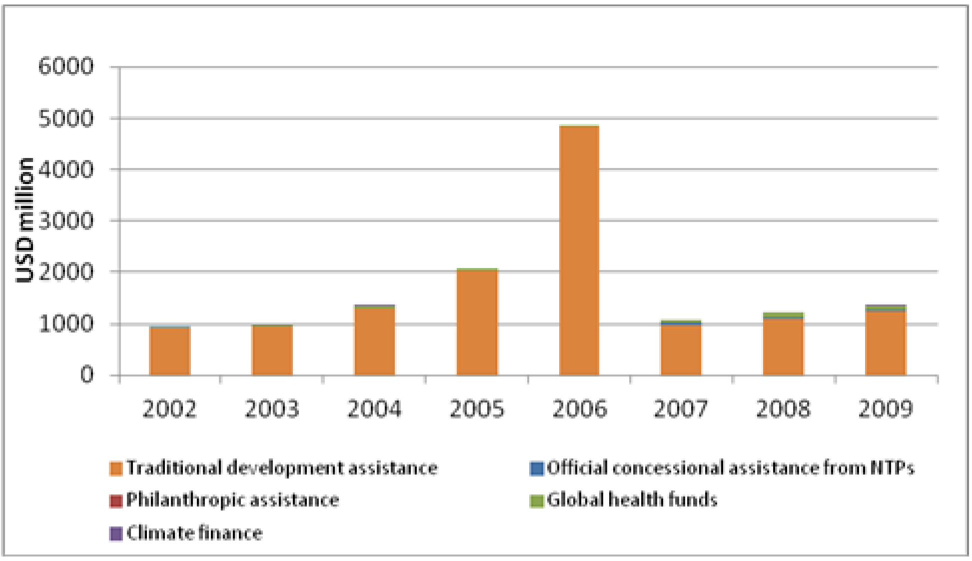
[21] Two other mechanisms are envisaged in the JASZ II: the Joint Annual Sector Review and the Review of Large Sector Programmes.

3 Mapping non-traditional development assistance flows to Zambia

Having reviewed the main contextual factors likely to impact on Zambia's priorities, negotiating power and outcomes in relation to traditional and non-traditional providers of development assistance, we provide in this section an assessment of the volume and trends of flows in NTDA. In declining order of importance, these are: 1) vertical funds, such as the GFATM and GAVI; (2) bilateral official NTPs; 3) philanthropic assistance; and 4) climate finance.
We estimate that these flows in 2009 stood at 7.1% of total development assistance, lower than those for Cambodia (23.5%) and Ethiopia (9.1%) (Greenhill et al., 2013) (Figure 2). In Zambia, while non-DAC donors represent 28% of total NTDA flows, the latter are dominated by GAVI and the Global Fund, which account for nearly 70% of such flows on average from 2007-2009 (Figure 3). (See Greenhill et al., 2013 for definitions of 'traditional' and 'non-traditional' development assistance).

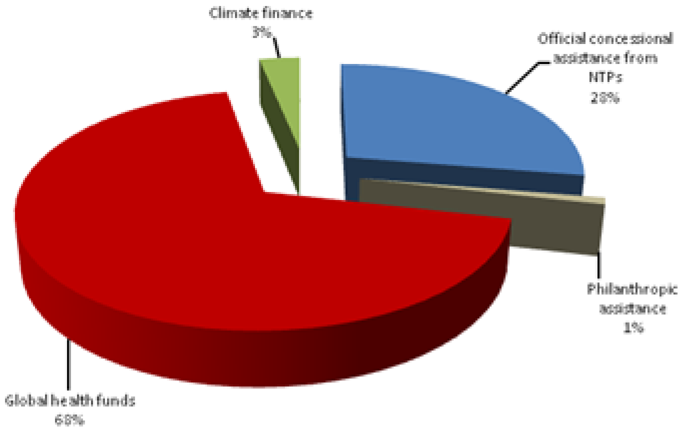
Note that the graphs below follow Greenhill et al. (2013) in reviewing data only up to 2009 (the last year for which a full dataset was available in all three countries). In the following sections, however, we discuss the evolution of volumes of non-traditional development assistance to 2010 and beyond, where such data is available.

Figure 2: Traditional vs. non-traditional development assistance to Zambia 2002-2009



Source: Authors' elaboration on the basis of OECD.stat, AidData, Foundation Center, Climate Funds Update October 2012 version, disbursed data only.

Figure 3: Average NTDA to Zambia 2007-2009 by source



Source: Authors' elaboration on the basis of OECD.stat, AidData, Foundation Center, Climate Funds Update October 2012 version, disbursed data only.

3.1 Vertical health funds

Between 2006 and 2010 **the GFATM was the largest of what we are calling 'non-traditional official providers' of development assistance to Zambia.** Nonetheless, its volume of assistance is small compared to providers of TDA. As Zambia's 13th largest donor, the GFATM ranks one place above China and provides 2.8% of total development assistance (MoFNP, 2010). Over the same time period, the GFATM was also Zambia's second largest multilateral donor. Following the corruption scandals that froze $137 million of GFATM assistance in 2009, the Global Fund had two principal recipients at the time of the country visit: the MoH/UNDP and Churches Health Association of Zambia (CHAZ). In Section 5 we analyse its implications for the aid coordination mechanism in the health sector, compared to the cases of Cambodia and Ethiopia. Zambia was awarded assistance in round 1 ($192 million for all interventions), round 4 in 2004 ($253 million for ART and $43 million for malaria), round 7 in 2007 ($24 million for TB and $37 million for malaria), round 8 in 2008 ($292 million for HIV/AIDS) and round 10 ($256 million for HIV/AIDS), for a total amount of grants approved of $912 million since 2003 (of which $448 million has been disbursed.

Between 2001 and 2015, GAVI has committed and disbursed a total amount of $132.5 million.

3.2 Bilateral official non-traditional providers

China

China is the largest non-DAC bilateral donor to Zambia, dwarfing all other non-DAC bilateral official CPs in terms of volume of assistance provided and variety of instruments used. According to MoFNP, figures show that China provided $68.3 million in project financing (no budget support but concessional loans, especially on infrastructure) from 2006-2009; and $12.3 million in the form of grants. China was the **only non-traditional state actor to provide Zambia with grants from 2006-2009** (MoFNP, 2009).

Although it is Zambia's largest non-traditional official provider of development assistance, **China's ODA-equivalent flows are still small**. According to the Development Cooperation Report, China provided only 2.7% of total, ODA-comparable flows, ranking 14th among 23 CPs (bilateral and multilateral official actors).

These figures may be severe underestimates, however, if one considers China's long-standing relationship with Zambia and the large Chinese presence. In-country interviews suggested a perception that assistance from non-DAC bilateral donors may stand at comparable levels to that of DAC donors. This discrepancy may be because many Chinese loans do not meet strict ODA concessionality criteria. When less-concessional or non-concessional loans from China are included, the volume is likely to be higher, although there is insufficient data to verify this.[22] Kragelund (2011) argues that the discrepancy may be caused by the nature of undertakings between the government of China and State House: 'the State House is not obliged to disclose information regarding scope and magnitude of grants to ministries.' [23] This implies that official data may not capture the full volume of even ODA-equivalent support.

China works with the GRZ in health (hospitals), education (schools), sports (stadium) and water supply; training programmes are also prized as a key area of economic development. Concessional loans mainly focus on infrastructure (MoFNP, 2010).

Other bilateral official non-traditional partners

India, Brazil and South Africa are Zambia's other non-traditional official providers, mainly of technical assistance and of small volumes of financial assistance in the form of grants, credit lines and loans. India stands out; like China, its activities in Zambia are far from recent.

Assistance by India mainly focuses on technical assistance and in-kind contributions. Like China, but on a smaller scale, financial assistance from India is minor compared to traditional official development assistance providers. MoFNP (2009) estimates total concessional loans from Ex-Im Bank to GRZ of $ 4 million between 2006 and 2009 (compared to nearly $70 million from China in the same period). A series of credit lines over the last decade has been extended for a total nominal amount of $ 135 million.[24]

Brazil re-opened its embassy in Lusaka in 2007. Development assistance programmes focus on technical assistance. The *Aid Data Database* assesses Brazil's financial assistance at $1 million over the last decade. Programmes are demand-driven and cover the health, education, agriculture, sport and social protection sectors.

South Africa is one of Zambia's largest trading partners and a regional source of FDI in the retail and banking sectors. However, we are unaware of any grants or loans from the government of South Africa. **BADEA, OPEC Fund and Kuwait Fund** disburse limited amounts of financial assistance which, combined, yielded less than 0.5% of Zambia's total from 2006-2009. According to MoFNP (2009), the Kuwait Fund and OPEC Fund were active in the transport sector while BADEA is a background CP in the education sector (see Section 4 for a definition). The Development Cooperation Report (2010) suggests that the GRZ treats these actors as traditional CPs who have signed the JASZ (I).

3.3 Philanthropic assistance

While compiling accurate information on direct assistance by philanthropic organisations to the GRZ is challenging, we can assess the total assistance from US foundations as a whole. Foundation Centre data totalled $7.4 million between 2003 and 2011 (Table 1).[25] However, some of the grants are regional and do not target Zambia only. Assistance from US-based philanthropic organisations is small, compared to the annual ODA flows of approximately $1 billion in the last decade.

[22] Some authors have attempted to estimate China's assistance to Zambia but their figures not easily comparable. Mwanawina (2008) measured Chinese aid between 1967 and 2006 at $409.4 million, with grants of $5.4 million. According to Huse and Muaykwa (2008) debt to China amounted to $217 million – but most was written off after President Hu Jintao's state visit in February 2007. The Country Evaluation of the Paris Declaration (2011) reported that China had disbursed about 35% of the loans Zambia received in 2008.
[23] An example provided by Kragelund (2011) is a $53 million loan from Ex-Im Bank to procure nine mobile hospitals, agreed at the highest political level without MoH involvement.
[24] During President Mwanawasa's visit to India in April 2003, India extended a credit line of $10 million (of which $8.5 million was used to buy Tata trucks and $1.5 million to procure vocational tool kits). At the same time, grant assistance of $100,000 was agreed for the donation of anti-HIV/AIDs medicines and Rs25 million for agricultural equipment. More recently, during the 2010 visit of Vice President Shri M. Hamid Ansari, a new line of credit of $75 million was signed for development projects in Zambia, as well as a grant of $5 million for projects in health, education and social sectors. A loan agreement between EXIM Bank of India and the MoFNP extended a $50 million line of credit for the Itezhi Tezhi hydropower project, in which TATA and ZESCO are joint-venture partners. The offer of a $50 million line of credit for establishing pre-fabricated health posts in Zambia's rural areas of Zambia was conveyed to the GRZ in January 2012 (Source: Embassy of India, 2012).

[25] http://fconline.foundationcenter.org/maps/CountryDollars.php?&y0=All&map=ZM&unit=Zambia

Table 1. US philanthropic assistance to Zambia – financial assistance and number of grants

	2003	2004	2005	2006	2007	2008	2009	2010	2011
$ million	0.3	0.2	0.9	0.5	0.9	0.6	1.4	0.6	1.9
Number of grants	6	20	26	37	49	39	66	30	59

Source: Foundation Centre

The largest active philanthropic organisations are the Rockefeller Foundation, World's Children Fund, Ford Foundation, Microsoft Corporation Contributions Programme and Firelight Foundation. Such entities are most visible in the health sector. However, the Open Society Forum for South Africa (OSISA) supports a programme in collaboration with the Ministry of Education to improve the quality of learning.[26]

3.4 Climate finance

Climate finance pledges to Zambia totalled over $20 million from 2004-2010, with approximately half disbursed so far (see Table 2 for a detailed list of programmes). Climate finance is a relatively new phenomenon, but Zambia expects additional funding from the LDCF and SCCF after performing on bio-diversity, climate change and land degradation indicators.

Table 2. Approved and disbursed climate-finance related projects to Zambia USD million

Project	Funder	Approved Year	Approved	Disbursed
Adaptation to the effects of drought and climate change in Agro-ecological Zones 1 and 2	LDCF	2009	3.4	3.4
Increased access to electricity	GEF Trust Fund (GEF 4)	2010	4.5	4.5
Preparation of National Adaptation Programme of Action (NAPA)	LDCF	2004	0.2	0.2
Project for Support in National Roll-out of Sustainable Operation and Maintenance Programme (SOMAP3)	Japan's Fast-Start Finance		0.03*	0.0
Strengthening Climate Resilience in Kafue River Basin (AfDB) (project preparation grant)	PPCR	2011	1.4	0.0
Strengthening Climate Resilience in Zambia/Barotse (IBRD) (project preparation grant)	PPCR	2011	1.5	0.0
Sustainability of the Miombo Eco-region through Enlargement and Improved Management of Protected Areas	ICI	2008	3.1	0.0
UN-REDD national programme	UN-REDD		4.5	1.7
Design of National Strategic Programme for Climate Resilience (SPCR) (phase 1 funding)	PPCR	2010	1.5	0.5
Total			20.1	10.3

*Source: Climate Fund Update (2012). Accessed September 2012. * Technical assistance Source: Japan's Fast-Start Finance for Developing Countries up to 2012.*

The MoFNP has established a dedicated, three-person unit to implement the Pilot Programme for Climate Resilience in collaboration with the AfDB and the World Bank, but interviews suggested that the GRZ lacks an overarching climate strategy that meets international funding requirements. We understand that the GRZ is elaborating a Zambia Climate Chance Policy Strategy to define institutional mechanisms, including a National Climate Change Development Council with a basket fund for adaptation and mitigation purposes. We cannot confirm when it will be approved.

[26] http://www.osisa.org/education/zambia/addressing-challenges-quality-learning-zambia-education-system

In summary, section 3 shows that NTDA in Zambia is of relatively small magnitude, with only 7.1% of total development assistance. This is lower than in Ethiopia and considerably less than Cambodia. Moreover, NTDA overwhelmingly originates from the GFATM and GAVI, which account for nearly 70% of all non-traditional flows. It should be noted, however, that estimates of Chinese assistance are based on ODA-equivalent terms only; if less-concessional flows are taken into account, non-DAC donors are likely to have a much larger share.

4 Government priorities

Having reviewed the volume and trends in NTDA flow, we now outline our findings from interviews and key documents concerning the GRZ's priorities in regards to the 'terms and conditions' of traditional and non-traditional development assistance. By 'terms and conditions' we mean elements of aid quality, such as predictability, alignment, concessionality, and so on.

In general, **the priorities for the terms and conditions of aid flows are in line with the Paris Declaration Principles on Aid Effectiveness.** As noted above, the *Aid and Policy Strategy* lists Zambia's preferences in type of aid flow and modality it would like donors to provide and these generally mirror the Paris Declaration Principles. In particular, the *Aid and Policy Strategy* adds the following preferences:

- **Country ownership** as cardinal (top-ranked)
- Simplification **of processes and procedures**
- Grants **as preferred form of external assistance**
- All external assistance to contain clear **capacity-building component**
- **Use of country systems**
- **Predictability** of aid flows
- **Technical assistance to be country-driven**
- New borrowing to be aligned to Zambia's '**capacity to repay and on terms that would not unduly expose the country to preventable risk of defaulting'**. The target should be concessional finance and '**the GRZ will negotiate only those loans with a 35% percent minimum grant element**', with the priorities of the National Development Plan and MDGs guiding government actions.

In line with these priorities, the SNDP states that the preferred mode of aid delivery is budget support, followed by sector support and sector-wide approach programmes (SWAPs)**.** [27]

Interviews with GRZ officials confirmed that the priorities for terms and conditions remain largely those enunciated in the 2005 *Aid and Policy Strategy*, and the SNDP. Budget support is the main priority, followed by grant assistance, the use of SWAPs and basket funding. Interviewees affirmed that assistance must be aligned to the national strategy (ownership and sectoral priorities); should contain a capacity-building component; be delivered rapidly; and attract reduced administrative and transaction costs. They mentioned Value for Money (VfM), high rates of return, predictability and the use of country systems as additional priorities. Though not high on the list of priorities, it is worth noting that some of them (i.e. VfM), high rates of return and speed of delivery, are not included in the Paris Declaration's Principles on Aid Effectiveness.

We understood from interviews that **the GRZ welcomes every new provider of development assistance within this framework**, i.e. they must adhere to the priorities of the *Aid and Policy Strategy* and the Paris Declaration Principles on Aid Effectiveness.[28]

The *Aid and Policy Strategy* does not explicitly distinguish between traditional and non-traditional providers of external development assistance. Nor, in principle, do priorities regarding terms and conditions differ between traditional, non-traditional or even new actors, though the *Aid and Policy Strategy* was conceived for traditional partners only**.** Nonetheless, we were led to understand that there is greater emphasis on **alignment and coordination** with some non-traditional providers, particularly the Global Funds, which tend to channel funds through parallel mechanisms (GRZ, 2011b).

[27] In particular, the GRZ's preferred modality is Poverty Reduction Budget Support.
[28] We learned during the country visit that the *Aid and Policy Strategy* will be revised, apparently to reflect recent economic developments, such as Zambia's graduation to MIC status and falling aid flows from some DAC donors.

Sectoral priorities. A detailed division of labour (DoL) is elaborated in the JASZ II, which attributes different roles to: **lead donors,** the troika leading CPs in dialogue with line ministries/MoFNP; **active donors**; and **silent or background donors**. The MoFNP's lead role in shaping this matrix emerged during interviews. The MoFNP reportedly suggested a maximum number of five donors operating in each sector on the basis of their comparative advantage, previous assistance and other projects in the sector.

Priorities for terms and conditions of climate finance. It is difficult to specify GRZ priorities in managing climate finance compared with ODA since Zambia only recently began to receive earmarked flows. In interviews, climate finance emerged as sharing challenges similar to ODA management where each system and CP has specific procedures and negotiations. However, the funds provided by multilateral organisations are judged as more flexible than those from bilateral donors.

5 Arenas for negotiation with traditional and non-traditional providers of development assistance

As noted in Section 2.3 above, the GRZ holds a series of fora in which donors and officials review the technical and policy issues that pertain to aid delivery. The JASZ review by OPM (2010) found that a number of non-DAC doors attended monthly meetings of the CPG as observers, but showed limited interest in joining (see also Huse and Muyakwa, 2008). A different picture emerged during field work in September 2012, however. **China, India, Brazil and South Africa participate – with varying frequency and quality of engagement – in the donor coordinating groups and some SAGs.** Several factors appear to encourage this situation. Firstly, traditional donors have demonstrated the value-added of participation, moving the discussion from technical aspects of ODA to broader policy issues. Traditional donors, in fact, are respected for their openness to dialogue with non-DAC bilateral actors and willingness to learn from them. Second, the MoFNP invites all CPs – traditional, non-traditional, the private sector and CSOs – to sit at the same table, as occurred at the High-Level Policy Dialogue in November 2012. Thirdly, the diplomatic delegations of non-DAC bilateral actors are more open than in the past. The Chinese Ambassador, in particular, is open, willing to learn and happy to share information with other CPs.

Despite different levels of engagement, **there is widespread participation in the aid coordination mechanism at SAG level by non-state actors.** We encountered conflicting views on the SAGs' effectiveness in promoting dialogue between state and non-state actors, however, largely depending on sector. In some cases SAGs are considered an opportunity for consultation, but CSO participation has not been judged sufficiently effective and there is a demand for better coordination and dialogue. In other cases, the dialogue between CSOs and GRZ has reportedly improved, with CSOs taking a more active role.

Unlike the two other case studies**, different coordination arrangements exist in Zambia for disbursements by the GFATM, particularly in regard to the health sector**. In the wake of the 2009 corruption case, in which GRZ officials were found to have misappropriated more than $130 million in GFATM resources, UNDP became Principal Recipient and direct disbursements to the MoH were frozen (GRZ, 2011b). MoH is now a sub-recipient only, and UNDP monitors progress in the accountability system (together with the LFA, in the case of Zambia being PWC). Hand-over will only take place when MoH can demonstrate that the reforms agreed with the GFATM have been fully implemented.[29] **This has clear implications for the aid coordination mechanism in which UNDP participates in the health and HIV/AIDS SAGs as UN system representative.** The Country Coordination Mechanism is currently composed of some 25 members (there are plans to reduce the number to enhance coordination), representing the GRZ, the two principal recipients (UNDP and CHAZ), their CPs, health practitioners and representatives of patients and the Zambia Federation of Employees.

[29] UNDP acts as Principal Recipient in 29 countries and is usually the 'last resort' to ensure assistance is regularly delivered in difficult situations (post-conflict countries and during corruption investigations). See http://www.undp.org/content/undp/en/home/ourwork/hiv-aids/Projects-initiatives/undp-leverages-knowledge-in-managing-global-fund-grants.html

6 Outcomes

Having reviewed the GRZ's priorities in the 'terms and conditions' of development assistance, and the arenas in which it seeks to achieve them, we now consider the available evidence on the extent to which the GRZ has been able to meet its objectives.

The evidence is mixed on whether the GRZ is meeting its objectives with regard to terms and conditions of aid, and how NTPs have impacted on that dynamic. NTPs, like China, are aligned with GRZ priorities in that it largely provides assistance to the infrastructure sector, which is underfunded by traditional donors. Kragelund (2011) confirms that the existence of NTPs allows the GRZ to finance aspects of development that traditional donors are reluctant to underwrite. However, the GRZ has struggled to include some NTPs, again notably China, in its DoL matrixes, which serve to coordinate across donors. Interviews indicated that bilateral agreements with NTPs also have a shorter time horizon than those with TPs. Moreover, Zambia faces particular challenges of alignment with global funds and philanthropic organisations in the health sector. The Country Evaluation of the Paris Declaration (GRZ, 2011b), for example, reports that the GFATM, Clinton Foundation, GAVI Alliance and Melinda and Bill Gates Foundation channel significant resources though parallel reporting mechanisms other than those compliant with the Paris Declaration**.** Still in GRZ (2011b) MoH officials said that some of their projects are not aligned with national development strategy and distort national ownership at sector level.

In general − and in contrast to Ethiopia and Cambodia − this mixed assessment is complicated further by the **lack of evidence that the government is taking a strategic approach to managing either traditional donors or NTPs.** Zambia makes little effort to distinguish between the two categories, and there is little evidence that the GRZ has used the emergence of NTPs to bolster its negotiating influence with traditional donors. Several contextual reasons may explain this difference between Zambia and the other two case studies. First, in relation to those of traditional donors, NTDA volume flows are smaller than in Cambodia and Ethiopia, and the GFATM − which is largely controlled by DAC donors − accounts for most of it. Second, Zambia is less dependent on aid and more market-oriented than the other two countries, making negotiating any kind of development assistance less of a priority. Zambia admittedly has less background in operating strategically in relation to donors; the latter have been more aggressive in the past, undermining the GRZ's negotiating power (Chisala, 2006). Finally, as noted above, the current government is newer than those of Ethiopia and Cambodia. President Sata's Patriotic Front has been in office since September 2011, whereas President Meles Zenawi led Ethiopia from 1991-2012 and Cambodia's Prime Minister Hun Sen has occupied a leadership role since 1985.

7 Conclusions

To summarise, the main messages that emerge from the case study are as follows:

- **NTDA in Zambia is relatively small, and dominated by the GFATM.** Total NTDA flows stood at 7.1% of total development assistance in 2009, lower than Ethiopia and Cambodia, with global health funds accounting for almost 70%. However, NTDA figures are likely to be underestimates since they do not include loans not classified as ODA from official NTPs, but which still contain a subsidy component.

- **The largest non-DAC official donor is China,** which contributed 3% of ODA from 2006-2009. Other non-DAC donors are of much smaller magnitude. Again, this figure includes only ODA-equivalent assistance from China: the in-country perception is that the full volume of Chinese assistance, including non-concessional, is much higher.

- **Recorded flows from philanthropic organisations,** such as the Bill and Melinda Gates Foundation, Clinton Initiative and the Open Society Forum, are comparatively low.

- **Climate finance is a relatively new mechanism** and the country is moving to access LDCF funds. Zambia would benefit from a **more coherent strategy on climate change issues**. We understand that the GRZ is elaborating a Zambia Climate Change Policy Strategy, which will define national institutional mechanisms and also the management of climate finance resources, but do not know when the strategy will be approved.

- **The GRZ's stated priorities in terms of traditional and non-traditional development assistance draw heavily on the Paris Declaration Principles on Aid Effectiveness**, and the use of aid modalities, like budget support and grants. Assistance from all NTPs is welcome in this framework.

- Non-DAC bilateral official CPs − **China, India, Brazil and South Africa − participate in donor coordinating groups and some SAGs** with varying frequency and quality of engagement. This contrasts with findings from Cambodia and Ethiopia. A number of factors appear to encourage this.

- Compared with Cambodia and Ethiopia, Zambia's health sector benefits from greater coordination across different stakeholders under the transitory special arrangement for GFATM assistance. (UNDP, as Principal Recipient of GFATM assistance and representative of the UN system, has fostered coordination within the health sector).

- **Zambia does not have a strategic approach to negotiations with traditional or non-traditional aid providers, and there is mixed evidence as to whether the GRZ is meeting its objectives.** This may be due to legacy, but is now more likely the by-product of Zambia's easier access to the financial markets and revenues from high copper prices. Meanwhile, aid is falling as a result of Zambia's transition to MIC status, concerns about accountability and budget cuts in donor countries. As a result, all sources of development assistance – both traditional and non-traditional – are of dwindling importance to Zambia, which spends less time and effort negotiating with either type of provider.

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Appendix

1. List of Interviewees

Name	Title	Organisation
Annelie Rodstedt	Coordination Specialist	UNDP
Barbara Nost	Chief Executive Officer	Zambian Governance Foundation
Chai Zhijing	Economic and Commercial Councellor	The Embassy of the People's Republic of China in the Republic of Zambia
Chasiya V. Kazembe	Chief Economist (Donor coordination) Economic Management Department	Ministry of Finance and National Planning Economic Management Department
Christopher Simoonga	Director – Policy and Planning	Ministry of Health
Clare Harris	Economic Advisor	DFID
Dailes B. Judge	Deputy Country Director	Oxfam Zambia
Fortune Kamusaki	Chief Economist	Ministry of Finance and National Planning, Investments and Debt Management Department
Georgina Fekete	Deputy Country Director	UNDP
Heather M. Mwansa	Director, Planning and Information	Ministry of Education, Science, Vocation Training and Early Education
Jan Isaksen	Councellor (country economist)	Royal Norwegian Embassy
Kirsi Pekuri	Head of Section, Economic and Rural Development, Development Cooperation Division	EU delegation to Zambia and COMESA
Matilda Mutanguha	Donor Coordination Consultant	AfDB – Zambia country office
Miku Okada	Assistant Resident Representative	JICA Zambia Office
Monde F. Sitwala	Deputy Director Economic Technical cooperation & Deputy National Authorising Officer of the European Development	Ministry of Finance and National Planning Economic Management Department
Mothobi P.S. Matila	Principal Macroeconomist (Economic & Financial Governance)	AfDB – Zambia country office
Mutukwa Collins Sifafula	Manager – Research	Zambia Development Agency
Mwewa Katongo	Programme Officer-Water Sector	JICA Zambia Office
Nathan Chishimba	Director-Corporate and Government Relations	Lumwana Mining Co. Ltd Barrick Australia Pacific
Oscar M. Shitima	Planning Officer-Policy	Ministry of Education, Science, Vocation Training and Early Education
Paul Lupunga	Chief Economist	Ministry of Finance and National Planning Economic Management Department
Perry Perone	Resident Representative	IMF
Prisca Chikwashi	Chief Executive Officer	Zambia Association of Chambers of Commerce and Industry
Raphael Phiri	Research and Policy Analyst	CSPR Civil Society for Poverty Reduction

UsAid Country Office Zambia		
Viola Morgan	Country Director	UNDP
Wilson Phiri	Senior Economist, Balance of payments and debt – Economics Department	Bank of Zambia
Jackson Luiz Lima Oliveira	First Secretary	Embassy of Brazil
Eneya Maseko	Coordinator	Zambia Climate Change Network (ZCCN) Secretariat

2. Evolution in formal aid coordination mechanisms

Zambia has been a front-runner in putting in place structures for cooperation between the GRZ and donors with regard to aid effectiveness. GRZ priorities on the type of the aid it would like to receive have been extensively shaped by the Paris Declaration Principles, and now by the post-Busan agenda. This has resulted in a more structured aid architecture and greater inclusiveness, compared to the other countries analysed in this project.

Since 2002, the GRZ and its CPs have been structuring, implementing and extending the **aid coordination mechanism**. We identified a series of key milestones in this process.

- In 2002 seven bilateral donors (Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom) signed the **Harmonisation in Practice (HIP),** with **harmonisation and alignment of aid modalities as its major focus** (OPM, 2010). This Memorandum of Understanding was renamed **Wider Harmonisation in Practice (WHIP)** in April 2004 and later extended to 17 donors (GRZ, 2010).

- In April 2005, the Netherlands, Norway, United Kingdom, World Bank and EU (with the IMF granted ex-officio status) agreed with the GRZ on a Poverty Reduction Budget Support (PRBS) programme, with the African Development Bank, Finland and Germany joining after the Paris Declaration.

- Thirdly, as further step towards the implementation of the Paris Declaration Principles, the GRZ approved the *Aid and Policy Strategy* in 2005 (published in 2007). In this document, the GRZ identified its preferences and priorities for the type and quality of aid it would like to receive from donors, as well as the main challenges the GRZ faced with CPs.

- In 2007 the group of CPs agreed on a joint response to Zambia's 'Vision 2030' and Fifth National Development Plan, which together constitute a national framework for reducing poverty and promoting sustainable expansion of the economy. The Joint Assistance Strategy for Zambia (JASZ) for 2007-2010 aimed at improving coordination between CPs and fostering the effectiveness of development assistance to the GRZ, in particular in terms of division of labour (DoL) between CPs.

- Fifthly, following approval by the GRZ of its Sixth National Development Plan 2011-2015 (SNDP), CPs revised their strategy and published a second Joint Assistant Strategy for Zambia (JASZ II) in 2011 that outlined a modified aid coordination mechanism between CPs, and between CPs and the GRZ, as well as the DoL between CPs signing the agreement. JASZ II considers the SNDP the basis for the joint donor strategy with the aim of supporting broad-based inclusive growth and poverty reduction, strengthening coordination among donors, and alignment to GRZ objectives and structures. While it describes in detail the aid architecture (see below) the document has yet to be signed by the GRZ, meaning only part of the architecture is currently in place.

At the time of writing, the GRZ's aid architecture, and aid and policy strategy are under revision. First, the GRZ and the Cooperating Partner Group are reworking a Mutual Agreement Framework (MAF) for approval by the end of the year. For this reason, we describe and refer in this report to the aid architecture prevailing in Zambia according to its definition in the JASZ II – which CPs have only recently signed. This explains why some elements of the architecture are not fully operational. The MAF will reportedly fill some of these gaps and improve aid coordination mechanisms. Finally, we understand the GRZ – and the MoFNP in particular –

are revising the *Aid and Policy Strategy*, motivated by the impact of the credit crunch on traditional donors' aid budgets and the threat to phase out certain development assistance programmes in Zambia.

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