

## TECHNICAL ASSISTANCE PROVIDED TO ZAMBIA, FY1999–2003<sup>109</sup>

### I. OVERVIEW

1. Between 1999–2003 Zambia received significant amounts of TA across a wide range of core areas of the IMF's expertise, although much less than in the past as a major capacity building initiative came to an end. Even then Zambia was one of the largest recipients of TA on public expenditure management (PEM) among HIPC's.
2. The main drivers of IMF TA during this period were an ESAF-supported and a PRGF-supported programs, and to a lesser extent IMF initiatives like the FSAP and the GDDS. The March 2002 PRSP was presented relatively late in the period, and hence did not play much of a role in guiding TA. In all, the various TA interventions did not amount to a coherent and integrated program for Zambia; they do not appear to have been anchored to a comprehensive medium-term policy framework, ultimately undermining effectiveness.
3. Current practices throughout the various stages of TA delivery could be further improved. In particular, the evaluation found strong support for a more active and systematic involvement of the authorities throughout the process, in particular when preparing recommendations. This more active involvement could foster greater commitment to implementation of better designed recommendations while enhancing knowledge transfer. There does not appear to be a single most effective delivery modality, but rather the modalities need to adapt to the level of institutional development of the TA recipient agency. In some cases, missions were found to be an effective modality, while in others the presence of long term advisors was necessary. Further improvements in coordination with donors were also necessary to support capacity building efforts in what is a difficult context.
4. The impact of the main TA interventions varied significantly across areas, although with some progress recorded in most of them. Success in some cases was linked to institutional capacity built with earlier TA, while in others it became evident when circumstances and incentives changed and the authorities implemented earlier recommendations. In others, progress was short-lived when the political support needed to carry forward reforms supported by TA and consolidate gains faltered. Strong country leadership and determination once again appear to be critical ingredients for successful interventions.
5. The volume and breath of the areas in which TA was provided, the range of institutions receiving TA, the interlinks between TA and programs, and the deployment of other surveillance tools whose findings fed into TA decisions, made Zambia an interesting

---

<sup>109</sup> Based on interviews conducted by IEO with government officials and multilateral and bilateral TA providers in Lusaka, Zambia between April 27 and May 7, 2004 and interviews with Bank and IMF staff in Washington, DC as well as internal IMF memoranda and communications and World Bank and IMF staff reports.

case to review. This case study first reviews main trends in TA allocation. Second it reviews the process of identifying TA needs. Third, it reviews the different stages of TA delivery for the main TA interventions. Finally, it provides a general assessment of TA impact (including the record of implementation), and reviews how progress was measured and monitored by the IMF.

## II. TA RESOURCES—ALLOCATION TRENDS

6. Over the FY1995–2004 period there has been three pronounced shifts in the allocation of TA resources to Zambia (Table 1): (i) a steep decline from the first four to the last six fiscal years—from about 1000 to about 400 person-field days a year, on average, (ii) an increase in the relative and absolute amounts of TA provided by FAD and, to a lesser extent, STA in latter years, and (iii) a shift in the delivery modality, from predominantly long-term experts (LTEs) to short-term missions.

Table 1. Main TA Interventions, FY1995–2004  
(In days per person in the field)<sup>1/</sup>

TA Department	Main areas	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>MAE/MFD</b>	Accounting	257	260	260	232	231	0	0	0	0	0
	Bank Supervision, Regulation, and Restructuring	290	328	284	337	8	0	30	0	0	0
	Foreign Exchange	76	10	0	0	5	0	0	0	11	70
	Monetary Operations	260	238	32	16	0	0	0	100	0	0
	Payments and Settlements	0	8	175	40	30	232	0	0	0	0
	Research and Policy	227	0	0	0	0	0	0	0	0	0
	Other	0	30	45	66	15	0	0	0	65	41
	<b>Total</b>		<b>1,110</b>	<b>874</b>	<b>796</b>	<b>691</b>	<b>288</b>	<b>232</b>	<b>60</b>	<b>100</b>	<b>76</b>
<b>FAD</b>	Public Expenditure Management	0	0	0	131	261	246	116	191	220	194
	Tax Administration	15	0	0	0	0	0	0	0	0	0
	Tax Policy	0	0	0	0	0	0	0	76	0	0
	Budget Treasury	0	0	66	0	0	0	0	0	0	0
	Other	95	0	0	0	0	3	0	0	0	0
	<b>Total</b>		<b>110</b>	<b>0</b>	<b>66</b>	<b>131</b>	<b>261</b>	<b>249</b>	<b>116</b>	<b>267</b>	<b>220</b>
<b>STA</b>	Balance of Payments Statistics	0	0	0	15	0	0	12	0	0	0
	GDDS: Metadata Development	0	0	0	0	0	0	0	0	67	0
	Government Finance Statistics	0	0	0	0	0	0	0	0	31	0
	Money and Banking Statistics	14	0	0	0	0	0	0	0	0	20
	Multisector Statistics	0	98	0	0	0	0	0	0	0	0
	NA and Real Sector Statistics	0	0	0	0	0	0	0	0	29	0
	Other	2	6	0	0	0	0	11	0	0	0
	<b>Total</b>		<b>16</b>	<b>104</b>	<b>0</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>23</b>	<b>0</b>	<b>127</b>
<b>LEG</b>	Banking and AML/CFT	0	0	0	0	5	0	0	0	12	10
<b>Grand Total</b>		<b>1,236</b>	<b>978</b>	<b>862</b>	<b>837</b>	<b>554</b>	<b>481</b>	<b>199</b>	<b>367</b>	<b>435</b>	<b>334</b>
(In percent of grand total)											
<b>MAE/MFD</b>		89.8	89.4	92.3	82.5	52.0	48.2	30.1	27.3	17.5	33.1
<b>FAD</b>		8.9	0.0	7.7	15.7	47.1	51.8	58.4	72.7	50.6	58.0
<b>STA</b>		1.3	10.6	0.0	1.8	0.0	0.0	11.5	0.0	29.2	5.9
<b>LEG</b>		0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	2.7	3.0

Source: OTM and TIMS, and IEO estimates.

<sup>1/</sup> For short-term experts (less than six months), and missions weekend days are included. For long-term experts weekend days are not included.

7. These developments are broadly linked to the scope, path, and impact of the reform process started in the early 1990s. Following the government's decision to overhaul the economy, IMF TA aimed to support the build-up of capacity in institutions that needed to adapt to a changed environment, strengthen processes for new modalities of policy implementation, and help the authorities deal with problems that came to the surface in the wake of reforms.

#### ***TA allocation in the early years***

8. In the early- to mid-1990's Zambia undertook far reaching market-oriented reforms: prices were liberalized, interest rates were decontrolled, the currency was allowed to float, and exchange controls on current and capital accounts transactions were removed. Further, it also embarked in a privatization drive that in the later part of the decade included a major mining complex (ZCCM) and the largest commercial bank (ZNCB). These reforms along with a series of stabilization programs were supported by two three-year arrangements with the IMF aimed at reversing the sharp decline in GDP per capita and controlling inflation which had topped more than one hundred percent. An ESAF-supported program was approved in December 1995 and a PRGF-supported program was approved in March 1999. Program implementation under the ESAF was poor but generally improved under the PRGF.<sup>110</sup>

9. The government's decision to liberalize the banking system and free interest rates had major implications on the BoZ, requiring the adoption of market-oriented techniques for monetary and exchange rate policies, and new modalities to regulate and oversee banks. In addition, it was necessary to develop a payments and government securities trading infrastructure, if the government was to borrow from the markets to IMF its operations. All these reforms required large capacity building efforts that were supported by the IMF under a four-year joint UNDP/IMF technical assistance program signed in May 1994. Most of this TA was delivered through LTEs; four of which were stationed at the central bank early on, declining to two at the end of FY1998. They account for the bulk of IMF TA resources allocated to Zambia during that period. Their departure resulted in a steep decline in the volume of TA only partially compensated for by the emerging presence of LTEs on PEM.

#### ***TA allocation in recent years and a change in delivery modality***

10. Zambia has been one of the largest recipients of IMF TA on PEM among countries participating in the HIPC Assessment and Action Plan (AAP) benchmarking exercise. The country got about one fifth all PEM TA to those countries. Not surprisingly in the FY1999-2004 period, TA from FAD accounts for about half of all IMF TA resources

---

<sup>110</sup> For general details of these programs and an assessment of performance see "Zambia—Ex-post Assessment Under IMF-Supported Programs," March 2004.

allocated to Zambia, delivered largely by resident advisors in the MoFNP.<sup>111</sup> Other TA was delivered by missions and peripatetic visits from experts. Reflecting needs identified in the context of the GDDS initiative for Anglophone countries in 2002, TA delivered by STA rose in the last two years.

11. The major shift in delivery modality from LTE to missions appears to reflect various factors. They include the conclusion of the joint IMF/UNDP program with BoZ; growth in institutional capacity of the BoZ that made TA delivery by missions an effective option (See below); and possibly the IMF's drive to move away from LTEs to short-term experts and missions to deliver TA following the 1999 TA review.

### **III. SELECTION OF TA PRIORITIES, FY1999–2003**

12. The identification of TA needs was strongly associated with the implementation of the 1999 PRGF-supported program. Indeed, TA was delivered to help authorities comply with explicit program conditionality and experts were placed in the country to help overcome serious PRGF-program implementation deficiencies. There were some exceptions towards the latter part of the period when needs started to be identified in the context of IMF policy initiatives like the FSAP and the GDDS. The March 2002 PRSP provided only very general indications of TA needs.

13. Overall, the priorities identification process had some strengths but also important shortcomings. Most TA interventions were clearly relevant to the problems facing Zambia. However, they were largely piecemeal and reactive, with some interventions too short-term focused (e.g., on PEM and bank restructuring and privatization), with links to other ongoing reforms insufficiently fleshed out (e.g., PEM with civil service and pay reform, medium-term expenditure framework, MTEF, and activity-based budgeting, ABB). Some areas received insufficient attention (e.g., national accounts NA statistics, NA), while others were not properly sequenced with ongoing reforms and macroeconomic conditions (e.g., monetary policy implementation and government securities markets development vis-à-vis fiscal conditions).

14. The rest of this section reviews the identification of priorities in each of the main TA areas.

#### ***FAD TA on PEM***

15. FAD has been involved in the delivery of TA on PEM since late 1996, both through missions and LTEs. Although the November 1996 mission took place before the period under

---

<sup>111</sup> In all, three LTEs on PEM were in residence for 60 months, with a few months hiatus between them, during October 1997 to December 2003. The other LTE during the period was from MFD on payment system issues during FY2000.

review, it played an important role in setting the agenda for FAD TA on PEM for subsequent years.

16. That mission was motivated by problems affecting the implementation of fiscal programs under the 1995 ESAF-supported programs. Short-lived improvements were achieved through unsustainable expenditure compression via cash rationing leading to arrears.<sup>112</sup> Both the government and the IMF's African Department placed great emphasis on TA "...to identify short-term measures to contain the problems of continuing arrears, as well as long-term solutions which will reform the underlying public expenditure management system."<sup>113</sup> The 1996 mission noted the limitations that a two-week mission had in addressing in detail Zambia's fundamental budgetary problems and the hitherto piecemeal and uncoordinated provision of TA on budget reform. It recommended the posting of an LTE to help the authorities implement a FAD-designed program of reform.

17. The February 1997 Letter of Intent noted that the budget incorporated a number of FAD's mission recommendations; however a later review that year found that "...procedures with regard to budget preparation and expenditure control continue to show exceptional weaknesses."<sup>114</sup> To help the authorities deal with these problems, the first of three LTEs started work in October 1997 running through March 2000.<sup>115</sup> The tenure of this LTE was extended once to continue supporting the program even though there had been little progress in strengthening PEM.<sup>116</sup> The LTE's tenure was not renewed further when it expired in March 2000.

18. Weaknesses in PEM had been identified as a threat to the new PRGF-supported program,<sup>117</sup> and led to considerable delays in completing the first review. Once again, it was

---

<sup>112</sup> IMF, "Staff Report for the 1996 Article IV Consultation"(1996).

<sup>113</sup> B. H. Potter et al, "Zambia: Improving the Control of Public Expenditure" (1997).

<sup>114</sup> IMF, "Staff Report for the 1997 Article IV Consultation" (1997).

<sup>115</sup> Initially, the LTE was assigned for a 3-month period, with subsequent extensions of 6, 12, and 7 months. Main tasks were, initially to develop an action plan based on the earlier mission's recommendations, and later help with implementation with a focus on budget execution aspects (e.g., dealing with the arrears problems—identification, control, and settlement—monitoring and controlling expenditure commitments, cash release mechanism, and fiscal reporting).

<sup>116</sup> See I. Lienert et al, "Zambia: Improving Public Expenditure Management"(2000).

<sup>117</sup> Staff Report for the 1998 Article IV Consultation and Request for Arrangements under the ESAF, March 1999. The MEFP for the 1999–2001 envisioned a series of measures in the PEM area, including the establishment of an arrears data base, quarterly auditing of arrears,

(continued)

in response to continued serious arrears problems—despite cash allocations earmarked for their settlement—that a new FAD mission was sent in March 2000. Extensively documented problems were evident at each stage of the budgetary process, which called for an overhaul of the entire process. However given the limited institutional capacity to formulate and implement PEM reforms, the mission suggested a prioritized list of recommendations.<sup>118, 119</sup>

19. With the continuation of problems, a new LTE was posted in Lusaka in January 2001 for a 12 month period. Guided by the 2000 TA mission report, the focus was once again on expenditure commitments and arrears control and the cash allocation process. There was a new emphasis on tracking HIPC-financed priority expenditures. As problems persisted, the IMF-supported program added explicit structural conditionality on PEM TA-related matters for end-2001. At the time the new LTE was being installed, a new mission visited Lusaka, driven by the authorities' concern with continued expenditure overruns, arrears accumulation, and unreliability of reporting.

20. Finally, a new LTE was installed in Lusaka, initially for a six-month period starting in July 2002.<sup>120</sup> After elections in late 2001, a new administration came into power with the commitment to support PEM reforms; this renewed commitment was one important factor in deciding to provide TA assistance in spite of a poor track record. The PRGF-supported program had once again run into trouble, and the May 2002 LOI included a detailed set of PEM measures.<sup>121</sup> Previously in May 2001, a IMF mission had prepared a Fiscal Transparency ROSC and a HIPC AAP, the later in collaboration with the World Bank. Zambia scored poorly, meeting only 3 out of 15 benchmark indicators. Those report identified wide ranging shortcomings, and suggested recommendations to address them. The agenda for the new LTE was based on the recommendations of the January 2001 mission, the action plan laid out in the HIPC AAP, and the government's commitment in the latest LOI. Notably one of the tasks of the LTE was to monitor the government's compliance with the budget agreed under the PRGF program.

---

and the establishment of a monitoring unit in the budget office. Annual programs had a quantitative performance criterion on domestic expenditure arrears.

<sup>118</sup> IMF, "Staff Report for the 2000 Article IV Consultation, First Annual Program Review, and Request for Second Annual Program" (2000).

<sup>119</sup> For the near term, recommendations aimed to make the cash allocation system more transparent, forward looking, and predictable, control expenditures at the commitment stage, and enforce sanctions. For the medium term, they aimed to improve the budget preparation process, develop an integrated and comprehensive cash and debt management system, and develop and deploy an integrated financial management information system (IFMIS).

<sup>120</sup> His tenure was extended twice through January 2004.

<sup>121</sup> IMF, "Zambia—Staff Report for the Fourth Program Review under the PRGF" (2002).

***FAD TA on tax policy***

21. The tax revenue effort at around 18–19 percent of GDP was among the highest in the region. However there were increasing concerns with tax base erosion and the weakening of the system associated with generous tax treatment being given to the mining sector. Indeed, each of the PRGF-supported annual programs had an explicit injunction against introducing tax reductions, new exemptions, rebates or any other preferential tax treatment. Further, under the 2001 program, the government committed to the implementation of a series of measures to improve the efficiency and revenue productivity of the system, in particular from the VAT.<sup>122</sup> A single mission in August 2001 assessed the tax system and provided a series of recommendations to those ends, developing a medium-term tax reform program.<sup>123</sup> Recommendations from this mission were an important input to the staff discussions with the authorities in the context of the 2002 budget. A donor (the United Kingdom’s Department for International Development, DFID) has had an active involvement in the provision of TA on tax administration since the creation of the Zambia Revenue Authority in the mid-1990’s.

***MAE/MFD TA on banking and financial system reforms***

22. The identification of TA needs was initially driven by PRGF-supported program concerns over the health of the major commercial bank—the state-owned Zambia National Commercial Bank (ZNCB)—and smaller private banks. Subsequently, the 2002 FSAP made a series of recommendations, including with respect to the need for a comprehensive financial sector development plan (FSDP).

23. Concerns over weaknesses in the banking sector were a recurrent feature in IMF documents, not least because of a series of banks failures in the mid-1990’s. For example, it was reported in 1997 that 7 out of 19 commercial banks had capital adequacy ratios below minimum prudential standards. Concerns over ZNCB, a bank the government intended to privatize,<sup>124</sup> were heightened when its deep insolvency became evident in early 2000. The IMF-supported program included a series of measures to stabilize ZNCB. Three TA missions in late-2000 and 2001 assessed the financial conditions of banks and the authorities’ plans for resolving them, compliance with program conditionality, and the authorities’ plans for privatizing ZNCB.

---

<sup>122</sup> IMF, “Zambia—Review of the Second Annual Program and Request for Third Annual Program under the PRGF” (2001).

<sup>123</sup> See Timothy Muzondo et al, “Zambia—Reform of the Tax System” (2001).

<sup>124</sup> Offering this bank for sale was an end-December 2001 structural performance criterion under the third Annual Program.

24. Zambia participated in the FSAP in the first half of 2002, and the FSSA report was issued in November 2002.<sup>125</sup> It recommended the adoption of a comprehensive strategy for the development of the financial sector, which inter alia would deal with the insolvency of public financial institutions while considering ways of promoting access to financial services for all sectors of the population, including rural areas. It recommended the provision of TA to help the authorities in that endeavor. A series of IMF missions and expert visits in 2003 and 2004 have provided extensive assistance to the BoZ on the Financial Sector Development Plan (FSDP). This work has also been supported by World Bank TA.

***MAE/MFD TA on banking supervision***

25. Broad concerns were repeatedly noted in program documents, particularly on the need to strengthen supervisors' capacity for off-site surveillance and on-site inspections, to enforce prudential standards, and to upgrade the legal powers of the BoZ on bank licensing and liquidation. In fact, the issue of strengthening prudential supervision of the banking system was specifically discussed in the reviews of the first year PRGF-supported program. However, TA provision in this area was not envisioned at the outset of the program other than for the introduction of new on-site inspection manuals.<sup>126</sup> In the event TA was delivered by the same mission advising on bank restructuring (see above), as there was a need to ascertain the central bank's operational and legal capacity to implement bank restructuring plans.

***MAE/MFD TA on monetary policy implementation and government securities operations***

26. The idea of implementing monetary policy by indirect instruments, other than by changes to the cash reserve requirement (CRR) and the minimum liquid assets ratios (MLAR), has been a long standing one. Although progress in that regard was envisioned to take place under the 1995 ESAF-supported programs, the main changes in the stance of policy continued to be effected through those two instruments. The 1999 PRGF identified the effectiveness of monetary policy as an issue of concern for program implementation, but no TA provision was envisioned at that time. However, as policy stance changes continued to be implemented through changes to the CRR and MLAR, a later report indicated the need for IMF TA in this area. In discussions with the IEO, central bank authorities noted that they would have preferred more consultation in the identification of TA needs in this area.

27. The role that improving the operation of the government securities market in support of a more efficient implementation of monetary policy was noted in program documents. Further, concerns over the integrity of the T-bills auctions and the need to avoid market manipulation were reflected in program benchmarks. Further, the authorities committed to

---

<sup>125</sup> IMF, "Zambia—Financial System Stability Assessment" (2002).

<sup>126</sup> IMF, "Zambia—Enhanced Structural Adjustment Facility—Policy Framework Paper" (1999).



the implementation of a series of measures to improve the operation of the T-bills market, including the issuance of new auction guidelines, by June 2001. The latter provided a framework for the TA missions discussions in late 2001, and in 2003 on how to develop primary and secondary markets.

***MAE/MFD TA on Developing an Interbank Foreign Exchange Market***

28. BoZ officials indicated to the IEO that the identification of TA need had been primarily driven by an earlier central bank decision to reform the market following the liberalization of the current and capital accounts. The need to reform became more evident after the privatization of cooper mines in the late 1990's, which hitherto had been the main suppliers of foreign exchange. Unfavorable market developments in late 2000 prompted a series of emergency measures that changed the rules of operation of the BoZ-run auction system. BoZ officials told the IEO that the central bank need to react to the loss of control over the exchange rate and correct for market imperfections (i.e., nontransparent "monopsony"). However under the new rules the BoZ was bearing substantial risk, thus contributing to their decision to seek TA to help them introduce an interbank foreign exchange market. TA was delivered by a series of peripatetic missions in late 2002 and in the first half of 2003.

***STA TA on National Accounts (NA), Balance of Payments, and Monetary and Banking Statistics***

29. The provision of TA on money and banking in March 1999 and on balance of payments in May 2000 was driven by concerns raised in the context of program discussions. In particular, an earlier review of data by STA and AFR staff noted important discrepancies between monetary and fiscal financing data, which could affect the implementation and monitoring of the program. Those missions were also follow-up to previous TA work being delivered in the context of a medium-term capacity building effort.<sup>127</sup>

30. More recent TA missions in the areas of NA, money and banking, and government finance statistics have been driven by work associated with the GDDS initiative for Anglophone African countries. Concerns over the lack of timely data on NA had led the Ministry of Finance to request in April 2002 TA from the IMF. Initial diagnostic work under the GDDS was done by a mission in May 2002, which made an assessment of statistical practices and provided broad recommendations in those sectors. Follow-up sectoral work has been undertaken in the context of subsequent missions, including through peripatetic visits by experts on NA.

---

<sup>127</sup> For example, the BOP mission was part of a medium project for improving BOP statistics in the April 1996–December 2001 period.

### ***Role of PRSP***

31. The PRSP of March 2002 was issued relatively late in the period under examination, and hence it was not reasonable to expect it to have played a significant role in guiding TA decisions.<sup>128</sup> Nevertheless, going forward it provides some broad guidance linked to the pursue of good governance. It aims to ensure efficient, equitable, and transparent management of public resources, and to this end notes the need to strengthen government finance, accounting, internal audit systems and procedures, and expenditure tracking. It also notes the need to strengthen capacity to support a decentralization policy. Building on the former, the authorities and World Bank have prepared a comprehensive program of reform covering all aspects of the budgetary process, including legal, institutional, accounting, reporting, and auditing aspects.<sup>129</sup> The IMF is involved with this project in a supporting role, participating in meetings.<sup>130</sup>

### ***How well has the process of identifying TA needs worked overall?***

32. In general, the TA needs identified had been relevant to some major problems affecting Zambia, and clearly fell within the main areas of expertise of the IMF. However identification process had some important shortcomings.

33. Some interventions appear to have been premature and/or ill sequenced with developments in related areas. For example, TA on monetary policy implementation was not sufficiently integrated with fiscal developments. Program documents and FAD TA reports repeatedly noted the very serious shortcomings in the government's cash management practices and the absence of a meaningful domestic debt management policy and system. Although MAE TA reports noted the need for an efficient functioning of the government debt market to support monetary policy implementation through repos, that condition did not appear present. Further, it was unlikely that much progress in that area would be forthcoming for some time in light of the noted shortcomings.<sup>131</sup> Additionally, the fiscal position of the government continued to be under severe strain and was reflected in the recapitalization of the central bank with securities ill suited for open market operations. In sum, it was far from

---

<sup>128</sup> Zambia—Poverty Reduction Strategy Paper, May 2002.

<sup>129</sup> Zambia—Public Expenditure Management and Financial Accountability Review, November 2003, the World Bank Report No. 26162-ZA.

<sup>130</sup> The new PRGF-supported program includes conditionality in PEM reform area.

<sup>131</sup> The close interlinks between sound public debt management policies and market development are described in “Developing Government Bond Markets—A Handbook”, 2001, IMF and World Bank.

clear that conditions were conducive to an effective monetary policy implementation switch.<sup>132</sup>

34. Some interventions appear to have been reactive even though TA needs were evident earlier on. Putting aside the reservations noted above, it could be argued that the decision to provide TA on monetary policy implementation could have been an earlier one. Problems with monetary policy implementation had been identified at least as far back as 1997 (see above), but no TA was envisioned at the start of the 1999 PRGF-supported programs. For example, the PFP for 1999–2001 was silent in that regard although it specifically noted that “...A strong anti-inflationary policy will require improvements in the effectiveness of monetary policy, including through a broadening of instruments.” Similarly with regard to TA on banking supervision in the light of the serious concerns over the fragility of the system and the lack of enforcement of prudential regulations prior to the start of the program. A more systematic assessment of TA needs in the light of the policy framework being implemented under the PRGF could have led to a more preventive and better sequenced provision of TA.

35. Some areas in need of TA appear to have been neglected for a good part of the period. For example, it was well known that NA statistics, and more broadly real sector statistics, were of poor quality or nonexistent. In meetings with the IEO, Central Bank officials voiced concern with the absence of reliable indicators on real sector developments for guiding policy implementation. It is noted below, that the lack of resources supporting the operations of the agency in charge of the compilation of such statistics was a major constraint to progress in this area.<sup>133</sup>

36. Finally some interventions may have had, somewhat understandably, too narrow a focus (possibly being driven by the need to almost constantly help deal with short-term IMF-supported program implementation problems) and failed to develop closer links to related reforms supported by donors. This was the case of PEM TA. Missions’ reports provided broad assessments of the extent of dysfunction across the budgetary process. They even pointed out the importance of making progress in the government’s public sector reform program (an area of World Bank work), not least because of pressures on budget execution associated with a growing wage bill. Further, based on the 1996 mission, a comprehensive implementation plan was developed. However, in the event IMF’s LTEs work was focused on aspects of expenditure execution that were threatening program implementation, with peripheral consideration to budget preparation and classification, auditing and ex-post

---

<sup>132</sup> For a discussion of closely related issues, see the Zambia case study in “Monetary Policy Implementation at Different Stages of Market Development—Country Cases and Appendices” (SM/04/363, Supplement 1, Revision 1, October 2004).

<sup>133</sup> Staff also notes ill-defined goals and work objectives at the CSO as important drawbacks for making progress in statistical areas other than NA.

control, and supporting infrastructure—like information systems. These were areas in which other donors were leading, but insufficient timely progress there contributed to poor overall results. For example, problems in budget preparation (e.g., unrealistic costing of new expenditure initiatives) put great pressures at the budget execution stage, undermining the results from FAD TA.<sup>134</sup> In sum, the collective effort of the various donors working on related matters fell short of being a well defined and articulated PEM reform and capacity building strategy. As noted in a 2001 IMF report, “Such assistance is, however, a stop-gap and the development of long-term solutions will be critical to achieving effective and sustainable economic management.”<sup>135</sup> Nevertheless, small improvements in narrow areas, if sustained overtime, could pave the way for larger structural reforms later on.<sup>136</sup>

37. In sum what appears missing is an integrated, systematic, country-centered approach to TA in which needs across sectors are identified in a coherent medium-term policy framework. Such an approach would have helped flesh out critical links across areas, better sequenced interventions to the pace of progress in related reforms, and ensure that important areas not be neglected. Undertaking such an approach requires the close and continued cooperation of all those involved, including the government, donors, and the IMF. The approach and cooperation among donors would also help identify TA absorptive capacity in public institutions and avoid placing too many TA-related demands on their staff.

#### **IV. TA DELIVERY IN FY1999–2003—KEY ISSUES**

38. This section reviews various stages in the delivery of TA, from the preparation of terms of reference to the formulation of recommendations and delivery of reports.

##### ***Terms of reference***

39. In general, Zambian authorities were little involved in preparing terms of references (TORs), both for missions and LTEs. Typically, these were drafted by IMF staff, with little systematic consultation with authorities. Country officials singled out their lack of active involvement as an important shortcoming in the TA delivery process.

---

<sup>134</sup> Concerns over poor budget preparation were explicitly voiced by the first LTE, “...a budget that does not have credibility provides no basis for disciplined implementation”, likewise with regard to accounting infrastructure, “...The standard of accounting, the tool that underlies successful budget implementation is very poor.” in “The Payment Arrears Problem in Zambia: A Perspective” by G. Hansen, April 2000.

<sup>135</sup> IMF, “Zambia—Review of the Second Annual Program and Request for Third Annual Program Under the Poverty Reduction and Growth Facility” (2001).

<sup>136</sup> This appears to be the case in the important shift from manual recording to computer-based budget reporting that took place in the period under review.

40. Some officials argued that not having the chance to help in the preparation of, or to comment on, TORs could have led to important misalignments of expectations between the authorities and missions/LTEs. For example, TA to be delivered might not be relevant to the needs as seen by the authorities. In another example, other officials noted that some TOR had too ambitious an agenda for the time allotted, given the absorptive capacity of their institutions.

41. Officials acknowledged that their early involvement should come hand-in-hand with increased accountability on their part, including their need to do their “homework” before missions/experts arrive. BoZ officials noted that, in the case of TA for the introduction an interbank foreign exchange market, they had actively consulted the banking community, conducted regional study tours, and therefore could have benefited more from their interaction with the expert (i.e., they knew where they wanted to go with the reforms). Further, they had the chance to influence the drafting of the TORs for experts visits in 2003. Officials in the tax revenue authority also noted that early involvement should be accompanied by a commitment of resources to the TA activities (e.g., appointment of dedicated group of counterparts to the experts).

42. In an attempt to foster the authorities’ commitment and primary responsibility for the implementation of TA, FAD actively involved key high ranking officials in the MoFNP in the preparation of a mutually agreed plan of reforms in May 2002. This plan was the basis for the TOR of the last LTE, which clearly defined the tasks and associated actions that were the responsibility of the authorities, and measurable deliverables from the advisor. This process appears to have been in sharp contrast with the preparation of the TOR for the first LTE. The TA report that was to form the basis on which an action plan was to be developed by the expert had been hardly circulated among, and “owned”, by the officials in the MoFNP who were have played a key role in implementing the reform plan.<sup>137</sup>

43. In sum, the early and meaningful involvement of the authorities in the preparation of TORs could make an important contribution to TA effectiveness. Authorities should however be ready to present in detail the priorities areas to be addressed, and review and explain their record of implementation of previous recommendations.

44. Some officials noted the importance for the IMF to have in place effective mechanisms to ensure the transfer of knowledge on institutional aspects in the country from one mission/experts to the next. There had been occasions where valuable time was spent in briefing new experts on the particulars of Zambia’s practices, material that had been thoroughly discussed with previous experts. However, they noted that this should not be construed as a signal that they did not welcome new experts, who at times brought new perspectives. In the same vein, they indicated the need to make sure new experts also had

---

<sup>137</sup> It is FAD practice to encourage the authorities in the wrap-up sections to circulate the reports to all concerned and to send comments that could be used to finalize reports.

timely access to the authorities comments on previous missions' recommendations. Other officials raised concerns over lack of expert continuity, which had resulted in conflicting advice undermining program performance monitoring. Finally, high ranking officials at the MoFNP stressed the importance of thoroughly briefing experts about the political environment in which they would be operating to lessen the chances of misdiagnosing problems.<sup>138</sup>

45. High ranking officials in the MoFNP stressed the importance of clearly defining in the TORs to whom within the ministry the expert was to report. They felt that some experts had gone beyond their mandate becoming political lobbyists (see below). Other officials commented that, given the idiosyncrasies of their ministry, it was important to have a chance to comment on where in their organization the expert should be placed to increase the chances of a successful TA intervention. They felt that in part the great success of the last LTE owed to the fact that he worked very closely with the accountant general's office.

#### *Delivery modality and profile of experts*

46. In the period studied, TA was delivered to Zambia through LTEs, and short-term mission including peripatetic visits from experts. In general, country officials found the chosen modality to be a reasonably good fit to institutional capacity of the recipient institutions. For example, BoZ officials pointed out that in the early to mid-1990s the central bank had benefited from the TA provided by various resident experts, which had helped build the human and institutional capacity of the BoZ. They felt that the bank had reached a level of development where TA could be effectively delivered by short-term peripatetic missions. Experts interviewed were in agreement with this assessment. Further, the FSAP found that skills in banking supervision to be generally adequate.

47. Commenting on the choice of delivery modality, some staff noted that a key ingredient, beyond capacity considerations, was the extent of authorities commitment to reform. In their view, successful TA delivery through peripatetic missions required a strong leadership and commitment at the country level. Otherwise, the presence of an LTE could better help catalyze support for reforms.

48. Commenting in the process of selecting LTEs, some authorities indicated the benefits of being consulted and be offered alternatives to ensure a good fit between skills and the demands of the job. Some noted that experts should have both the technical expertise and

---

<sup>138</sup> This official pointed out that the problems with expenditure arrears and the commitment control system were in part political, as government institutions deliberately entered into arrears to get resources beyond budgetary allocations. (This had been explicitly pointed out in the 2000 Article IV Consultation Staff Report.) As such, the official suggested the importance of improving public transparency of budgetary operations as a disciplinary device.

practical experience (preferably in “chaotic” environments). In their view, the last of the LTEs working on PEM had been more successful in part because of a strong background in public accounting issues.

49. Country officials in general noted their appreciation for the technical skills of experts. Many pointed out the critical importance of having experts with actual hands on experience. For example, BoZ officials particularly singled out the two experts that helped them on foreign exchange market matters. They had helped the central bank prepared detailed and operational road maps, and convey to them what works/does not work from their own experience.

50. The extent to which functional departments sought the authorities’ feedback to assess the work of experts/missions varied across departments, and has evolved through time. BoZ officials did not recall having being (systematically) asked to assess the work of missions/experts from MAE/MFD. This feedback was sought routinely by STA, which specifically requested it in TA report transmittal letters. FAD conducted an inspection visit that sought the authorities’ views on the work of the last LTE; the extent to which country authorities’ view on the work of previous LTE had been sought is not clear to the IEO.

### ***Role of experts***

51. There was some disagreement across various institutions in Zambia whether experts should limit their role to be only technical advisors or to be more actively engage vis-à-vis upper management and policy makers. For example, some BoZ officials praised the active role that an expert in balance of payments statistics had played in raising the profile of such work in the BoZ thereby helping mobilize resources in support of some recommendations. Other officials in the government also supported an active involvement of experts in advocating the merits of their recommendations with high ranking policy makers. This was in sharp contrast with the view taken by some high ranking officials that felt strongly that active involvement beyond the experts’ technical area ran the risk of undermining the integrity of the public policy making process. Indeed, this official suggested that experts should be advisors to their technical counterparts, presenting them alternative options and analysis. It was incumbent upon the technical staff in the agency to present those options to decision makers. Experts should avoid “taking over” the office in which they are working and becoming ‘political lobbyist.’”

52. Officials attached great importance to the attitude with which experts approach their work in areas that could be potentially delicate (e.g., could affect ongoing country-Fund program relations, or that give them access to highly confidential information). In that regard, BoZ authorities commended the helping attitude of experts on money and banking statistics rather than an “investigative” attitude, and also praised the circumspection of a peripatetic experts advising them in the development of financial sector development plan which helped build trust. By contrast, some MoFNP officials, as well as some donors, noted that an expert in PEM had failed to gain the trust of those around him undermining his effectiveness.

### *Formulation of TA recommendations*

53. This is the stage of the delivery process in which there was almost universal agreement among country officials on what better practices are in the formulation of recommendations. There needs to be active interaction between experts and technical counterparts; sufficient time should be allocated to thorough discussion of recommendations at the technical level before presenting them to management; when there are disagreements between experts and authorities on recommendations, those should be noted in TA reports; and when important policy changes are being suggested, “success stories” in similar countries should be offered to buttress the case for change. In somewhat related matter, authorities and experts cautioned against rushing into making technical recommendations into IMF-program conditionality.

54. The active interaction with experts throughout the process of TA delivery is one important channel through which capacity building takes place. In particular, at the time of formulating TA recommendations both the experts and the local counterparts would greatly benefit from such an approach. The experts could get a better sense whether local staff that would be called to implement recommendations—of course provides that the expert is interacting with the right counterparts—is capable of doing so, or whether further TA to build their capacity is required. Identifying whether such a need exists could be important for increasing the effectiveness of TA. Counterparts could acquire knowledge, in particular when there is hands on interaction (e.g., TA on money and banking statistics). Furthermore, they could establish relations with experts that at times had proven very useful during implementation follow-up.

55. Officials particularly noted that such interaction would also help craft more realistic recommendations (both the technical content and implementation timetables) and avoid generating a feeling of a “heavy handedness”. In particular, such interaction would help avoid having recommendations that are, in the authorities’ view, “ill-suited” to the Zambian environment. The risks of running into such pitfalls increases with one-off short-term visit by experts that had insufficient time to familiarize themselves with the overall environment. The adverse effects would be compounded were ill suited recommendations be made part of IMF-program conditionality.

56. BoZ officials felt that some of the recommendations on monetary policy implementation were not realistic, as they failed to take into account problems in the structure of markets or the extent of development of public debt management. They also considered that implementing some of the recommendations with regard to ZNCB would had being counterproductive (e.g., public disclosure of the extent of insolvency would have likely triggered a depositors’ loss of confidence in the bank).

57. BoZ officials also offered examples in which the extensive and hands-on interaction with experts had played a major role in the successful implementation of TA-supported reforms. This was the case with the introduction of the foreign exchange interbank market, and the compilation of money and banking and balance of payments statistics. They also



noted that the active consultation of the expert advising on the FSDP had helped produced implementable recommendations and set realistic timetables.

58. Missions and experts should schedule sufficient time for a thorough discussion of recommendations. Some officials noted instances in which TA reports had been prepared by experts in somewhat isolated manner, compounded by the fact that they were given very little time to comment on the report, in particular on recommendations, before the mission's findings and recommendations were presented to upper management.

59. Officials considered important for TA reports to explicitly note the areas in which there was disagreement on recommendations. This would provide valuable input for follow-up missions, in case there were, with the expectation that experts would take the authorities' concern more into account when preparing new recommendations.

60. Officials with the revenue authority suggested that presentation of "success stories" in countries with similar circumstances would strengthen the merits of some recommendations. In particular discussing possible implementation problems could help assuage authorities' concerns (e.g., on the introduction of a turn over tax on small business).

### ***Follow-up***

61. The quality and intensity of follow-up to recommendations varied across functional departments. In the case of MAE/MFD where most TA was delivered by missions, follow-up was done by subsequent missions. This was feasible because there was a large degree of continuity in the areas of TA delivery. The status of each recommendation was presented with explanatory detail in tables contained in TA reports. In the case of FAD, mission reports on PEM provided only a general overview of the status of previous mission's recommendations. A more systematic follow-up to the various tasks assigned to LTEs was presented in end-of-assignment reports. The level of specificity in these reports grew over time mirroring the increased specificity of TORs. However, it was not always easy to gauge the fate of recommendations from these reports. In the case of STA, the TA report transmittal letter explicitly requested the authorities' feedback on their experience acting on recommendations. As Zambia submitted monthly batches of data, including on money and banking, STA was in a good position to track the implementation of recommendations.

62. In the view of some officials, however, the follow-up of recommendations was rather mechanic and at times, nonexistent. For example, in the case of TA on monetary policy implementation, officials considered that subsequent mission were just doing a compliance check with little value added rather than engaging more actively by providing further guidance. In the case of TA on BoP, there was no follow-up once the contact with the expert expired. In other cases however, based on the good rapport established with experts, follow-up was conducted via e-mail. In the case of tax policy, follow-up was done by the area department mission in the context of PRGF-supported program negotiations.

### *Coordination with other donors*

63. As in other HIPC, there are various donors actively involved in the provision of TA in core areas of the IMF. Their experience in coordinating their activities with those of the IMF was at best mixed (e.g., a major donor noted that they had not been aware that the IMF had been working in the establishment of an expenditure commitment control system).<sup>139</sup>

64. Coordination did not figure prominently in the TORs for LTEs working in the PEM area. Indeed, there was no mention of it in the TOR for the first LTE, and the others only included references to IFMIS or the PEMFA project. Not surprisingly, there were few references to such activities in the experts' end-of-assignment reports. As noted elsewhere, weaknesses in the areas mentioned contributed to undermining the effectiveness of IMF TA. Staff notes that the responsibility for coordination of TA in a particular area is only included in experts TOR's if the authorities agreed to it.

65. Donor views varied regarding the role that the IMF should play in coordination and leadership, particularly in the area of PEM reform. Some expressed concerns that the IMF might take too much control and impose its views on donors and the government. In their view, IMF had been largely absent from ongoing joint government and donors efforts that had produced the PEMFA reform project,<sup>140</sup> and that it had not been a participant in an also ongoing donor coordination initiative. In this context, an expert noted the important contribution the IMF could make in the area of decentralization. In contrast, another major donor took the view that the IMF, in particular through its resident representative, should play an active role in coordination and help lead reform efforts. In their view, the IMF could be a balanced broker when disagreements among donors or with the government on important issues in PEM reform emerged. Staff, by contrast considered that the IMF is playing a relevant supporting role, in line with agreements with donors and the aim of that program.

66. BoZ authorities noted that both the IMF and one particular donor had recently started working on the provision of TA on anti-money laundering. It voiced encouragement to coordination efforts intended to avoid duplication of efforts and the provision of conflicting advice. Authorities in the statistical office indicated that the IMF should play a much more

---

<sup>139</sup> Donors were particularly active in the PEM area, including with the introduction of activity-based budgeting, and MTEF, the development of an IFMIS, oversight activities, and improving budget preparation. Donors were also involved in the reform of civil service and pay scales, which had important implications on PEM reform efforts. They have also taken the lead in the area of tax administration.

<sup>140</sup> The PEMFA project is focused on PEM areas usually addressed by other TA providers, and seeks to strengthen the authorities' ownership of PEM reforms.

active role in helping them mobilize donors funding so that some of the IMF's TA recommendations could be implemented (see below).

## V. IMPACT OF TA—PROGRESS TRACKING AND EVALUATION

67. In most cases, TA documentation did not make explicit what the ultimate objectives of the interventions were nor how performance would be assessed.<sup>141</sup> Reports were much clearer in specifying short-term outcome indicators (e.g., improvements in the quality, coverage, and timeliness of monthly expenditure reports). This section also discusses key factors in the environment in which TA was provided which were largely outside the control of the IMF but which affected TA effectiveness.

68. The impact of TA in Zambia varied across areas. The most successful interventions were on reforming the foreign exchange market and the tax system—although the results from the latter took more than two years to materialize. TA to advice on actions to deal with insolvent banks was also broadly successful, but privatization efforts have not borne fruit yet. TA on statistics has shown great variation across recipient institutions depending on their initial capacity level and resources, with good results at the BoZ and weaker ones at the Central Statistical Office. By contrast, TA in public expenditure management (PEM) and policy advice in monetary and government securities operations have shown little progress so far.

69. The (apparent) objectives of TA to deal with distressed banks have been largely met. Private insolvent banks were resolved, without adverse repercussion on depositors' confidence. The system has shown improved soundness indicators.<sup>142</sup> Indeed the 2002 FSAP found the system (other than ZNCB) to be well capitalized and liquid, but with a very low level of financial intermediation even by regional standards. While actions were taken to arrest the deterioration of ZNCB, its privatization has been repeatedly delayed. This reflects a combination of factors, including the authorities' concerns over maintaining access to financial services in rural areas, the fiscal impact of aggressively dealing with the bank (reflected in the fact that accruing of interest on the capitalization bonds would start only after the privatization), the need for a wider public debate on its privatization, and demands on coordination when various institutions are involved in carrying through the reforms (the BoZ, the MoFNP, the Zambian Privatization Agency, and the Cabinet of Ministers). Delays

---

<sup>141</sup> Some TA reports on PEM noted that were (short-term) recommendations to be implemented, they would lead to the elimination of expenditure arrears within a one to two year period.

<sup>142</sup> Great care should be taken to interpret changes in these indicators, as a worsening might be the salutary effects of tighter enforcement of regulations. Based on the information reported in IMF reports, the BoZ has indeed tightened enforcement therefore improvements might indeed reflect actual improvement in the health of the system.

were also associated with the authorities' reluctance to transfer majority control as counseled by TA missions.<sup>143</sup>

70. While expressing reservations with some of the TA recommendations on ZNCB, supervisory authorities were very appreciative of the contribution that TA had made to the government's understanding of the depth of problems in this bank. The experts' opinion supported earlier findings of Zambia's supervisors on the condition of this bank and helped dispelled hopes of a turnaround based on the potential recovery of nonperforming loans.

71. There is some evidence that monetary policy implementation has not become more efficient. Money market interest rates continue to display very large swings, while the main changes in the stance of policy continues to be implemented through changes in the CRR and MLAR. Nevertheless, the authorities considered that one mission provided valuable insights that would help improve policy implementation in the future. Further, some of the TA recommendations were adopted, while others require further consideration and analysis.<sup>144</sup> There has been little improvements in government securities management practices, with most of the recommendations yet to be endorsed and implemented.<sup>145</sup> Recently MoFNP authorities have prepared a draft report on a public debt management strategy.

72. Various observers considered that the introduction of the interbank foreign exchange market in July 2003 has been successful.<sup>146</sup> BoZ authorities and staff agreed that the new system was operating in an effective manner, and considered this TA intervention highly successful. Important market participants noted to the IEO that the operation of the market had improved and that they now understood better BoZ's rules to interact with market participants. BoZ officials were very appreciative of the hands-on and highly interactive approach to TA delivery taken by experts.

---

<sup>143</sup> The initial call for tenders was for the sale of only 35 percent of the shares.

<sup>144</sup> Authorities expressed concerns over the extent of market power of key participants that could severely distort auction outcomes, thus their reluctance to implement some of the recommendations.

<sup>145</sup> In principle, one would like to assess the impact of the TA on government securities market development by assessing the evolution of market indicators and whether government borrowing costs have declined as a result of improved management practices. IEO is not in a position to conduct such in depth assessment.

<sup>146</sup> To assess TA impact, in principle one could evaluate the extent of progress of the new market, including its depth and resiliency, developments in exchange rate volatility, etc. The IEO is not in a position to make such assessment, and only provides some general findings on the perceived impact as seen by the staff, authorities, and some important market participants.

73. The objectives of the tax policy mission were to improve the efficiency, revenue productivity, and equity of the system. Some of the key measures recommended by that mission were introduced with the 2004 budget. It is therefore not yet possible to evaluate their impact vis-à-vis those objectives.<sup>147</sup> The system's equity appears to have been improved, as the income tax was made more progressive. Further, it might also be reasonable to expect that changes to the VAT regime (e.g., increasing the threshold for mandatory registration and eliminating the voluntary registration) would lead to administrative efficiency gains. However an important recommendation calling for the publication of the cost of tax incentive schemes has yet to be implemented.

74. TA on PEM has shown weak results so far, with little sustained progress, despite the technical quality of TA. Weaknesses remain in various aspects of the budgetary process. The arrears problems persist, established budgetary procedures continue to be circumvented without sanctions, some spending still takes place outside the budget, and the composition of actual expenditures continues to be notably different from budget, particularly in priority spending. Comparing the results of the assessment undertaken under the 2001 and 2003 HIPC AAP exercises, Zambia has shown very little progress across most indicators. Nevertheless there has been some progress in TA-supported reforms more recently, both in those supported by the IMF and donors. The tracking and reporting of arrears, which has tended to grow largely in response to currency depreciation and penalties, has improved. A commitment control system was developed and deployed, in particular in line ministries—a key achievement in a system in which spending, accounting, and reporting is decentralized. Cash management practices have also shown progress, the ABB was used in the 2004 budget submission, and a MTEF was endorsed by the Cabinet. It remains to be seen whether these important achievements are consolidated and strengthened going forward.

### **Environmental factors affecting TA effectiveness**

75. There are a series of factors in the environment in which TA was provided that seriously affected the ultimate effectiveness of TA. These included political will of the authorities, high turnover of key public officials, the relative low wages of public employees, and the lack of resources to implement recommendations. They affected the institutions receiving TA—the MoFNP, the Zambia Revenue Authority (ZRA), the Central Statistical Office (CSO), and the BOZ—to different degrees, impacting their capacities to absorb TA and implement recommendations, and to eventually make effective use of the improved skills and capacities.

---

<sup>147</sup> It is noted that tax revenue projections for 2004 and beyond included in recent IMF reports imply a one time revenue gain of 0.5 percent of GDP.

*Political will and high turnover of key public officials*

76. FAD has been advising the MoFNP on setting up mechanisms to control commitments and expenditures for several years, as part of a larger initiative to improve budget execution and deal with long standing arrears problem.<sup>148</sup> Political support for such mechanisms has been lacking, at least until recently. For example, in 1999 the government committed to set up a Commitment Control Unit, but once established the unit got very little support and collapsed in 2000. Important progress was achieved in 2002 and 2003 with the establishment and deployment of a commitment control system (CCS), along with improvements in accounting and reporting. These achievements helped identify breaches of budgetary regulations in line ministries. However, as noted in TA reports to the authorities, these breaches were not sanctioned.<sup>149</sup> Concerns over this matter were also registered in the December 2003 draft HIPC AAP report which noted “The lack of enforcement of existing financial instructions and regulations is probably the most serious threat to the sustainability of any PEM that is established.”

77. TA and staff reports have explicitly recognized and been candid about the fundamental role played by political will in carrying forward TA-supported reforms. For example, the June 2000 TA report stressed that “..., all of the proposed measures will require a determined commitment by the authorities to address the issues systematically and decisively”.

78. Effectiveness was also undermined by high turnover of key officials in the MoFNP in recent years, which negatively affected continuity in an institution where middle managers do not have much decision making authority. Typically, FAD LTEs report to the Secretary to the Treasury, and fully inform Permanent Secretaries for Financial Management and Accounting and for Budget and Economic Affairs. Each of those positions were occupied by six different persons during 1999–2003 period, with a rise in turnover in 2001–02 associated with the President’s drive to fight corruption.

79. The role that political will played on TA effectiveness grew with the number of institutions involved in the implementation of recommendations. The BoZ showed strong determination to launch an interbank foreign exchange market, even though Zambia did not have an IMF-supported program at the time. Such a program could have served to mobilize additional financial resources to buttress BoZ’s international reserves and provide some comfort to the start of operations to the new market. By contrast, progress with the privatization of ZNBC proceeded at a slower pace, partly reflecting the interactions with

---

<sup>148</sup> Expenditure arrears has been a recurrent feature of the budgetary system in Zambia since at least the 1980s.

<sup>149</sup> This was also noted in the 2003 PEMFAR report by the World Bank “...sanctions have been rarely forthcoming.”

other parts of government and the need for more extensive public consultation, among other factors.<sup>150</sup> Also in contrast with this experience, the BoZ acted decisively in 2000–01 on three troubled private banks as recommended by TA missions, once the requirement to consult with the MoFNP on prudential matters had been removed.

***The lack of resources and the Central Statistical Office (CSO)***

80. A lack of financial resources in the CSO has been a long standing problem seriously hampering its ability to collect data and compile statistics. This restriction has been a major limitation on the capacity of this institution to make effective use of the TA on NA and producer price index. Indeed, in the mid-1990s STA advised the government to formally transfer responsibility for the compilation of balance of payments statistics to BoZ on a permanent basis. It was evident at that time that the CSO did not have the resources or depth of expertise to resume the task.<sup>151</sup>

81. The need to provide CSO with more resources had been pointed to the government in various occasions. For example, June 2002 TA mission made a series of short- and long-term recommendations to improve NA statistics compilation methodology and to develop basic data. It drew the authorities' attention to the need to beef up the complement of professionals working in that area.<sup>152</sup> A follow-up visit in March 2003 found that no progress had been made with the short-term recommendations for lack of resources. Officials of the CSO voiced their frustration to the IEO with the fact that the continued lack of resources was impeding progress. They further noted that the CSO had a serious problem of retention of qualified personnel.

***The low pay in the public sector and the capacity of public sector staff***

82. The adverse impact of relative low wages in the public sector compared to the private sector (and regional labor markets) on the quality, reliability, motivation, and stability of qualified personnel is well known. The incidence of this problem varied greatly across institutions. On one side was the BoZ and the ZRA, where high ranking officials met by the IEO did not voice such concerns.<sup>153</sup> This may reflect the special status of those institutions. The Commissioner General noted that the ZRA is an autonomous institution with a

---

<sup>150</sup> International bids were invited during the first half of 2002, but the privatization process was interrupted in December 2002 because of political pressure.

<sup>151</sup> The BOZ had started to compile BoP statistics in 1994 on a transitory basis.

<sup>152</sup> A 1995 mission had indicated the need to have at least 4 professionals working in NA, but the 2002 mission found that only two, which fell to one more recently were working.

<sup>153</sup> TA experts had praised the skills and professionalism of their counterpart staff in those institutions.

remuneration scale different from the rest of the civil service which allows it to hire, retain, and train highly qualified personnel. Further, the establishment and maintenance of a sound reward structure helps support a culture of performance management in that institution. This is in sharp contrast with the situation in the MoFNP and, as noted above, in the CSO. In both cases, the remuneration of staff was dictated by the civil service pay structure.

83. Donors have attempted to overcome this problem by topping-up the salaries of those public officials working on their projects. However, they and LTEs noted the adverse effects of this practice. Government employees would only attend a meeting if they were paid a “sitting allowance”, which had fostered a culture of motivation-only-for-pay. Further, the practice had created a two-, three-tier nontransparent system that undermined the morale and equity of the compensation system. Finally these temporary incentives did not provide a stable basis to undertake lasting capacity building because when they were discontinued the staff motivation declined sharply and turnover increased.

84. Low pay is a serious obstacles that needs to be overcome if sustainable capacity building is to take place in Zambia. There are no simple solutions. Across the board salary increases are not an option given the current size of the wage bill nor will they provide the right incentives. There is a however a need to offer good career prospects for those better qualified and being trained, which argues for embedding capacity building initiatives in the context where meaningful and timely civil service reform is taking place. This call for stronger coordination and proper sequencing of the various ongoing inter-related reform efforts. In any case, the risk associated with lack of progress in those related initiatives should be clearly acknowledged when capacity building TA is being considered, as was the case with 1996 TA report on PEM.



### LIST OF INDIVIDUALS INTERVIEWED

Name	Title	Organization
<b>Government</b>		
Mr. Ng'andu Magande	Minister of Finance	Ministry of Finance and National Planning
Mr. Felix Mutati	Deputy Minister of Finance	Ministry of Finance and National Planning
Dr. Situmbeko Musokotwane	Secretary to the Treasury	Ministry of Finance and National Planning
Mr. Richard Chizyuka	Permanent Secretary of Budget and Economic Affairs	Ministry of Finance and National Planning
Mr. Emmanuel Ngulube	Deputy Director of Budget Office	Ministry of Finance and National Planning
Mr. Chitundu Mwangi	Accountant General	Ministry of Finance and National Planning
Ms. Regina Mulenga	Deputy Accountant General	Ministry of Finance and National Planning
Mr. James Mulungushi	Director of Planning and Economic Management Department	Ministry of Finance and National Planning
Ms. Pamela Bwalge	Principal Economist	Ministry of Finance and National Planning
Mr. Paul Lupunga	Economist in Economic and Technical Cooperation Department	Ministry of Finance and National Planning
Mr. Martin Phillips	Planning and Budget Advisor	Ministry of Finance and National Planning
Ms. Edna Mudenda	Director of Non-Bank Financial Institutions Supervision Department	Ministry of Finance and National Planning
Mr. Visscher Bbuku	Assistant Director of Non-Bank Financial Institutions Supervision Department	Ministry of Finance and National Planning
Mr. Chisha Mwanakatwe	Director of Bank Supervision Department	Ministry of Finance and National Planning
Mr. Peter Mbewe	Assistant Director of Bank Supervision Department	Ministry of Finance and National Planning
Ms. Caroline Ng'ambi	Director of Financial Markets Department	Ministry of Finance and National Planning
Dr. Richard Chembe	Director of Economics Department	Ministry of Finance and National Planning

Name	Title	Organization
Mr. Patrick Mulgerys	Assistant Director of Economics Department	Ministry of Finance and National Planning
Mr. L. Zulu	Controller of Internal Audits	Ministry of Finance and National Planning
Mr. Dickson Mwanza	Chief Internal Auditor	Ministry of Finance and National Planning
Mr. Berlin Msiska	Commissioner General	Ministry of Finance and National Planning
Ms. Lombe Ng'andwe	Commissioner of Finance	Ministry of Finance and National Planning
Mr. Wisdom Nhekairo	Commissioner of Direct Taxes	Ministry of Finance and National Planning
Mr. Harrison Banda	Commissioner of Value-Added Taxes	Ministry of Finance and National Planning
Mr. Sonny Ling'omba	Deputy Commissioner of Customs and Excise	Ministry of Finance and National Planning
Mr. William Mayaka	Acting Director	Central Statistical Office
Mr. Peter Mukuka	Acting Deputy Director	Central Statistical Office
<b>Bilateral Donors</b>		
Mr. Richard Montgomery	Lead Economist	Department for International Development
Mr. Keith Wood	Economic Advisor	Department for International Development
Mr. José Carlos Correia Nuñez	Counsellor Head of Economics and Trade-Related Cooperation	European Union
Ms. Lise Lindbäck	Economist	Norwegian Agency for Development Cooperation
Ms. Helen Gunther	Mission Chief	U.S. Agency for International Development
Dr. Kifle Negash	Supervisory Program Officer	U.S. Agency for International Development
Dr. Herrick Mpuku	Program Economist	U.S. Agency for International Development

Name	Title	Organization
<b>Other</b>		
Mr. Ignatius Chicha	Country Treasurer	Citigroup
Mr. Isaiah Chindumba	Resident Vice President	Citigroup
<b>Multilateral and Regional Agencies</b>		
Mr. Joseph Kakoza	Resident Representative of Zambia Office	IMF
Mr. David Andrews	Division Chief, AFR	IMF
Mr. Mark Ellyne	Senior Economist, AFR	IMF
Mr. Stefan Fassina	Economist, AFR	IMF
Mr. Graeme Hansen	Long-Term Expert, FAD	IMF
Mr. Ian Lienert	Senior Economist, FAD	IMF
Mr. Seth Terkper	Senior Economist, FAD	IMF
M. Christiane Roehler	Economist, FAD	IMF
Mr. Thordor Olaffson	Senior Financial Sector Expert, MFD	IMF
Ms. Susana Sosa	Senior Economist, MFD	IMF
Mr. Stephen Swaray	Senior Economist, MFD	IMF
Mr. Jose Cartas	Senior Economist, STA	IMF
Dr. Abraham Mwenda	Senior Advisor to Executive Director	World Bank
Mr. Mushiba Nyamazana	Economist in Zambia Office	World Bank