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The Contribution of Official Development Assistance to Poverty Reduction in Zambia

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(MYBSIN001)

A minor dissertation submitted in partial fulfilment of the requirements for the award of the degree of Master of Philosophy in Development Studies

Faculty of Humanities
University of Cape Town
2009

DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

Signature: ............................................ Date: 13TH February 2009
ABSTRACT

Recent studies have shown that Official Development Assistance (ODA) is able to contribute to poverty reduction through the Public Expenditure Management (PEM) system. The International Financial Institutions (IFIs) have also been channelling ODA in the form of budget support under the Poverty Reduction Strategy Papers (PRSPs). While implementing PRSPs, Zambia, a poor country, showed remarkable improvement in the economic and social sectors. Whether it was ODA channelled for pro-poor expenditure or economic growth that was responsible for these improvements or both could only be ascertained by empirical research. To study this research problem, this undertaking used a quantitative research design. Data on Zambia’s requests for ODA were collected from the Zambian national budget and official Estimates of Revenue and Expenditure for the period 1990 to 2008. Statistics on ODA received were obtained from the OECD.stat database, in order to find out the extent to which ODA receipts were a part of Zambia’s public expenditure. Public expenditure was then correlated with the IMR, and numerically compared with the HDI and poverty headcount. The research produced a number of key findings. For nine of the fifteen years examined, Zambia received an average of 260.57 per cent of all ODA it requested. There was evidence that the association between pro-poor expenditure and IMR was strong. The HDI and poverty headcount improved but the study was inconclusive on whether this was as a result of increased pro-poor expenditure or not. The PEM system was argued to be a vital factor for ODA to reach the poor. Overall, there was strong indication that ODA contributed to poverty reduction through pro-poor public expenditure in Zambia. It was therefore recommended that both donors and the Zambian government ensure that all ODA was targeted at primary and secondary education, primary health care, rural roads, and agricultural extension services.
ACKNOWLEDGMENTS

Writing this study has been a journey that began at a distant time and in a distant place; a journey during which I have had the honour and privilege to be guided, inspired and encouraged by the best people one could ever encounter. It has been an intense and stressful journey because of that scarce resource we call time, which has taken no prisoners among those close and those distant to me. I am aware that this acknowledgement does not make up for time lost nor is it possible to acknowledge everyone who has helped me along the way, but it is a humble token of appreciation, and most importantly a special dedication to my dad, Mr. Richard S. Muyeba. I hope it makes you proud.

I thank God Almighty to whom I give all the glory, for giving me the gift of life, the word, character, talent and wisdom to venture on this path of life.

Thank you, Professor David Lincoln, for your prompt and insightful guidance, sound and subtle advice and for your meticulous handling of even the smallest morsel of knowledge so that I could understand. I also wish to thank all my lecturers and the staff of the UCT Sociology and Political Studies Departments for their excellent work.

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And I also thank all my friends, relatives and colleagues who have supported me in various ways. God bless you all.
ABBREVIATIONS

AAB  Activity Based Budget
AfDB  African Development Bank
CGE  Computer Generated Experiment
CSO  Central Statistics Office
DAC  Development Assistance Committee
DFID  Department for International Development (UK)
E-HIPC  Enhanced Highly Indebted Poor Countries Initiative
ESAP  Enhanced Structural Adjustment Programme
FNDP  Fifth National Development Plan
GNP  Gross National Product
GRZ  Government of the Republic of Zambia
HDI  Human Development Index
HDR  Human Development Report
HIPC  Highly Indebted Poor Countries Initiative
HIV/AIDS  Human Immuno-deficiency Virus/Acquired Immuno-deficiency Syndrome
IDA  International Development Agency
IFI  International Financial Institutions
IMF  International Monetary Fund
IMR  Infant Mortality Rate
MDG  Millennium Development Goal
MoF  Ministry of Finance
MoFED  Ministry of Finance and Economic Development
MoFNP  Ministry of Finance and National Planning
MTEF  Medium-Term Expenditure Framework
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<th>Acronym</th>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>OECD.Stat</td>
<td>OECD Statistics online database</td>
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<td>PEAP</td>
<td>Poverty Eradication Action Plan (Uganda)</td>
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<td>PEM</td>
<td>Public Expenditure Management System</td>
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<td>PEMFA</td>
<td>Public Expenditure Management and Financial Accountability programme</td>
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<td>PPE</td>
<td>Pro-Poor Expenditure Index</td>
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<tr>
<td>PRBS</td>
<td>Poverty Reduction Budget Support</td>
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<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<td>Poverty Reduction Programme</td>
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<td>PRSC</td>
<td>Poverty Reduction Support Credit</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>PSRP</td>
<td>Public Sector Reform Programme</td>
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<td>SAP</td>
<td>Structural Adjustment Programme</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<tr>
<td>SWAp</td>
<td>Sector-Wide Approaches</td>
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<tr>
<td>UCT</td>
<td>University of Cape Town</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>UNDS</td>
<td>United Nations Department of Statistics</td>
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<tr>
<td>US$</td>
<td>United States Dollar</td>
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<td>ZMK</td>
<td>Zambian Kwacha</td>
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Chapter One

INTRODUCTION

Conditionality of Official Development Assistance (ODA) has been of concern to practitioners and theorists of development for several decades now. ODA recipients have been expected to implement policies which promote macro-economic growth and stability. From the end of the 1970s, donors would provide ODA on the condition that recipient countries implement Structural Adjustment Programmes (SAP) (Gwin and Nelson, 1997), which were arguably neo-liberal economic policies advocated by the International Financial Institutions (IFIs). The SAPs were followed by the Highly Indebted Poor Countries Initiatives (HIPC) which had a similar theoretical orientation. However, conditions of poverty went from bad to worse in poor countries that were dependent on ODA. The Millennium Development Report to the UN Secretary General (2005:16) stated that in 1990, 227 million people in Sub-Saharan Africa were living on less than US $1.08 per day, that is, 45 per cent of the population of this area. By 2001, the figure had increased to 46 per cent. The situation in some countries was even grimmer.

Zambia, with a high poverty headcount, is one of the poorest countries in sub-Saharan Africa. With a population of 6 million people in 1990, 70 per cent were living in conditions of poverty (CSO, 2008:25). By 1998, the poverty headcount had worsened; 73 per cent of the population of 9 million were living in poverty (CSO, 2008:25).

From 2000, donors began demanding that HIPCs had to develop Poverty Reduction Strategy Papers (PRSPs). At first it was only the IFIs, later all donors demanded this. Zambia is one
of the countries which developed and began implementing an interim PRSP in 2000. This was developed further as a full PRSP which was implemented between 2002 and 2006. Another PRSP, called the Fifth National Development Plan (FNDP) for 2006 to 2010 has been developed and is being implemented. In recent years, Zambia has shown remarkable improvements in its social indicators, though poverty is still very high. Sixty four (64) per cent of the population were classified as poor in 2006. Some analysts have attributed this improvement to impressive economic performance during the PRSP period (Basu et al., 2004:2), while others have attributed it to debt relief provided under the HIPC initiative (Tengstam, 2008). There is also a sense that ODA could have played a direct role in the improvements. However, no study has substantiated this.

1.1 Statement of the Problem

Recent studies showed that ODA can contribute to poverty reduction through the Public Expenditure Management (PEM) System (Mosely et al., 2004; Verschoor, 2002). Thus, one of the fundamental aspects of the PRSP was that ODA should be provided as budget support. Budget support can both promote economic growth and finance social services which can reduce poverty. Whether it was ODA channelled through the PEM system or for economic growth that was responsible for Zambia’s observed improvement or both could only be ascertained by empirical research.

Related to the above was the problem of flows of ODA being inadequate to contribute to poverty reduction as identified in the literature. The study was concerned with this problem in Zambia. Other studies have concentrated on donor commitments and compared them with donor disbursements (Bulir and Hamann, 2003). However, this study was directed at investigating whether there were discrepancies between the requests made by the Zambian
government and receipts from the Development Assistance Committee (DAC) since it has been found that donors have not been living up to their commitments (Bulir and Hamman, 2003). Again only an empirical investigation could provide information about the adequacy or inadequacy of ODA in Zambia's case.

In this respect, the purpose of this study was to investigate the extent to which ODA contributed to poverty reduction in Zambia by means of pro-poor public expenditure. To this end, the study focussed on the extent to which ODA disbursements were a part of Zambia's budget and then traced expenditures containing ODA in the sectors and sub-sectors of the budget that were conceptualised as pro-poor. These expenditures were then correlated with the Infant Mortality Rate (IMR), and would have been correlated with the Human Development Index (HDI) and poverty headcount were it not for incomplete data in these indicators. The indicators were used as proxies for poverty.

Zambia was selected because it was among the poorest countries in the poorest region of the world, and it had received colossal amounts of ODA as budget support.

The study argues that ODA contributed to poverty reduction in Zambia by means of pro-poor public expenditure, but its effectiveness was limited by inadequate ODA receipts from the DAC.

1.2 Conceptualisation of the Research Problem

1.2.1 Central Research Question

The study set out to explore the question: Does ODA contribute to poverty reduction by means of pro-poor public expenditure in Zambia?
In order to answer the central research question, the following specific subsidiary questions needed to be answered:

- To what extent have Zambia’s ODA requests for budget support been met by ODA disbursements from the DAC?
- What contribution does ODA make to pro-poor sectors and sub-sectors in Zambia?
- What is the pattern or composition of pro-poor expenditure in Zambia?
- How can the impact the Zambian government expects to make on the poor through composition of public expenditure be analytically categorised?
- Does ODA, as part of public expenditure, contribute to poverty reduction?

1.3 Definition of Key Concepts in the Central Research Question

The key terms and concepts central to answering the research questions were “ODA”, “Poverty”, “Budget”, “Pro-poor Expenditure”, “ODA Requests” and “ODA Disbursements”. These are defined below.

1.3.1 Official Development Assistance (ODA)

In this study, the OECD’s definition of ODA was used. It was appropriate for the purposes of this study because it used data collected from the OECD statistical database which they collect according to their definition. The OECD defines ODA as “transfers including grants or loans made to developing countries and territories which are: (i) undertaken by the official sector of the donor country, (ii) with promotion of economic development and welfare in the recipient country as the main objective, and (iii) at concessional financial terms (i.e., if a loan, has a grant element of at least 25 per cent). In addition to these financial flows, technical co-operation is included in ODA, while grants, loans and credits for military purposes are excluded, regardless of their concessionality” (World Bank, 2005:305).
Incidentally, it is the most widely accepted definition though criticised by both donors and recipients for not including several types of aid, such as that given to NGOs and monies sent by citizens of recipient countries living in donor countries (Riddell, 2007)

### 1.3.2 Poverty

Poverty is a complex multidimensional concept. It has distinctive rural and urban characteristics as well as social and economic features. It can be chronic as well as transitory. In addition, whether the unit of analysis is the individual, household, community, nation, region or the global context further complicates conceptualisation. These aspects are inextricably intertwined and reinforce each other. The World Bank (White et al., 2001:xxv) identifies the following eight dimensions: the percentage of people living above the poverty line; the gross primary enrolment; life expectancy; adult literacy; income equality; probability of survival to age 5; female/male primary enrolment gap; and the percentage of adults not living with HIV/AIDS. Each dimension yields a different perspective which leads to different conceptualisations of the life of those who suffer great hardship and persistently lack basic requirements for living (Barrett, 2008:5). A commonly used measure of poverty is the Poverty Headcount which measures the percentage of people living below the poverty line. The poverty line has been calculated as living on less than US $1.08 per day (White, 2001:5). This is useful but is primarily an economic measure and so does not capture the other dimensions mentioned above.

Therefore, any study needs to conceptualise poverty in a manner which accords with the dimension or aspects it will measure. Since this study explores the contribution of ODA to poverty reduction in Zambia, and uses poverty headcount data provided by that country’s government, it is reasonable to use the Zambian government’s definition of poverty while keeping in mind what has been said above. According to the Zambian government, poverty
denotes the “lack of access to income, employment opportunities, normal internal entitlements by the citizens to such things as freely determined consumption of goods and services, shelter and other basic needs of life that include education” (Saasa and Carlsson, 2002:39). This definition captures several dimensions, emphasising both the social and economic. The emphasis in this study was on the social aspects which are targets of pro-poor expenditure and include access to primary and secondary education, primary health, agricultural research and extensions and rural roads. These dimensions are quite well included in the HDI, IMR and poverty headcount used by this study to indicate poverty in Zambia.

1.3.3 National Budget

In this study, a national budget is understood to mean the central government’s plan for the collection and expenditure of monies needed to carry out its poverty reduction and other policies (adapted from Soanes and Hawker, 2005). In Zambia, it is delivered to the National Assembly once a year either on the last Friday in January or the first Friday in February. It reflects various sources of financing, typically tax revenues and non tax revenues such as domestic borrowing and foreign financing. It also reflects allocations by sector or function. The details of revenue and expenditure are reflected in the Estimates of Revenue and Expenditure, also known as The Yellow Book in Zambia, published on an annual basis. The expenditures are also reflected in the Auditor General’s Report in the middle and at the end of each financial year. Expenditures are also reflected in the Annual National Economic Report. The budget is further conceptualised as a vital factor, a sort of conveyor belt by means of which ODA can reach the poor.
1.3.4 *Pro-poor Expenditure*

In this research, pro-poor expenditure is conceptualised as an approach to public expenditure that refers to a composition of budgetary spending in which expenditure is concentrated on sectors that directly benefit the welfare of the poor. This definition is adapted from Verschoor (2002), Gomanee et al, (2003:1) and Mosely et al., (2004). Poverty reduction interventions and policies have tended to focus on raising per-capita income. However, in recent years interventions have been focused on non-income dimensions of poverty because they are thought to be a more effective focus than economic growth in improving the welfare of the poor (World Bank, 2001). The World Bank and other similar bodies are now promoting the idea that ODA can also be used to finance social expenditures on primary education, primary health care, agricultural extension and research, rural water and sanitation and rural roads. The definition of pro-poor expenditure has also come to include some of the production oriented aspects of the economy such as support for small businesses, infrastructure upgrading, rural development and programmes to improve the lives of women. The social expenditures and the production oriented aspects are incorporated in poverty reduction programmes.

Pro-poor policies and pro-poor expenditure can be distinguished in that pro-poor policies are complex and wide-ranging, including both macro and micro-economic growth policies that are directed toward income growth that benefits the poor while pro-poor expenditure is an aspect of pro-poor policies that focuses on social sectors so that the poor can access public services that enhance their welfare.

Advocates of the pro-poor expenditure approach, such as Mosely et al. (2004) and Gomanee et al (2003), believe that it is possible to reduce poverty by altering the expenditure
composition of a national budget so that it has a “poverty sensitive pattern” (Mosely, 2004:F237). Mosely et al. (2004:F237) claim that different compositions of public expenditure may reduce poverty through three main channels; namely the labour intensive channel that comprises expenditure on sectors that generate greater labour market benefits for the poor; the benefit incidence channel that comprises expenditure on sectors that provide more social services for low-income consumers; and a channel that comprises expenditure on sectors that generate social networks which are economically beneficial to the poor. Therefore, according to Mosely et al. (2004), the composition of pro-poor expenditure for any country can be categorised according to these three channels thereby categorising the kind of effect the county expects to make on poverty as a result of that expenditure.

ODA financed poverty reduction programmes which target economic growth can be measured in terms of the resulting improvements in income or purchasing power. The problem with the pro-poor expenditure approach is that it is difficult to show how ODA improves the welfare of the poor. As Gomanee et al. (2003:4) put it, “would a person earning more than a dollar a day be better off than one who earns less but has free access to efficient health, education and other social services?” This difficulty in measurement is also highlighted by Mosely et al. (2004). A solution that has been advanced by both proponents is the use of the HDI and the IMR as indicators of improvements in welfare and the quality of life of the poor.

This study used the HDI, the IMR and poverty headcount to analyse how pro-poor expenditure can effect poverty reduction.
1.3.5 **ODA Disbursements**

According to this study, ODA disbursements are understood to mean external ODA flows or ODA in real figures from donors to the recipient government given in various forms for budget support (adapted from World Bank, 2005:305).

1.3.6 **ODA Requests**

These are understood to mean the total foreign grants and loans required for each financial year as reflected in the revenue estimates and measures section of the Zambian national budget (adapted from World Bank, 2005:305).

The study outline is divided into six chapters. The following chapter – Chapter Two – discusses the debates surrounding the two main approaches through which ODA is argued to reduce poverty. Then Chapter Three describes the research design and methodology. After that, Chapter Four presents the findings. Next, a discussion of the findings is carried out in Chapter five. Subsequently the conclusion and recommendations are made in Chapter Six.

This chapter has provided the background to the study and described the conceptual framework that guided it. Occasional reference is made to this framework in the subsequent chapters.
Chapter Two

ODA FOR ECONOMIC GROWTH VERSUS ODA FOR PRO POOR EXPENDITURE

Recent studies on ODA have shown a rising concern about the relationship between ODA and poverty reduction (Clemens et al., 2007; Collier and Dollar, 2001). Two main streams of thinking can be identified and analytically categorised. On the one hand, there are several studies which lean towards the view that ODA better contributes to poverty reduction when used to stimulate economic growth (Burnside and Dollar, 2000; Collier and Dollar, 2001). On the other hand, some recent studies argue that ODA contributes better to poverty reduction through deliberate support of public expenditure on pro–poor sub-sectors of the budget (Mosely et al., 2004; Morrisey and Verschoor, 2002). This chapter critically analyses the works supporting these two views and provides justification for this study to use the theoretical perspective that ODA contributes to poverty reduction through pro–poor sector expenditure, while appreciating the view that ODA contributes to poverty reduction through economic growth.

Before proceeding, it is necessary to deal with the debate about the methods used to determine whether ODA is effective in assisting countries to attain economic growth or not. This is because the methods used in studies concerning ODA are vital elements in the conclusions they reach. Historically, ODA investigations were strongly aligned with principally econometric foundations of aid theory. These foundations, with the exception of Rostow’s (1964) stages of economic growth, were established by the Harrod-Domar two-gap model, and Chenery and Strouts’ (1966) foreign assistance and economic growth model. Subsequent investigations about ODA effectiveness concerned themselves with constructing
models in which the Harrold-Domar and Chenery and Strout models were the underlying arguments; that the ODA recipient country was constrained with scarcity of savings and limited revenue from trade. These were argued to be the gaps that ODA filled (Mosley et al., 2004:221).

In the same vein, recent studies based on ODA regressions reveal that the use of different methods yields different results regarding whether ODA is effective in supporting economic growth or not (Moreira et al., 2005:25). This means that whether a study finds ODA to be effective or not could be attributed to the methodology used. Moreira et al. (2005) revealed that studies at the micro level that utilise cost benefit analyses support the view of those in favour of ODA effectiveness in contrast to some of the macro level cross country regression studies that find otherwise. This is because, as the extensively referred to study by Hansen and Tarp (2000) points out, the estimated effectiveness of ODA is highly sensitive to the choice of estimator and set of control variables used. Some scholars however suggest that there is no paradox between the macro level and the micro-level studies and their findings (Hansen and Tarp, 2000).

This is not to suggest that the regression studies on ODA have not established compelling findings but rather beckons the study to be aware that the methods regarding ODA regressions are just as subject to debate as the results. Therefore there is need to take a cautious approach.
2.1 ODA, Economic Growth and Poverty Reduction

As referred to above, several studies suggest that ODA impacts on poverty reduction by supporting the increase in income through economic growth. Arguments supporting this view are reviewed in the following section.

2.1.1 Economic Growth and Poverty Reduction

There is a causal relationship between economic growth and poverty reduction. Rodrik (2000a:1) claims it has been empirically demonstrated that economic growth and poverty reduction go hand in hand. "Generally, all developing countries that have experienced sustained high growth over the last few decades have reduced their absolute poverty levels" (Rodrik, 2000a:1). It follows that once there is a rise in national income, the purchasing power of the poor is increased, which translates into aggregate poverty reduction. If economic growth leads to poverty reduction, then the contribution of ODA to economic growth indirectly contributes to poverty reduction. Therefore what needs to be ascertained is how economic growth leads to poverty reduction.

To examine the evidence relating to the relationship between growth and poverty reduction requires an answer to the question 'what is the elasticity of poverty reduction with respect to economic growth?' In other words the answer should explain by how much poverty is reduced, given a single unit increase in income. Addressing this problem, Ravallion and Chen (1996) in their descriptive study of 67 countries aimed to provide a picture of how measures of distribution and poverty had been evolving since the mid 1980s and correlated these changes with growth. With their focus on poverty, they specifically wanted to assess whether a measure of poverty responds systematically to growth in average income (Ravallion and Chen, 1996:7). They found that the mean elasticity of poverty reduction with
respect to growth was 1:2.6. This means that "a 10 per cent increase in the mean [per capita income] can be expected to result in a 26 per cent drop in the proportion of people living on less than half the initial mean" (Ravallion and Chen, 1996:23). In corroboration, Collier and Dollar (2001:1789) found that the elasticity of headcount poverty with respect to economic growth is around 1:2.

To further exemplify this, Huang et al. (2008) in a more recent study analysed some of the major forces driving poverty reduction in China by using time series and cross-sectional provincial data. Their finding showed that though not a sufficient condition by itself, economic growth was an essential and necessary condition for nationwide poverty reduction in China especially during the period of high growth during the 1990s. Bourguignon (2000) supports this view as he had found the elasticity of headcount poverty with respect to economic growth to be 1:2.5 for China.

As convincing as the evidence may be, the distribution of that income and income growth cannot be ignored. Studies have shown that there has been a rise in income inequality within countries since the 1980s (Cornia, 2001:5-6; Lall, 2007:52). Income distribution is skewed towards the richest income group (Cornia, 2001:18). This is especially because land distribution remains uneven thereby allowing land owners to gain from property and proceeds from agricultural and mineral exports. The workers of these land owners on the other hand are those that do not gain from a rise in income.

In light of the above, this study supports the view that government intervention in the distribution of income, especially expenditure in the pro-poor sectors, is vital to ensure that income growth translates to reduction in poverty.
It is on the basis of the arguments that economic growth goes hand in hand with poverty reduction, discussed above, that several scholars on ODA assume that the contribution of ODA to economic growth translates into poverty reduction.

Understandably, studies of the causal effect of ODA on economic growth and poverty reduction are pre-occupied with ODA effectiveness and the conditions in which it increases growth. Rodrik (2000a:2) asserts in this vein that “a strong correlation between economic growth and poverty reduction is compatible with the following arguments; all that matters is economic growth and only policies that are targeted on growth can generate poverty reduction...” Rodrik holds strongly to the view that pro-poor social policies matter less in poverty reduction and that only economic growth policies will lead to poverty reduction. The implication of his statement is also that all ODA must be channelled to support economic growth policies. However, in examining the arguments that support ODA to the pro-poor social sectors and sub-sectors, the study will show an opposing view. First, a review of the arguments in the literature that support ODA for economic growth is done below.

Firstly, ODA contributes to economic growth in the presence of good economic policies. The most compelling study is that of Burnside and Dollar (2000). These authors showed that ODA increases economic growth in a good economic policy environment. Burnside and Dollar (2000) examined the relationship among foreign aid, economic policies and growth of per capita GDP. Their hypothesis was that ODA affects economic growth “but that its impact is conditional on the same policies that affect growth” (Burnside and Dollar, 2000:847). To empirically examine their hypothesis, they used a database on foreign aid developed by the World Bank; a model developed from economic growth literature with a
range of institutional and policy distortions; a panel of 56 countries dividing their observations in six four-year time periods from 1970-1973 until 1990-1993; and policies on budget surplus, inflation rate and trade openness. They formed an index of good fiscal, monetary and trade policies and correlated the index with foreign aid. Burnside and Dollar (2000:864) found that on average, ODA had little impact on economic growth, "although a robust finding was that aid...had a more positive impact on growth in good policy environments" beyond the direct impact of the policies in the absence of ODA. Their most important conclusion was there generalisation that ODA has a positive effect on growth in a good policy environment.

Secondly, ODA accelerates the process of economic growth and consequently poverty reduction. Several studies supported the Burnside and Dollar findings but with different emphases. Collier and Dollar (2001) emphasised the importance of economic policy but further remarked on the role of ODA in accelerating economic growth. This was earlier established by Chenery and Strout (1966). Collier and Dollar (2001) carried out a study that focussed on the Millennium Development Goal (MDG) of reducing poverty and how policy reform and effective ODA together could meet the goal. They developed an economic model of efficient ODA in which ODA flows responded to policy improvements. In their model, the policy improvements were understood to create a better environment for poverty reduction and effective ODA. Firstly Collier and Dollar (2001:1787) found that poverty reduction in the world and in a particular region or country was primarily dependent on the quality of economic policy but that ODA accelerated the process. Secondly, they found that ODA and policy together were good for economic growth such that ODA enhanced the growth effect of policy and that good policy enhanced the effect of ODA. Their other
finding was that the marginal utility of poverty reduction increased when policies were improved.

Thirdly, ODA contributes to economic growth depending on the existing conditions in the recipient countries’ external environment. It has been empirically demonstrated that ODA is effective in the presence of a negative external economic and climatic environment as well as in a positive international economic environment. Guillaumont and Chauvet (2001) examined the external environment as another condition which affects how ODA supports economic growth. They wanted to find out if a good policy environment was the single criterion according to which ODA could be effective. They created an economic model in which economic growth was dependent on three factors. These were structural factors, shocks or environment factors and policy factors. In their model, “Aid [was] added to these factors, as [were] two other interactive variables reflecting that aid’s marginal contribution to growth depend[ed] positively on policies, as expected by Burnside and Dollar, and negatively on environment” (Guillaumont and Chauvet, 2001: 67). Defining the external environmental factors as consisting of terms of trade, export instability and climatic shocks, they found that ODA effectiveness also depended on the external environment in addition to a good policy environment. They argued that ODA was more effective in more vulnerable countries, all other factors being equal. This meant that unfavourable external environmental conditions and good policy were factors that increased ODA’s effectiveness.

This finding supports that of Singh (2002). In his response to Pronk (2001), Singh (2002:296) suggested that for ODA to be an effective catalyst of economic growth, it also depended on the external economic environment of the recipient country. Singh (2002:296) argued that the international economic environment can be regarded as part of the external
environment of an ODA recipient country. Contrary to Singh's (2002) findings, Guillaumont and Chauvet (2001) found a negative climatic and economic environment as a condition for ODA supporting economic growth while Singh (2002) found that a positive international economic environment supported ODA effectiveness in bringing about economic growth. The difference in their findings can be explained in the differences in defining the external environment of an ODA recipient country. The underlying argument is that the external environment is an influencing factor for ODA to be effective in supporting economic growth, though the debate is inconclusive.

Fourthly, ODA contributes to economic growth in the presence of strong public institutions. Pronk (2001:625) held that ODA effectiveness depends on the recipient country's institutions, circumstances and policies. Pronk's assertion reflects wider literature that points toward evidence that sound and stable institutions are vital for ODA effectiveness in contributing to economic growth (Birdsall, 2007:4; Bourguignon et al., 2008:21; and Clemens et al., 2004:38). Clemens et al. (2004) found strong evidence that stronger institutions such as public sector management, and social inclusion, voting and a free press together with more open trade, lower inflation and lower budget deficits were associated with faster economic growth in low income countries. The evidence suggests that countries with strong institutions such as developmental states were able to utilise ODA effectively (Birdsall, 2007:5). Conversely, countries with weak institutions imposed constraints on the effectiveness of ODA.

Equally, it has also been argued that ODA does not have a positive effect on economic growth. Most prominent in more recent times are Easterly et al. (2003) who used similar methodology to Burnside and Dollar's (2000). However, instead of using six four-year time
periods between 1970 and 1993, they used more data covering 1970 to 1997 and carried out similar regression analysis. Easterly et al. (2003:27) found that the coefficient on the interaction between ODA and policy was insignificant thereby indicating no support for Burnside and Dollar's (2000) conclusion that ODA works in a good policy environment. Earlier, Mosley et al. (1992) found no relationship between ODA and economic growth. Using cross-sectional data and time series data on several growth regressions for the periods 1960-1970, 1970-1980 and 1980-1983 for a sample of developing countries, they found that ODA does not stimulate economic growth.

Consistent with Easterly et al. (2003) and Mosley et al. (1992) is a more recent study by Rajan and Subramanian (2005) that found no evidence that ODA worked in a good economic policy environment. Rajan and Subramanian (2005a) used cross-sectional and panel data in their economic growth model. They found that there is neither a positive nor a negative relationship between ODA flows into a recipient country and economic growth.

Studies that subscribe to this view have attributed the lack of a clear relationship between ODA and economic growth to a number of factors, some to the methods used as pointed out in the first part of this chapter while others generally point toward weak institutions. Corruption which was found to reflect poor institutions has been argued to distort the effectiveness of ODA. Alesina and Weder (2002) demonstrated the role of corruption in reducing the effectiveness of ODA in economic growth. Their study covered 84 countries over the period 1975 to 1994 and used seven corruption indicators. Alesina and Weder (2002:1135) found that increases in ODA were accompanied by increases in corruption and that the reverse was also true. They also found no evidence that corrupt governments received less ODA than those with less absorptive capacity.
Fungibility is another factor that distorts the effectiveness of ODA, though not always a negative factor. According to Cassen and Associates (1986:21), fungibility refers to a situation where ODA finances other marginal sectors than the one ostensibly funded by the donor countries. A widely accepted and referred to study carried out by Pack and Pack (1993) on the distribution of ODA funds to various sectors in the Dominican Republic found that ODA was fungible. It is negative when governments utilise ODA funds for their consumption especially along clientele networks. It is on the other hand positive when the funds are channelled toward other developmental priorities other than the ones ostensibly funded by the donors.

In summary, the above discussion shows several roles – by no means all – and conditions on how ODA can be argued to contribute to economic growth and subsequent poverty reduction. As discussed, ODA contributes to poverty reduction by accelerating economic growth. This is on the conditions that the recipient country has a good economic policy environment and has strong institutions. The effectiveness of ODA is also affected by the external environment. Critically, one can observe that just as there are several factors that enable ODA to be effective, there are also several factors that limit its effectiveness in contributing to economic growth and poverty reduction. Some of the limiting factors have been identified above. Hence an alternative approach can be identified in the literature. In the next section, the study examines the view that ODA contributes to poverty reduction by contributing to public expenditure on pro–poor sectors and sub-sectors.

2.2 ODA and Poverty Reduction through Support for Pro–poor Public Expenditure

As mentioned at the beginning of this chapter, the second and rather recent approach to ODA and poverty reduction is a group of studies that argue that ODA contributes to poverty
reduction by contributing to pro-poor public expenditure. It contributes to public spending in those sectors and sub-sectors conventionally viewed as direct attacks on poverty such as agriculture (agricultural research and extension), education (Primary and Secondary), health (primary/basic healthcare), water and sanitation, and rural roads. Scholars supporting this view include Mosley et al. (2004), Morrissey and Verschoor (2002), Verschoor (2002), Sahn and Younger (2000) and van de Walle (1995) to mention a few.

As a result of the controversial nature of the validity of ODA-growth regressions and consideration of market failures in helping the poor, these authors suggest that there is a clear, urgent and practical need for the identification of comparatively simple policy instruments that are capable of reducing poverty at any given level of growth. One such policy instrument can be interpreted to be the public expenditure instrument or national budget. In this view, the budget is considered to be the vital link between ODA and the poor (Fagernas & Roberts, 2004: vi).

The budget (and expenditure composition) is a useful instrument for achieving poverty reduction. If channelled through this instrument, ODA can be more effective by targeting pro-poor expenditure sectors and sub-sectors. In the midst of catastrophic social consequences resulting from SAP in many developing countries, van de Walle (1995:1) argued for public spending as a potentially powerful instrument for fighting poverty. He recommended a universal approach where all developing countries should utilise public spending on certain basic services and deliberately target the poor.

Later, Mosely et al. (2004:F217) examined the effect of ODA on poverty rather than on economic growth. This reflected a wider shift in the field of development in which emphasis
was no longer placed only on economic growth but on poverty reduction. They examined three main variables namely; the composition of public expenditure, inequality and corruption and hypothesised the significance of these factors in increasing the leverage of ODA over poverty. To make this examination, they devised an analytical tool they called the Pro–Poor Expenditure (PPE) index. This tool examined public expenditure on "those sectors that in the basic needs literature and among development practitioners [had] the reputation of being pro–poor" (Mosely et al., 2004:237). According to Mosely et al., these sectors included education (primary education), health (basic health care), agricultural research and extension, water and sanitation, and rural roads. They used the analytical tool to examine public expenditure patterns in 88 countries focusing on the period from 1996 to 2001. They found that corruption, inequality and the composition of public expenditure were strongly associated with ODA effectiveness (Mosely et al., 2004:236).

This finding can be interpreted to mean that the disbursement of ODA to public expenditure composed of effective spending on sectors and sub-sectors considered pro–poor can be associated with a reduction in poverty, corruption and inequality. Mosely et al. (2004:236) however acknowledged that ODA allocations which took into account economic growth factors such as good micro and macro economic policies, income distribution and GDP per capita were also important and should not be ignored.

Pro–poor expenditure improves the welfare of poor people. Gomanee et al. (2003) had carried out a study similar to that of Mosely et al. (2004) on the use of pro–poor public expenditure. Like Mosely et al., they acknowledged the recent shift in the field of development in which scholars and practitioners have come to attach importance to the use of ODA for poverty reduction. Gomanee et al. (2003:1-28) carried out a study on how ODA
could improve the welfare of poor people. The purpose of their study was to offer a method of investigating the effectiveness of ODA in improving the welfare of the poor using cross-country data. Their general approach was to posit that certain types of government spending were most likely to improve the welfare of the poor. Their methodological approach was a cross-country regression of ODA effectiveness based on a pooled panel of 39 countries over the period 1980 to 1998. Their finding showed that pro-poor public expenditure was associated with increased levels of welfare and that ODA was associated with improvement in the values of the welfare indicators where it financed pro-poor spending.

Pro-poor expenditure improves the distribution of economic welfare as it corrects for market failures in the distribution of wealth. According to van de Walle (1995:6), spending on basic services, notably on primary and secondary education and basic health care, almost universally reaches the poor as they need them the most in comparison to the well to do. He arrived at this conclusion after a study, under the auspices of the Policy Research Department of the World Bank, in which he critically reviewed theories and evidence on public expenditure and the poor.

ODA allocations to pro-poor public expenditure contribute to poverty reduction in three main ways identified by Mosely et al. (2004:237). From Mosely et al.'s (2004:237) analytical perspective, these channels were distinguished by the emphasis of their expenditure composition, which could be identified by the impact the respective sectors and sub-sectors were expected to make on the poor.

According to Mosely et al. (2004:237), pro-poor expenditure compositions:

a) generate greater labour market benefits/opportunities. This comes about as a result of expenditure on sectors that are considered pro-poor and labour intensive such as
agriculture and rural roads in addition to primary health, primary education, secondary education and water and sanitation as analytically categorised by Morrissey and Verschoor (2002).

b) provide services for low income consumers as a result of expenditure on sectors that are considered pro-poor and benefit households of the poor more than other households. Such sectors include primary health, primary education and secondary education as analytically categorised by Sahn and Younger (2000).

c) generate economically beneficial social networks as a result of expenditure on sectors that are considered pro-poor and build social capital. There seems to be no analytical concept of the expenditure composition that can make up this category. Perhaps it is an overall result of pro-poor expenditure.

Examining in more detail the above discussion on which sectors can be considered pro-poor, there is no agreement in the literature as to what composition of public expenditure is pro-poor. Verschoor (2002) identified social expenditure on health, education and water and sanitation as pro-poor. Sahn and Younger (2000:329-347) considered social services most beneficial to the poor and having the most effect in reducing inequality as pro-poor. Morrissey and Verschoor (2002:1-23) considered expenditure on those sectors that were identified by DFID consultants in Uganda’s 1997 Poverty Eradication Action Plan (PEAP); namely agriculture research and extension, primary education, primary health, access to water and rural roads as pro-poor. Morrissey and Verschoor (2002) also proposed spending on agriculture research and technology, micro-credit and rural roads in addition to primary education and basic health as pro-poor. The general consensus seems to be first on health and education and then on water and sanitation, agricultural research and extension and rural roads.
Though the above studies have found it a challenge to demonstrate in numerical terms how methods such as Mosely’s PPE Index measured the reduction in poverty, the general findings suggest that direct pro-poor expenditure is effective in poverty reduction. A benefit incidence analysis which focuses on the extent to which individuals and households have improved access to health and education has been used widely as indicated by van de Walle (1995). Though benefit incidence measures access, it fails to measure the improvements in the quality of the services accessed by the poor (van de Walle, 1995:7). Behavioural analysis has been suggested as an alternative analytical approach because it can capture changes in behaviour as a result of increased pro-poor expenditure (van de Walle, 1995). These methods are expensive in part because the poor are often found in remote areas. However, Morrissey and Verschoor (2004) were able to show the relationship between expenditure on pro-poor sectors and poverty reduction by using the IMR and the HDI as measures of poverty and social welfare.

2.2.1 Challenges of ODA given for Public Expenditure

ODA donors do not meet their commitments. A study by Bulir and Hamann (2003:83) on 37 ODA recipient countries showed that ODA commitments were often higher than ODA disbursements. They examined data on the volatility and uncertainty of ODA flows and the resultant policy implications. Their dataset covered 72 countries over the time period from 1975 to 1997 and was sourced from the World Bank Development Indicators, which in turn were derived from the OECD (Bulir and Hamann, 2003:67). In general, they found that ODA commitments were lower than disbursements and consequently, revenues of recipient countries were low when ODA commitments were not met. They also found that there was a great deal of uncertainty about ODA disbursements. This made budget planning extremely
difficult in ODA recipient countries. Bulir and Hamann (2003:67) went on to suggest that not enough attention had been given in the literature to this aspect of ODA.

In support of this view, some scholars posit that the PEM systems of most ODA recipient countries do not have the capacity to handle large volumes of ODA. In other words, the administrative capacities of most of the ODA recipient countries cannot ensure that ODA does actually reach the needy (Alesina and Weder, 2002:1126, Easterly, 2006:4). This arises from high levels of corruption, rife rent-seeking, and a poorly trained and run, and therefore ineffective public administration.

Further to the above argument, it has been asserted that the amount of ODA that was disbursed was insufficient to assist ODA recipient countries carry out their development programmes (Sachs, 2005.276, Therien & Lloyd, 2000:21-38, Bulir and Haman, 2003:64-89, and Clemens et al., 2007:740). Therien and Lloyd (2000:34) supported the view that the most important problem confronting the ODA regime was the scarcity of financial resources. Therien and Lloyd (2000) investigated the issue of ODA fatigue. They highlighted what they referred to as the 'ODA paradox'. The ODA paradox was an observed situation in which there was increasing agreement that ODA would contribute significantly to economic growth but yet foreign ODA disbursements were falling. They described the situation in this way:

Whereas total flows of foreign aid to developing countries rose steadily throughout the 1970s and the 1980s, they fell dramatically in the 1990s. From 1992 to 1998, aid originating from DAC donors dropped from $60.8 billion to $51.5 billion, a decline of 15.3%. In the same period, measured as a percentage of combined DAC GNP,
development assistance slipped from 0.33% to 0.23% (Therien and Lloyd, 2000:26).

Even though Therien and Lloyd (2000) demonstrated that ODA flows fell during the 1990s, which they ascribe to aid fatigue, it could just as convincingly be attributed to a post 1980s shift in the approach of donors. Since the demise of the Soviet Union, there was a shift in the priorities of ODA donors, to be precise, from the provision of ODA to emphasis on private sector investments that could stimulate economic growth. This has no doubt contributed to the perceived lower provisions of ODA. Another factor has been the regional shift in the concentration of ODA from Africa to the Eastern European nations that emerged after the Soviet Union disintegrated. The explanation of ODA fatigue may also not hold for those countries where ODA requests have been reducing, as is the case for some East Asian countries such as Korea.

Recognising that the findings on ODA fatigue were subject to various interpretations, they could only be proved if the annual ODA requests of recipient countries were known and compared with disbursements. If the disbursements were less than ODA requested, then ODA was not enough. On the other hand, if the disbursements matched or exceeded requests, then a qualification would need to be given to explain why ODA was not enough. It was within this theoretical context that this study was carried out.

2.3 Poverty Reduction Strategies and their Approach to Development

In more recent years, the two approaches to ODA and poverty reduction have been applied to international development in the form of Poverty Reduction Strategies (PRS) with emphasis on poverty reduction rather than on economic growth. As a result of the shift in
emphasis from economic growth to poverty reduction, donors require ODA recipient countries to prepare PRSs.

The IMF and World Bank require that low income countries prepare a Poverty Reduction Strategy Paper (PRSP), a document that describes the country’s long term development vision or strategy (World Bank, 2008). According to the World Bank, the paper is prepared by the governments of low income countries in consultation with various stakeholders, which include civil society and the private sector.

The PRSPs were born out of a perceived failure of policies that emphasised economic growth in ODA recipient countries. Following the immense criticisms levelled against SAP for their devastating social effects on poor countries, the World Bank and International Monetary Fund (IMF) introduced the HIPC Initiative to facilitate the write off of the unsustainable debt of highly indebted countries by donor countries. The HIPC Initiatives came with macro-economic stabilisation policies which ODA recipients had to successfully implement before they could qualify for debt relief. In the late 1990s, the World Bank and IMF introduced the PRS as bases for assistance by bilateral and multilateral donors to recipient countries, specifically those that were receiving debt relief and had successfully implemented the HIPC initiative’s macro-economic stabilisation policies. Later, even countries that had not successfully implemented the HIPC macro-economic stabilisation policies had to develop and implement an Interim PRSP.

2.3.1 The Poverty Reduction Strategy Paper

A PRSP allows ODA recipient countries to receive concessional assistance from the World Bank’s International Development Association (IDA) and the IMF’s Poverty Reduction and
Growth Facility (PRGF). More recently, other donors have come to use it as a condition for providing ODA. Though arguably many ODA recipient countries would not on their own initiative want to develop a PRSP, the core principles of a PRSP as defined by the World Bank (2008) is that it should be driven by the country receiving ODA. The IFIs also require that it should be results oriented, comprehensive, partnership oriented in the sense of involving coordinated participation of multilateral and bilateral donors and non-governmental organisations, and it should take a long term perspective in working to reduce poverty.

The strategy hinges on macro-economic and social policy goals. Underlying these goals are other structural and institutional goals. The overarching objective is to reduce poverty by simultaneously promoting economic growth and social development. Expenditure on pro-poor public sectors is increased and governance structures, among which is the PEM system, are improved (AfDB, 2006:1).

The PRSP also sets out a country’s medium term external financial needs or requests. These take the form of loans and grants that will be required to meet the goals referred to above (World Bank, 2008).

The PRSPs have been criticised for not being home-grown despite claims to the contrary. The IMF and World Bank prescribe what sections the PRSP should have, for example there must be a section on macro-economic policies – that look to be neo-liberal – which suggests that the programmes are largely shaped by the IFIs. Their ownership has also come under criticism. The two IFIs claim that a PRSP is owned by the recipient country because of the role played by civil society and the private sector in the initial development process. Yet the
actual assessment and approval of a country’s performance is in the hands of the IFIs. The IFIs declare whether a PRSP has been completed successfully or not.

2.3.2 Poverty Reduction Budget Support: The Poverty Reduction Support Credit Facility and Sector Wide Approaches

As stated above, ODA under the PRSP is increasingly being channelled through the ODA recipient’s PEM system in form of budget support. Budget support according to Driscol et al., 2005:3-4) and the World Bank (2008), refers to the channelling of donor funds to an ODA recipient government using the government’s own budgetary allocation, procurement and accounting systems. Driscol et al. (2005) has identified two main types of direct budget support; namely sector budget support and general budget support. Sector budget support denotes those financial disbursements which ODA contributes to the general budget but is earmarked for use in a specific sector or several sectors. General budget support, on the other hand, is financial assistance that is included in the overall budget of a recipient country. In this type, there is no formal limitation within the budget as to where the funds may be spent. Budget support has come to be closely associated with PRSPs (Driscol et al., 2005:1).

A recently introduced form of budget support is the World Bank’s Poverty Reduction Support Credit (PRSC). The PRSC is poverty reduction support provided in form of concessional loans or grants and is available to low income countries from the IDA. The PRSC is the World Bank’s facility that was developed and introduced in 2001 to lend to programmes in support of low-income countries’ PRSPs (Wood, 2007:4). According to Wood (2007:4) PRSCs were introduced to provide financial support for a government’s medium term development programme (PRSP). Wood (2007:4) noted that “three successive,
single tranche (sometimes two tranche) PRSCs were typically bundled together into a medium-term programme in support of a country’s PRSP.” This means that the World Bank may disburse the requested budget support at one time or in stages. What the World Bank chooses to do depends on the recipient country’s macro-economic reforms and institutional performance. Those countries that have what the World Bank assesses to be a good track record are given in a single tranche while two tranche PRSCs are made available to those countries which do not have such a good record (Wood, 2007:4). The tranche system aims to synchronise the release of the PRSC with a government’s budget and policy planning cycle and with the release of the IMF’s Poverty Reduction and Growth Facility (PRGF) loans.

Generally, PRBS is considered preferable because it can also help reduce the commercial transaction costs incurred by the recipient government. This is because it is released directly to the recipient government’s ministry of finance and is disbursed through the national budget. Thus PRBS avoids the creation of structures that parallel government existing structures. Thus improved ODA and budgetary management are facilitated (Wood, 2007: 4). Poverty Reduction Budget Support also improves the predictability of ODA disbursements during the finance ministry’s planning period.

Several countries including Zambia are still in the process of phasing out Sector-Wide Approaches (SWAp) as they adopt PRBS (Saasa and Carlsson, 2002:21). Therefore, since they are still in use, they also merit discussion. Sector Wide Approaches are associated with ODA expenditure in sectors such as health and education. According to Foster et al (2000), the defining characteristics of a SWAp are that all funding for a sector support a single sector policy and expenditure programme led by the government. Donors see SWAs as offering several advantages: better ODA coordination; focusing on critical development
objectives such as equity and improved efficiency; ease in disbursement of funds and reduced management costs. Recipient governments on the other hand may benefit from having greater flexibility in the use of funds and thereby improve the efficiency with which they are used. Having a single annual operational and expenditure plan reduces the burden of governments having to plan and account to a range of donors on an activity-by-activity basis. The main difference between PRSC and SWAp is that SWAp typically contains a mix of project ODA and other modalities, which may not be disbursed through government systems.

This chapter has discussed two theoretical perspectives on how ODA can contribute to poverty reduction. One perspective is that ODA can contribute to by stimulating economic growth. This perspective is based on the assumption that economic growth automatically reduces poverty. Pre-conditions for successful implementation of this approach are a good policy environment, strong institutions and favourable external conditions in which ODA can be effective. However, several studies on the effectiveness of ODA in stimulating economic growth have produced conflicting findings. Some authors who have examined studies that have used ODA regressions in their economic models have come to the conclusion that different methods yield different results as to the effectiveness of ODA in supporting economic growth (Hansen and Tarp, 2000; Moreira et al., 2005).

The more recent perspective suggests that ODA better contributes to poverty reduction through the support of pro-poor public expenditure. This represents a shift of emphasis from economic growth to poverty reduction. Though studies have been challenged in trying to demonstrate in numerical terms how methods such as Mosely’s PPE Index measure the reduction in poverty, the general findings suggest that direct pro-poor expenditure is
effective in poverty reduction. This approach has found favour and has been adopted by multilateral and bilateral ODA donors. Following the dismal performance of SAP in assisting recipient countries with unsustainable debt burdens, the World Bank and IMF introduced the Poverty Reduction Strategy Paper. With the emphasis being on pro-poor public expenditure, poverty reduction budget support is the approach associated with the PRSP. The World Bank recently introduced the Poverty Reduction Support Credit. Some countries such as Zambia prefer that their ODA be given as direct budget support following the Sector-Wide Approach. The methods of PRBS and SWAp are favoured because they reduce ODA transaction costs. It is therefore important that a study be undertaken to investigate how ODA by means of pro-poor public expenditure used in the PRSP contributes to poverty reduction.
Chapter Three

RESEARCH DESIGN AND METHODOLOGY

This chapter deals with the research design and the methodology. It describes in detail the various methods that were used in the research process including the data collection and analysis techniques for answering the research question. It also contains a statement of ethical considerations. The methods discussed below were designed to describe how ODA, by means of contributing to pro-poor expenditure, contributed to poverty reduction in Zambia.

3.1 General Design

The purpose of this study was to describe the extent to which ODA contributes to poverty reduction in Zambia through pro-poor public expenditure. To achieve this, a quantitative research design was used. The study found out the extent to which ODA disbursements were a part of Zambia’s budget. This involved collection, collation and analysis of numerical data on donor ODA disbursements to Zambia’s national budget and pro poor sectors by the DAC. Then expenditure containing ODA was traced down to the sectors and sub-sectors that were conceptualised as pro-poor. Zambia’s pro-poor expenditure composition was then analytically categorised based on expenditure figures. These expenditures were then correlated with the IMR, and were to be correlated with the HDI and poverty headcount were it not for incomplete data. The indicators were used as proxies for poverty.

A quantitative research design was used because it was the most appropriate method of empirically analysing ODA disbursements and public expenditure, and demonstrating the incidence of poverty. This is as opposed to qualitative research which would be limited in
the collection and analysis of existing statistics. Qualitative research would have been useful in determining the benefit incidence of public expenditure to households in the process of poverty reduction. However, this would have been logistically complicated as it would have involved travelling and interviewing several people in remote places of the country. It would also have been more expensive both in terms of time and money.

The study also included elements of a trend study observing the trend of Zambia’s ODA requests and donor ODA disbursements from 1990 to 2008.

Since this study aimed to describe how ODA contributed to poverty reduction in Zambia, it was important to assess how much ODA contributed to the Zambian budget. The budget was chosen because the literature on public expenditure has shown that it is the main link in the chain of causation from policy to poverty reduction (Fagernas & Roberts, 2004: vi). The revenue estimates for foreign grants and loans as shown in the Zambian budget represented ODA requests. Net ODA disbursements made by the DAC to Zambia were collected for the period 1990 to 2008. To determine whether Zambia received enough ODA, a comparison was made between ODA disbursements and requests for each year.

To determine the contribution of ODA to pro-poor sectors and sub-sectors, the study investigated and analysed how much ODA was disbursed to the Zambian health and education sectors and to primary health care, primary and secondary education, agriculture and water and sanitation sub-sectors. This was compared with ODA disbursements recorded by the OECD.stat database to the same sectors and sub-sectors. This allowed the study to determine what the share of ODA was in Zambia’s public expenditure on the respective sectors and sub-sectors. The OECD only had data for 2002 to 2006. The OECD sourced the
data from individual countries and most of them including Zambia seemed not to have kept data as highly segregated to include ODA received in their sub-sectors until as recently as 2002. However, it was enough to reveal the extent to which ODA was a part of public expenditure on the above-mentioned sectors and sub-sectors.

Subsequently, the composition of Zambia’s pro-poor expenditure was analytically categorised. The rationale behind categorising expenditure composition was to determine what kind of poverty reducing impact the government expected to make on the poor; whether it expected to generate labour market benefits/opportunities (Labour Intensive category) or; provide services for low income individuals/households (Benefit Incidence category). This also helped to provide the analytical framework for the discussion on poverty.

Two previous studies by Morrissey and Verschoor (2002) and Sahn and Younger (2000) were used to categorise pro-poor expenditure compositions. Using the methods adapted from Morrissey and Verschoor (2002), a budget that prioritised agriculture and extension services and rural roads in addition to primary health and basic education among pro-poor sub-sectors had a composition that was labour intensive. This is because agricultural research and extension and rural roads generate employment opportunities as opposed to services in rural areas. If on the other hand – adapting Sahn and Younger’s (2000) method – a budget prioritised basic health care, primary education and secondary education over the other pro-poor sub-sectors, then the composition would be categorised as benefit incidence. This is because such expenditure provides services that benefit poor people. Hence the study made use of expenditure allocations to the pro-poor sectors to find out which sub-sectors
were prioritised in the composition. On this basis, the study was able to analytically categorise Zambia’s pro-poor expenditure.

To determine whether there was poverty reduction as a result of pro-poor expenditure and ODA, the study used the IMR, the HDI and poverty incidence as shown by the Central Statistics Office. Gomanee et al (2003:4) used the HDI and IMR as proxies for poverty. The HDI is an index of three measures of different dimensions of the quality of life namely; longevity, education and access to resources (Gomanee et al, 2003:4). It ranges between 0.000, being the lowest quality of life, and 1.000 being an index representing a high quality of life. Gomanee et al (2003:4) noted as other scholars did that the HDI is not as responsive to welfare interventions while the IMR is more responsive. Hence using the poverty headcount would help capture the impact of expenditure on pro-poor sectors and sub-sectors.

3.2 Methodology

3.2.1 Data Collection

As much as possible, the study used data from Zambian government sources. This was to ensure uniformity. The exception was of course where data necessarily came from outside sources such as the OECD.Stat database which supplied data on ODA disbursements.

The central research question was answered using ODA disbursement statistics sourced from the OECD.stat online database. These included disbursements in real figures to the overall Zambian budget, the health and education sectors and primary health, primary education, secondary education, water and sanitation and agricultural research and extension sub-sectors. The study derived data on overall budget ODA requests by collecting revenue
estimates for foreign grants and loans in real figures from Zambia's annual national budget presentation. Data on sectoral ODA requests were sourced from Zambia's Estimates of Revenue and Expenditure published annually. Expenditure figures from the Auditor General's Reports were also used in the case where data could not be obtained from the Estimates of Revenue and Expenditure. For purposes of showing pro-poor expenditure effects on poverty reduction, data on the HDI were obtained from all the UNDP's Human Development Reports for 1990 up to 2007. Data on the IMR and poverty incidence were obtained from the CSO's Living Conditions Monitoring Survey Reports recorded in the CSO's The Monthly bulletin. Data on exchange rates was obtained from the Bank of Zambia and World Bank's Africa Development Indicators. Other data sources included the UN Department of Statistics, UNDP, IMF and World Bank websites. These public documents were readily available and accessible online at various respective official sites and in print in the Government Publications section of the UCT Main Library.

The data collected from the aforementioned sources was taken to be reliable as it is disseminated by the statistics agencies of each of the Zambian government and reputable international organisations. The DAC compiles data of all disbursements made by its member countries. The Zambian government's Department of Budget and Planning in the Ministry of Finance and National Planning gathers data which it feeds into the national budget. To optimise data reliability, the same data were checked against a number of sources and then compared them to see if there was agreement. In the event of conflicting figures, the figure provided by the CSO, Zambia's statistics department and or the Ministry of Finance Budget Office were used because they produce primary data which they supply to international organisations.
3.2.2 Analysis

The study used numerical analysis to compare the amount of ODA requested each year to that disbursed by the DAC to Zambia. The same method was used for analysing sectoral and sub-sectoral ODA requests and sectoral and sub-sectoral ODA disbursements. The choice confronted here was on which currency to use in the analysis, the Zambian Kwacha (ZMK) or the United States Dollar (US $) in the analysis. It was decided that all dollar figures be converted to Kwacha because most of the figures (estimates of revenue from external sources, sectoral expenditures and allocations, Auditor General’s Report on expenditures) were in Kwacha, except the DAC ODA disbursements. The official annual currency conversion rates obtained from the African Development Indicators were useful in obtaining the exchange rates.

In order to analytically categorise the budgetary composition of Zambia’s pro-poor expenditure, the study drew on Mosely et al’s (2004:F237) analytical tool for analysing pro-poor expenditure and their three channels through which pro poor expenditure may reduce poverty. The three channels are pro poor expenditure mixes that (1) generate greater labour market benefits, (2) provide more services for low income consumers and (3) generate social networks which are economically beneficial. The studies that provided analytical categorise include Morrisey and Verschoor’s (2002) Labour Intensity Approach and Sahn and Younger’s (2000) Benefit Incidence Approach. The third channel was not used because the CGE approach used in the method to categorise this type was unavailable to this study. Therefore the study categorized the expenditure composition according to two of the three channels identified; the benefit incidence and the labour intensive categories.
The next challenge was to determine the effect of the pro-poor expenditure approach on poverty reduction. Replicating Gomanee et al's (2003) use of poverty indicators, Pearson's Product Moment Correlation\(^1\) was used to determine whether there was association between pro-poor expenditure and Zambia's IMR. Initially, the HDI and Poverty headcount were to be used in the analysis to triangulate the method. Actual public expenditure/disbursements were to be correlated with IMR, HDI, and the poverty headcount. However, as will be explained in the following paragraphs, only the IMR was used.

To calculate Pearson's product moment correlation, SPSS software and Microsoft Excel spreadsheets were used. These software packages were also used to generate graphical presentations and statistical tables, which were an essential aspect of data presentation.

The main problem encountered in calculating the correlation was notable missing data points in all four datasets. The problem that comes with missing data points is that the points of comparison reduce thereby increasing the likelihood that the correlation coefficient obtained could be explained more by chance than actual correlation. Though pro-poor expenditure data was available for three-quarters of the years between 1990 and 2008, some data was missing for the five years between 1993 and 1997. Therefore the years 1998 to 2007 were used in order to have a complete set of data for the independent variable. A few data points were missing for the IMR but those available were enough for correlations to be carried out. However, most of the data points for the HDI and poverty headcount were still missing. This situation necessitated the use of four correlation methods for all the datasets.

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\(^1\) The Pearson's Product Moment Correlation indicates the strength or robustness of association between two variables (Babbie and Mouton, 2007:81-83; Bless and Kathuria, 1993:281). It is of cardinal importance here to mention that the Pearson's correlation does not imply causation. Therefore the correlation obtained in this study would be interpreted in terms of the extent to which pro-poor expenditure contributes to poverty reduction. Hence if the correlation coefficient \(r\) significantly differs from 0.00, either in the negative or positive direction, it implies that the correlation does not result from a chance occurrence. However, this is further dependent on the result for the test of significance. If the value of \(r\) falls less than 0.50, the correlation is interpreted to be very weak. If it falls between 0.51 and 0.79, the correlation is considered low. Between 0.80 and 0.89, the correlation is moderately strong while for 0.90 up to 1.00, the correlation is high, robust or good.
with missing data points. These included casewise deletion\(^2\), pairwise deletion\(^3\), mean substitution\(^4\) and the extrapolation of missing data\(^5\) methods. The four methods were used to help generate more reliable results. However, these methods generate reliable data only in the case that the variables have very few missing data points. If many data points are missing, the likelihood of having several outliers in the dataset increases. The data points on the HDI and poverty headcount were too few and therefore the correlation would not generate any meaningful result. Therefore only the correlation involving IMR was done.

In terms of ethical consideration, this study did not use any human subjects. Since it utilised existing data, it ensured that all data used were properly represented and acknowledged.

In conclusion, a quantitative empirical research design was used to answer the research questions. This was because it was the most appropriate method of empirically analysing statistics on ODA disbursements and public expenditure, and demonstrating the incidence of poverty. The study used data from Zambian government sources as much as possible to ensure uniformity. The exception was for data that had to be necessarily sourced from elsewhere such as ODA disbursements. These were sourced from the OECD.Stat database. Pearson’s Product Moment Correlation was used. Actual public expenditure was correlated with IMR to assess effects on poverty.

\(^2\) Casewise deletion of missing data entails the deleting of all cases that contain missing data such that the correlation between the two variables is done between cases that both have data. Therefore only cases that did not contain missing data for any of the variables were included in the analysis and the correlations under this method were based on the same set of data. This obtained the true correlation matrix based on the available data. This method gives the true correlation value if both variables have no data missing but may give unreliable results if most of the data is missing (Hill and Lewicki, 2006).

\(^3\) In the pairwise deletion of missing data method, the correlations between the variables were calculated from all cases having valid data points (Hill and Lewicki, 2006).

\(^4\) The mean substitution of missing data method involves replacing all missing data in a variable by the mean of the available data points of that variable. The advantage of mean substitution method is that it produces internally consistent sets of results. It also helps avoid the loosing of data due to casewise deletion of missing data. The disadvantages however are that it artificially decreases the variation of scores, and this decrease in individual variables is proportional to the number of missing data (i.e. the more missing, the more “perfectly average scores” will be artificially added to the data. Secondly, because it substitutes missing data with artificially created “average” data points, mean substitution may considerably change the values of correlations (Hill and Lewicki, 2006).

\(^5\) The extrapolation of missing data points method involves filling the missing data points with the average of the data points preceding and following the missing data point. This ensures that the bias created by missing data within each variable is reduced (Hill and Lewicki, 2006).
Chapter Four

FINDINGS

The purpose of this study was to describe the extent to which ODA contributes to poverty reduction in Zambia through its contribution to expenditure on pro-poor sub-sectors. This chapter therefore first describes the overall ODA disbursements to the Zambian budget and then traces the disbursements down to the pro-poor sectors and sub-sectors. It then analytically categorises Zambia’s pro-poor public expenditure composition to determine the kind of effect the Zambian government expects to make on the lives of the poor, whether it is benefit incidence or labour intensive. The chapter finally demonstrates its findings on correlations between expenditure on the pro-poor sub-sectors and the IMR, and comparison with the HDI and poverty headcount.

4.1 Zambia’s ODA Requests

In this section, the study shows the findings on Zambia’s ODA requests and ODA disbursed by the DAC from 1990 to 2008. This was to determine the contribution of ODA to Zambia’s national budget and whether adequate ODA was given to Zambia.

Table 1 below shows Zambia’s ODA requests for each year since 1990 up to 2008. As the evidence shows, Zambia requested ODA in form of capital grants and external borrowing. External borrowing is mainly for project and programme loans while external capital grants mainly include general budget support, project grants, and sector wide approaches supporting education and health. In recent years, since 2000 to be specific, budget support has been for poverty reduction programmes under the PRSP.
Table 1: Zambia’s ODA Requests from 1990 to 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Budget (K'million)*</th>
<th>External borrowing (K'million)*</th>
<th>Capital Grants (K'million)*</th>
<th>Total ODA requested (K'million)*</th>
<th>ODA requested as Percentage of total budget**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>23,926</td>
<td>592</td>
<td>1,200</td>
<td>1,792</td>
<td>9</td>
</tr>
<tr>
<td>1991</td>
<td>50,131</td>
<td>1,133</td>
<td>9,900</td>
<td>11,033</td>
<td>22</td>
</tr>
<tr>
<td>1992</td>
<td>90,212</td>
<td>8,418</td>
<td>-</td>
<td>8,418</td>
<td>9</td>
</tr>
<tr>
<td>1993</td>
<td>231,935</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1994</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>1,624,962</td>
<td>-</td>
<td>238,704</td>
<td>238,704</td>
<td>15</td>
</tr>
<tr>
<td>1998</td>
<td>1,968,200</td>
<td>306,582</td>
<td>333,012</td>
<td>639,594</td>
<td>32</td>
</tr>
<tr>
<td>1999</td>
<td>2,227,700</td>
<td>353,540</td>
<td>414,183</td>
<td>767,723</td>
<td>34</td>
</tr>
<tr>
<td>2000</td>
<td>2,956,990</td>
<td>226,800</td>
<td>778,180</td>
<td>1,004,980</td>
<td>34</td>
</tr>
<tr>
<td>2001</td>
<td>5,015,050</td>
<td>792,950</td>
<td>1,811,100</td>
<td>2,604,050</td>
<td>52</td>
</tr>
<tr>
<td>2002</td>
<td>5,676,800</td>
<td>256,000</td>
<td>1,991,000</td>
<td>2,247,000</td>
<td>40</td>
</tr>
<tr>
<td>2003</td>
<td>6931,500</td>
<td>747,000</td>
<td>2,209,500</td>
<td>2,956,500</td>
<td>43</td>
</tr>
<tr>
<td>2004</td>
<td>8,328,600</td>
<td>324,000</td>
<td>2,717,600</td>
<td>3,041,600</td>
<td>37</td>
</tr>
<tr>
<td>2005</td>
<td>9,779,020</td>
<td>683,150</td>
<td>2,873,620</td>
<td>3,556,770</td>
<td>36</td>
</tr>
<tr>
<td>2006</td>
<td>10,236,600</td>
<td>398,800</td>
<td>2,286,000</td>
<td>2,684,800</td>
<td>26</td>
</tr>
<tr>
<td>2007</td>
<td>12,042,400</td>
<td>1,116,900</td>
<td>2,257,100</td>
<td>3,374,000</td>
<td>28</td>
</tr>
<tr>
<td>2008</td>
<td>13,761,400</td>
<td>1,035,300</td>
<td>2,278,900</td>
<td>3,314,200</td>
<td>24</td>
</tr>
</tbody>
</table>

**Own calculations

As Table 1 above shows, the study found that the amount of ODA requested increased tremendously from ZMK1.8 billion (US $51.9 million) in 1990 to ZMK3.3 trillion (US $842.9 million) by 2007. Zambia’s ODA requests stood at 9 per cent of the national budget in 1990. It rose to a high of 52 per cent in 2001, but reduced gradually to 24 per cent by 2008. On average, the evidence shows that Zambia depended on ODA to fund 29.4 per cent
of its annual budget. The evidence also shows that the share of the budget that depended on ODA for funding increased significantly from 2000 until 2005. This corresponded with the period Zambia received debt relief under the HIPC Initiative.

As regards the comparison between ODA requested and ODA disbursed by the DAC, the study found that Zambia received more ODA than it requested for most of the years. In Table 2 below, the variance between total ODA requested and ODA disbursed is shown. The plus (+) signs indicate a ‘surplus’, that is, by what amount disbursements were above the requested amount while the minus (−) signs indicate a ‘deficit’, that is, by how much disbursements fell short of the requested amount. As the evidence suggests, for nine out of the fifteen years for which data was available, Zambia received an average of 260.57 per cent of all ODA it requested during the fourteen years for which data was available. It therefore received much more ODA than it requested.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total ODA requested (K'million) **</th>
<th>ODA Disbursed by the DAC (US$'million) †</th>
<th>Exchange Rate(US $1 in ZMK) *</th>
<th>Total ODA Disbursed (K'million)</th>
<th>ODA disbursed by the DAC as percentage of ODA requested</th>
<th>Variance between total ODA requested and total ODA disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1,792</td>
<td>408.94</td>
<td>34.50</td>
<td>14,108</td>
<td>787</td>
<td>+12,317</td>
</tr>
<tr>
<td>1991</td>
<td>11,033</td>
<td>582.75</td>
<td>64.60</td>
<td>37,646</td>
<td>341</td>
<td>+26,613</td>
</tr>
<tr>
<td>1992</td>
<td>8,418</td>
<td>699.04</td>
<td>179.00</td>
<td>125,128</td>
<td>1486</td>
<td>+116,710</td>
</tr>
<tr>
<td>1993</td>
<td>-</td>
<td>510.56</td>
<td>452.80</td>
<td>231,182</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1994</td>
<td>-</td>
<td>434.03</td>
<td>669.40</td>
<td>290,540</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>-</td>
<td>439.46</td>
<td>864.10</td>
<td>379,737</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>-</td>
<td>354.1</td>
<td>1207.90</td>
<td>427,717</td>
<td>-</td>
<td>-</td>
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<tr>
<td>1997</td>
<td>238,704</td>
<td>367.07</td>
<td>1314.50</td>
<td>482,514</td>
<td>202</td>
<td>+243,809</td>
</tr>
<tr>
<td>1998</td>
<td>639,594</td>
<td>256.52</td>
<td>1862.10</td>
<td>477,666</td>
<td>75</td>
<td>-161,928</td>
</tr>
<tr>
<td>1999</td>
<td>767,723</td>
<td>340</td>
<td>2388.00</td>
<td>811,920</td>
<td>106</td>
<td>+44,197</td>
</tr>
<tr>
<td>2000</td>
<td>1,004,980</td>
<td>486.24</td>
<td>3110.80</td>
<td>1,512,595</td>
<td>151</td>
<td>+507,615</td>
</tr>
<tr>
<td>2001</td>
<td>2,604,050</td>
<td>274.11</td>
<td>3610.90</td>
<td>989,784</td>
<td>38</td>
<td>-1,614,266</td>
</tr>
<tr>
<td>2002</td>
<td>2,247,000</td>
<td>359.52</td>
<td>4398.60</td>
<td>1,581,385</td>
<td>7</td>
<td>-665,615</td>
</tr>
<tr>
<td>2003</td>
<td>2,956,500</td>
<td>591.88</td>
<td>4733.30</td>
<td>2,801,546</td>
<td>95</td>
<td>-154,954</td>
</tr>
<tr>
<td>2004</td>
<td>3,041,600</td>
<td>745.81</td>
<td>4778.88</td>
<td>3,564,136</td>
<td>117</td>
<td>+522,536</td>
</tr>
<tr>
<td>2005</td>
<td>3,556,770</td>
<td>822.5</td>
<td>4463.50</td>
<td>3,671,229</td>
<td>103</td>
<td>+114,459</td>
</tr>
<tr>
<td>2006</td>
<td>2,684,800</td>
<td>1115.18</td>
<td>3603.07</td>
<td>4,018,072</td>
<td>150</td>
<td>+1,333,272</td>
</tr>
<tr>
<td>2007</td>
<td>3,374,000</td>
<td>713</td>
<td>4002.50</td>
<td>2,853,462</td>
<td>85</td>
<td>-520,538</td>
</tr>
<tr>
<td>2008</td>
<td>3,314,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,314,200</td>
</tr>
</tbody>
</table>

4.2 DAC ODA Disbursements to Zambia’s Pro-poor Sectors and Sub-sectors

It has been established that the purpose of the ODA disbursed to Zambia was to assist the country attain poverty reduction under the PRSP. This section of the chapter analyses the contribution of ODA to poverty reduction by tracing ODA disbursements from the DAC to the sectors and sub-sectors that were conceptualised as pro-poor namely health, education and agriculture sectors and the basic health, primary education, secondary education, rural roads and water and sanitation sub-sectors. Data was available for the years 2002 to 2006 from the OECD.Stat online database.

4.2.1 Health

Table 3: ODA Disbursements to the Health Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (US $ million)*</th>
<th>Official Bank of Zambia Exchange Rate†</th>
<th>Disbursements (ZMK'million)</th>
<th>Sector budgetΦ</th>
<th>Percentage of Sector budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>32.8</td>
<td>4398.6</td>
<td>144274.08</td>
<td>757338.57</td>
<td>19.05</td>
</tr>
<tr>
<td>2003</td>
<td>72.4</td>
<td>4733.3</td>
<td>342690.92</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>76.7</td>
<td>4778.88</td>
<td>366540.096</td>
<td>719823.44</td>
<td>50.92</td>
</tr>
<tr>
<td>2005</td>
<td>88.8</td>
<td>4463.5</td>
<td>396358.8</td>
<td>907697.16</td>
<td>43.67</td>
</tr>
<tr>
<td>2006</td>
<td>80.1</td>
<td>3603.07</td>
<td>288605.907</td>
<td>1124764.47</td>
<td>25.66</td>
</tr>
</tbody>
</table>


Between fiscal years 2002 and 2006, a significant part of public expenditure on Zambia’s health sector was foreign donor funded. As the evidence summarised in Table 3 shows, ODA disbursements to the health sector ranged from a minimum of US $32.8 million (ZMK 144 billion) in 2002 to a maximum of $88.8 million (ZMK396 billion) in 2005. As a share of public expenditure, ODA contributed a minimum of 19.5 per cent in 2002 and a maximum of 50.9 per cent in 2004. On average, ODA disbursements covered 34.8 per cent of the health sector budget. This finding implies that a third of all public health expenditure in Zambia was covered by ODA grants and loans.
Within the ODA disbursements to the health sector were disbursements to the primary or basic health care subsector. These are shown in Table 4.

### 4.2.2 Primary Health

#### Table 4: ODA Disbursed to the Primary Health Sub-sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (US $ million)</th>
<th>Official Bank of Zambia Exchange Rate (ZMK/million)</th>
<th>Disbursements (ZMK'million)</th>
<th>Sub-Sector budget (ZMK'million)</th>
<th>Percentage of Sector budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>25.7</td>
<td>4398.6</td>
<td>113044.02</td>
<td>187721.89</td>
<td>60.22</td>
</tr>
<tr>
<td>2003</td>
<td>34.2</td>
<td>4733.3</td>
<td>161878.86</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>53.4</td>
<td>4778.88</td>
<td>255192.192</td>
<td>248806.44</td>
<td>102.57</td>
</tr>
<tr>
<td>2005</td>
<td>62.4</td>
<td>4463.5</td>
<td>278522.4</td>
<td>380366.57</td>
<td>73.22</td>
</tr>
<tr>
<td>2006</td>
<td>57.5</td>
<td>3603.07</td>
<td>207176.525</td>
<td>378760.32</td>
<td>54.70</td>
</tr>
</tbody>
</table>


The study found that almost all of the expenditure on primary health care in Zambia was covered by donor support between 2002 and 2006. As Table 4 shows, disbursements to primary health care between 2002 and 2006 ranged from US $25.7 million (ZMK188 billion) to US $62.4 million (ZMK 279 billion). During this period, ODA contributed a minimum of 54 per cent of the sub-sector budget in the fiscal year of 2006 and a maximum of 102 per cent in the 2004 fiscal year. On average, the ODA disbursements to primary health care expenditure were 72.7 per cent of the estimated expenditure during this period. This means that ODA was responsible for funding expenditures amounting to approximately two-thirds of Zambia’s primary health care budget between 2002 and 2006.
4.2.3 Education

Table 5: ODA Disbursed to the Education Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (US $ million)*</th>
<th>Official Bank of Zambia Exchange Rate†</th>
<th>Disbursements (ZMK'million)</th>
<th>Sector budget Φ</th>
<th>Percentage of Sector budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>39.9</td>
<td>4398.6</td>
<td>175504.14</td>
<td>841494.06</td>
<td>20.86</td>
</tr>
<tr>
<td>2003</td>
<td>57.6</td>
<td>4733.3</td>
<td>272638.08</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>80.2</td>
<td>4778.88</td>
<td>383266.176</td>
<td>1020215.37</td>
<td>37.57</td>
</tr>
<tr>
<td>2005</td>
<td>78.7</td>
<td>4463.5</td>
<td>351277.45</td>
<td>888000.61</td>
<td>39.56</td>
</tr>
<tr>
<td>2006</td>
<td>82.5</td>
<td>3603.07</td>
<td>297253.275</td>
<td>1565842.42</td>
<td>18.98</td>
</tr>
</tbody>
</table>


Regarding the education sector, ODA also contributed significantly to funding the budget during the period for which data was available. The study found that disbursements ranged from a minimum of US$40 million (ZMK 175 billion) in 2002 to a maximum of US $82.5 million (ZMK297 billion) in 2006 as Table 5 above shows. The ODA disbursement figure during the 2004 fiscal year seems to be higher in the local currency but is in fact not primarily because the Zambian currency had devalued against the US dollar. This was demonstrated by the exchange rate, which was highest during this period. Further, ODA was responsible for expenditures amounting to a minimum of 19 per cent of the education sector budget in the 2006 fiscal year to a maximum of approximately 40 per cent during the 2004 fiscal year. Between 2002 and 2006, the average contribution of ODA was 24.7 per cent of the education sector budget. This suggests that about a quarter of public expenditure on the education sector was covered by ODA.

Within the ODA disbursements to the education sector were disbursements to the primary or basic education and the secondary education sub-sectors. Tables 6 and 7 show these disbursements including the sub-sector budgets and then the study describes in more clarity below each table.
4.2.4 Primary Education

Table 6: ODA Disbursed to the Basic Education Sub-Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (US $ million)*</th>
<th>Official Bank of Zambia Exchange Rate†</th>
<th>Disbursements (ZMK'million)</th>
<th>Sub-Sector budget Φ</th>
<th>Percentage of Sector budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>29.7</td>
<td>4398.6</td>
<td>130638.42</td>
<td>247880.68</td>
<td>52.70</td>
</tr>
<tr>
<td>2003</td>
<td>19.9</td>
<td>4733.3</td>
<td>94192.67</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>33.9</td>
<td>4778.88</td>
<td>162004.032</td>
<td>422998.87</td>
<td>38.30</td>
</tr>
<tr>
<td>2005</td>
<td>26.3</td>
<td>4463.5</td>
<td>117390.05</td>
<td>457964.45</td>
<td>25.63</td>
</tr>
<tr>
<td>2006</td>
<td>38.1</td>
<td>3603.07</td>
<td>137276.967</td>
<td>674422.77</td>
<td>20.35</td>
</tr>
</tbody>
</table>


ODA was a significant part of Zambia’s public expenditure on basic education. Between 2002 and 2006, its minimum contribution was US $20 million (ZMK94 billion) in fiscal year 2003. The maximum contribution was US $38 million (ZMK137 billion) in the 2006 fiscal year. The explanation on the devaluation of the Kwacha against the dollar in 2004 also holds in this case. In percentage terms, during the period 2002 to 2006, ODA was responsible for covering a minimum of 20 per cent of the basic education budget and a maximum of 53 per cent. On average, ODA was responsible for expenditures amounting to approximately 34 per cent of the basic education budget. This means that slightly over one-third of Zambia’s basic education sub-sector expenditure was covered by ODA.

4.2.5 Secondary Education

Table 7: ODA Disbursed to the Secondary Education Sub-Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (US $ million)*</th>
<th>Official Bank of Zambia Exchange Rate†</th>
<th>Disbursements (ZMK'million)</th>
<th>Sub-Sector budget Φ</th>
<th>Percentage of Sector budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>0.9</td>
<td>4398.6</td>
<td>3958.74</td>
<td>39255.39</td>
<td>10.08</td>
</tr>
<tr>
<td>2003</td>
<td>3.7</td>
<td>4733.3</td>
<td>17513.21</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>5.3</td>
<td>4778.88</td>
<td>25328.064</td>
<td>83137.20</td>
<td>30.47</td>
</tr>
<tr>
<td>2005</td>
<td>2.8</td>
<td>4463.5</td>
<td>12497.8</td>
<td>95831.71</td>
<td>13.04</td>
</tr>
<tr>
<td>2006</td>
<td>3.4</td>
<td>3603.07</td>
<td>12250.438</td>
<td>156554.06</td>
<td>7.83</td>
</tr>
</tbody>
</table>

Though not as substantial as that made to the other pro-poor sectors and sub-sectors, ODA contributions were a notable part of Zambia's public expenditure on secondary education. The minimum amount disbursed to the sector was US $900 thousand (ZMK 4 billion) in the 2002 fiscal year. The maximum disbursement was US $5.3 million (ZMK 25 billion) made during the 2004 fiscal year. In percentage terms, ODA was responsible for covering a minimum of 8 per cent of all public expenditure on secondary education in the 2006 fiscal year and a maximum of 30 per cent during the 2004 fiscal year. On average, ODA contributions funded approximately 15.4 per cent of Zambia's public expenditure on secondary education. This suggests that less than a fifth of Zambia's secondary education expenditure was covered by ODA.

4.2.6 Agriculture

Table 8: ODA Disbursed to the Agriculture Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (US $ million) *</th>
<th>Official Bank of Zambia Exchange Rate†</th>
<th>Disbursements (ZMK'million)</th>
<th>Sector budget$</th>
<th>Percentage of Sector budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>12.7</td>
<td>4398.6</td>
<td>55862.22</td>
<td>116877.07</td>
<td>47.80</td>
</tr>
<tr>
<td>2003</td>
<td>12.8</td>
<td>4733.3</td>
<td>60586.24</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>11.3</td>
<td>4778.88</td>
<td>54001.344</td>
<td>314762.16</td>
<td>17.16</td>
</tr>
<tr>
<td>2005</td>
<td>27</td>
<td>4463.5</td>
<td>120514.5</td>
<td>346859.16</td>
<td>34.74</td>
</tr>
<tr>
<td>2006</td>
<td>34.2</td>
<td>3603.07</td>
<td>123224.994</td>
<td>711566.07</td>
<td>17.32</td>
</tr>
</tbody>
</table>


From 2002 to 2006, ODA was also quite significant as part of Zambia's public expenditure on agriculture. During this period, a minimum of US $11 million (ZMK54 billion) was disbursed in 2004 and a maximum of US $34.2 million (ZMK 123 billion) disbursed in 2006. During this period, ODA disbursements constituted a minimum of 17.2 per cent and a maximum of 48 per cent. Approximately, ODA constituted an average of 29.3 per cent of all
public expenditure in the agriculture sector. Interpreted in another way, this means that nearly a third of Zambia's agriculture budget was covered by ODA contributions.

4.2.7 Rural Water and Sanitation

Table 9: ODA Disbursed to the Water and Sanitation Sub-Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements (US $ million) *</th>
<th>Official Bank of Zambia Exchange Rate†</th>
<th>Disbursements (ZMK million)</th>
<th>Sub-Sector budget Φ</th>
<th>Percentage of Sector budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>13.6</td>
<td>4398.6</td>
<td>59820.96</td>
<td>16938.74</td>
<td>353.16</td>
</tr>
<tr>
<td>2003</td>
<td>20.6</td>
<td>4733.3</td>
<td>97505.98</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>32.5</td>
<td>4778.88</td>
<td>155313.6</td>
<td>5964.28</td>
<td>2604.06</td>
</tr>
<tr>
<td>2005</td>
<td>32.4</td>
<td>4463.5</td>
<td>144617.4</td>
<td>14036.95</td>
<td>1030.26</td>
</tr>
<tr>
<td>2006</td>
<td>35.5</td>
<td>3603.07</td>
<td>127908.985</td>
<td>12851.66</td>
<td>995.27</td>
</tr>
</tbody>
</table>


During the period 2002 to 2006, ODA funded the water and sanitation sub-sector far beyond what the Zambian government had allocated and spent. As the evidence shows in Table 9 above, ODA disbursements to the sub-sector ranged from US $13.6 million (ZMK60 billion) in 2002 to US $35.5 million (ZMK128 billion) in 2006. As a percentage of the sub-sector budget, ODA was responsible for an astonishing minimum of 353 per cent in 2002 and an astounding maximum figure of 2604 per cent in 2004. On average, ODA disbursements to the water and sanitation sub-sector during the period 2002 to 2006 were approximately 1246 per cent of the sub-sector budget. In other words, ODA contribution to water and sanitation covered 1146 per cent more than the Zambian government budgeted for. This means that almost the entire budget for the sub-sector was covered by ODA, and more expenditure done that was far above the Zambian government’s budget.
4.3 Analytically Categorising Zambia’s Pro-poor Expenditure Composition

The study drew on two of Mosely et al.’s (2004:237) three main analytical channels through which pro-poor expenditure reduces poverty (as discussed in Chapter Two).

From a general perspective, Zambia seems to have a more comprehensive composition of pro-poor sectors than those suggested by Mosely et al. (2004). Whereas Mosely et al. (2004) identified five sectors; namely education, health, agriculture, water and sanitation and rural roads, the study found that Zambia also had a social welfare department that dealt with poverty alleviation.

Further, the study found that Zambia’s functional classification of the budget included functions that were not directly related to pro-poor sectors as conceptualised in the study. For example, the allocations to the Ministry of Education included expenditure on higher education whereas the pro-poor conceptualisation considered only primary and secondary education. Also, the allocations to the Ministry of Energy and Water Affairs, as the name indicates, included electrification and oil importation, and not just the water and sanitation sub-sector. It is important to acknowledge that electrification, especially rural electrification has an indirect effect on poverty reduction and the contribution cannot be ignored. However, the conceptualisation regarded only sectors and sub-sectors directly impacted by the poor.

The study also found that from the year 2000, Zambia’s budget reflected the function named Poverty Reduction Programme. The PRP is however a general function reflecting all budgetary allocations made to all sectors that contribute to the reduction of both income and non-income poverty presumably for reporting purposes to the donor countries and IFIs on the PRSP. The time of the poverty reduction programme, as shown in Figure 1 below, seems
to correspond with the implementation of the HIPC initiative and the inception of the PRSP. Pro-poor expenditures prior to 2000 are not shown in figure 1.

Figure 1: Poverty Reduction Programme Expenditure Allocations


Figure 1 reveals that from its inception in 2000 till 2006, the expenditure of the PRP increased to about 25 per cent of the Zambian national budget.

Since both the labour intensive and benefit incidence expenditure compositions prioritised primary education and primary health care, it was deduced from Morrissey and Verschoor (2002) and Sahn and Younger (2000) that the major point of distinction between the two lay in the prioritisation of the agricultural research and extension and rural roads for the labour intensive category and secondary education for the benefit incidence category. If a budget for a specific year prioritised agriculture and rural roads over secondary education, then it would be considered labour intensive. If it prioritised secondary education over agriculture and rural roads, it would be considered to be in the benefit incidence category. It is
important to note however that the categorisation as either benefit incidence or labour intensive budget is not absolute but a matter of degree.

4.3.1 Labour Intensive category of Pro-poor Expenditure

According to Morrisey and Verschoor (2002), the sub-sectors that are considered labour intensive are primary health, primary education, agricultural research and extension, and rural water and sanitation and rural roads. This study found that Zambia utilised predominantly labour intensive budget mixes in 1990, 2000 and 2001. Table 10 below shows the evidence as sourced from the Estimates of Revenue and Expenditure for those years.

Table 10: Percentage of the Budget Allocated to the Pro-poor Sub-sectors for 1991, 2000 and 2001

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
</tr>
<tr>
<td>Primary Education</td>
<td>2.24</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>0.98</td>
</tr>
<tr>
<td>Primary Health</td>
<td>0.81</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>0.01</td>
</tr>
<tr>
<td>Agriculture Research and Extension</td>
<td>1.02</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>0.39</td>
</tr>
<tr>
<td>Rural Roads</td>
<td>0.29</td>
</tr>
<tr>
<td>Total</td>
<td>3.74</td>
</tr>
</tbody>
</table>


As Table 10 indicates, the shares of primary education in the budgets for 1990, 2000 and 2001 ranged from 2.24 per cent to 3.86 per cent. Those of agriculture research and extension ranged from 0.65 to 1.02 for those years. The evidence further suggests that allocations to
primary health ranged between 0.81 per cent and 2.77 percent during the three years. Allocations to water and sanitation and rural roads ranged between 0.06 per cent and 0.70 per cent for the former and 0.12 per cent and 0.50 per cent for the latter during the same years.

Table 11 below puts this evidence into perspective showing expenditure prioritisation for the 1990, 2000 and 2001 budgets.

Table 11: Prioritising Pro-poor spending for the Years 1990, 2000 and 2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Labour Intensive Sub-sectors</th>
<th>Benefit Incidence Sub-sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1st</td>
<td>2nd</td>
</tr>
<tr>
<td>2000</td>
<td>1st</td>
<td>3rd</td>
</tr>
<tr>
<td>2001</td>
<td>1st</td>
<td>4th</td>
</tr>
</tbody>
</table>

The evidence presented in Table 11 suggests that primary education was first priority during the three years, while primary health was second for two of those years, 2000 and 2001. In 1990, agriculture was second priority which is indicative of a strong labour intensive orientation. Though agricultural research and extension was prioritised third and fourth in 2000 and 2001 respectively, it was always prioritised above secondary education in all three years. This evidence seems to point toward a more labour intensive expenditure composition. However it is not so convincing because the margin of difference in the share of the budget between agriculture extension and secondary education is very small. In 1990, agricultural research and extension was allocated 0.04 per cent more than secondary
education. In 2000, the difference was 0.14 per cent while for 2001, it reduced to 0.06. During all three years however, rural roads were not a high priority as indicated above. From this evidence, this study suggests that the expenditure compositions for 1990, 2000 and 2001 be categorised as a mix of both approaches but with a significant leaning toward the labour intensive category.

4.3.2 Benefit Incidence Category of Pro-poor Expenditure

According to Sahn and Younger (2000), services that are mostly consumed by the poor are primary education, primary health care and secondary education. These services can contribute to poverty reduction by providing services to low income consumers who could not otherwise have access to such services. The study found that Zambia used predominantly Benefit Incidence expenditure composition in 1991, 1998, 1999, 2002 and 2004 up to 2008. The expenditure allocations and prioritisation of expenditure from which this conclusion is drawn are shown below in the evidence presented in Tables 12 and 13 respectively.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Education</td>
<td>3.91</td>
<td>3.84</td>
<td>3.80</td>
<td>4.37</td>
<td>5.08</td>
<td>4.68</td>
<td>6.59</td>
<td>5.91</td>
<td>6.72</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>1.50</td>
<td>0.94</td>
<td>0.97</td>
<td>0.69</td>
<td>1.00</td>
<td>0.98</td>
<td>1.53</td>
<td>1.27</td>
<td>1.65</td>
</tr>
<tr>
<td>Primary Health</td>
<td>2.15</td>
<td>3.04</td>
<td>3.27</td>
<td>3.31</td>
<td>2.99</td>
<td>3.89</td>
<td>3.70</td>
<td>3.95</td>
<td>4.85</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>0.02</td>
<td>0.02</td>
<td>0.47</td>
<td>0.95</td>
<td>1.53</td>
<td>0.72</td>
<td>2.05</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Agriculture Research and Extension</td>
<td>0.42</td>
<td>0.76</td>
<td>0.75</td>
<td>0.62</td>
<td>0.12</td>
<td>0.07</td>
<td>0.09</td>
<td>0.15</td>
<td>0.10</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>0.18</td>
<td>0.08</td>
<td>0.07</td>
<td>0.30</td>
<td>0.07</td>
<td>0.14</td>
<td>0.13</td>
<td>0.14</td>
<td>0.16</td>
</tr>
<tr>
<td>Rural Roads</td>
<td>0.51</td>
<td>0.21</td>
<td>0.17</td>
<td>0.32</td>
<td>0.55</td>
<td>0.23</td>
<td>0.21</td>
<td>0.06</td>
<td>0.02</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8.69</td>
<td>8.89</td>
<td>9.5</td>
<td>10.56</td>
<td>11.34</td>
<td>10.71</td>
<td>14.3</td>
<td>11.48</td>
<td>13.5</td>
</tr>
</tbody>
</table>

During the nine years shown in table 12, allocations for primary education ranged between 3.8 per cent and 6.8 per cent, gradually increasing over time. The average expenditure was 4.48 per cent for the years for which data is available. The evidence also shows that expenditure on primary health during the same years ranged from a minimum of 2.15 per cent to a maximum of 4.85 per cent of the total budget. The average allocation for the period for which data is available was 3.08 per cent. Regarding the secondary education sub sector, expenditure allocation ranged between a minimum share of 0.69 per cent and a maximum share of 1.65 per cent of the budget during the nine years. During these periods, an expenditure average of 1.08 per cent was allocated to the sub-sector. The maximum expenditure allocation for agriculture research and extension was 0.76 per cent with the average percentage share from 1990 to 2008 being 0.48 for the twelve years for which data was available. The maximum allocation for rural roads was 0.55 per cent with the average allocation being 0.27 per cent while the maximum allocation for water and sanitation was 0.30 per cent of the budget in 2002 with the average being 0.2 per cent. To illustrate the evidence for categorising the budgets under benefit incidence expenditure composition more persuasively, Table 13 below shows the expenditure prioritisation of the sub-sectors comparing both categories.

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of Labour Intensity sub-sectors</th>
<th>Share of benefit Incidence sub-sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prim. Edu</td>
<td>Agric</td>
</tr>
<tr>
<td>1991</td>
<td>1st</td>
<td>5th</td>
</tr>
<tr>
<td>1998</td>
<td>1st</td>
<td>4th</td>
</tr>
<tr>
<td>1999</td>
<td>1st</td>
<td>4th</td>
</tr>
<tr>
<td>2002</td>
<td>1st</td>
<td>5th</td>
</tr>
<tr>
<td>2004</td>
<td>1st</td>
<td>6th</td>
</tr>
<tr>
<td>2005</td>
<td>1st</td>
<td>7th</td>
</tr>
<tr>
<td>2006</td>
<td>1st</td>
<td>7th</td>
</tr>
<tr>
<td>2007</td>
<td>1st</td>
<td>4th</td>
</tr>
<tr>
<td>2008</td>
<td>1st</td>
<td>5th</td>
</tr>
</tbody>
</table>

In all the budgets for these years, it is clear that primary education and primary health were given first and second priority among pro-poor expenditure sectors respectively. For six of the years, secondary education was the third priority with expenditures significantly higher than agriculture research and extension and the two other sub-sectors. The secondary education sub-sector was fourth in 2002, 2004 and 2006 following the increases in expenditure allocations to the control of HIV/AIDS. In their analyses however, both Morrissey and Verschoor (2002) and Sahn and Younger (2000) consider expenditure on HIV/AIDS as being under primary health care but emphasise it as priority expenditure under the health sector. The Zambian budget also seems to agree with this position as they placed HIV/AIDS under the health sector but prioritised its expenditure especially after the year 2000. It is considered as such in this study as well. Therefore a critical look at the prioritisation of secondary education would still place it as third priority for most of the
years. During these years, the evidence suggests that agriculture research and extension was prioritised 4th in 1998, 1999 and 2007, 5th in 1991, 2002 and 2008, 6th in 2004 and 7th in 2005 and 2006 among pro-poor sub-sectors.

Based on this evidence, the study was able to conclude that Zambia utilised more of a benefit incidence expenditure composition for the budgets 1991, 1998, 1999, 2002 and 2004 up to 2008. This means that Zambia's government expected to improve benefit incidence among the poor in its efforts to reduce poverty for most of the years.

To concretise the findings from the evidence presented in Tables 1 to 4 above, data on pro-poor sector allocations and on pro-poor sub-sector allocations was collected and plotted onto line graphs to help determine the pattern of expenditure over the period 1990 to 2008. This was to further assist the study analytically categorise Zambia's pro-poor expenditure pattern.

**Figure 2: Line Graph of Pro-poor Sector Budget Allocations**

- Health
- Education
- Agriculture
- Water and Sanitation
- Roads
- Social Welfare

From an examination of the funding of the pro poor sectors, Zambia seems to use a predominantly benefit incidence approach to poverty reduction through expenditure on the roads sector and the agricultural sector is also strong and seems to suggest a balance between a benefit incidence category and a labour intensive category of pro poor expenditure. Figure 2 above shows that Zambia's expenditure provides shares in order of importance to education, health, roads, agriculture, social welfare and then water and sanitation.

As referred to above, the sector-wide approach may be misleading on the expenditure composition because sectors contain expenditure functions that may not relate to expenditure that directly impacts the poor. For example, expenditure on roads in Zambia as in many developing countries is biased towards urban roads. Therefore, to further ascertain the expenditure pattern, a line graph for the pro-poor sub-sector was plotted. This is shown in figure 3 below.

Figure 3: Line Graph of Pro-poor Sub-sector Budget Allocations
From the above figure, it emerges quite clearly that primary education has the largest share of pro-poor spending, followed by primary health and then secondary education. The shares of the agriculture research and extension, water and sanitation and rural roads sub-sectors are predominantly below 1 per cent for the periods for which data was available. This clearly illustrates that Zambia uses a benefit incidence pattern of expenditure for poverty reduction and therefore expected to improve benefit incidence among the poor in its efforts to reduce poverty.

4.4 Pro-poor Expenditure and Poverty Reduction in Zambia

As indicated in the methodology chapter, pro-poor expenditure was to be correlated with the Infant Mortality Rate (IMR), the Human Development Index (HDI) and poverty incidence. The three indicators were used to indicate whether there was a contribution by pro-poor expenditure (containing ODA as shown in the pervious section) to poverty reduction.

Below, table 14 shows the data collected on pro-poor expenditure and the three indicators of poverty mentioned above.

As the evidence suggests, allocations to the pro-poor sub-sectors were at ZMK 140 billion (US$4 billion) in 1990 and had reached ZMK1.8 trillion (US $450 million) by 2008. However, actual expenditure was much higher at K202 billion (US$5.8 billion) in 1990 while the figure for 2008 was missing. Considering that the Zambian currency depreciated substantially during this period, this information provided conflicting information. It was not clear whether expenditure on the pro-poor sub-sectors had increased as suggested by the ZMK figure or it had reduced as suggested by the US $ figure. Hence the share of pro-poor expenditure out of the overall budget, indicated by percentage of the total budget provided more information.
Table 14: Pro-poor Expenditure and Poverty Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget (K'million) †</th>
<th>Budget Allocation to pro-poor sub-sectors (K'million)*</th>
<th>Actual Expenditure on pro-poor sub-sectors (K'million)*</th>
<th>Budget Share of Actual Expenditure on pro-poor sub-sectors (Percent)</th>
<th>IMR Φ</th>
<th>HDI Φ</th>
<th>Poverty Headcount Φ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>19, 400</td>
<td>1400.78</td>
<td>2026.45</td>
<td>10.4</td>
<td>78</td>
<td>0.314</td>
<td>-</td>
</tr>
<tr>
<td>1991</td>
<td>50, 131</td>
<td>4352.08</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>70</td>
</tr>
<tr>
<td>1992</td>
<td>90, 212.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1993</td>
<td>231, 935</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>103</td>
<td>0.411</td>
<td>74</td>
</tr>
<tr>
<td>1994</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>110</td>
<td>0.369</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.378</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>108</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>1, 624, 962</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>112</td>
<td>0.431</td>
</tr>
<tr>
<td>1998</td>
<td>1, 968, 200</td>
<td>174749.76</td>
<td>152811.14</td>
<td>7.8</td>
<td>112</td>
<td>0.42</td>
<td>73</td>
</tr>
<tr>
<td>1999</td>
<td>2, 227, 700</td>
<td>211892.38</td>
<td>157067.27</td>
<td>7</td>
<td>112</td>
<td>0.427</td>
<td>-</td>
</tr>
<tr>
<td>2000</td>
<td>2, 956, 990</td>
<td>267758.49</td>
<td>173736.46</td>
<td>5.9</td>
<td>101</td>
<td>0.42</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>5, 015, 050</td>
<td>730602.72</td>
<td>284366.67</td>
<td>5.7</td>
<td>95</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>5, 676, 800</td>
<td>1018926.90</td>
<td>801682.84</td>
<td>14.1</td>
<td>95</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>6, 931, 500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>8, 328, 600</td>
<td>1465618.43</td>
<td>887350.67</td>
<td>10.7</td>
<td>-</td>
<td>-</td>
<td>68</td>
</tr>
<tr>
<td>2005</td>
<td>9, 779, 020</td>
<td>2897565.21</td>
<td>940230.91</td>
<td>9.6</td>
<td>95</td>
<td>0.434</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>10, 236, 600</td>
<td>4016557.82</td>
<td>1177435.89</td>
<td>11.5</td>
<td>-</td>
<td>-</td>
<td>64</td>
</tr>
<tr>
<td>2007</td>
<td>12, 042, 400</td>
<td>1381916.38</td>
<td>1381916.38</td>
<td>11.5</td>
<td>70</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2008</td>
<td>13, 761, 400</td>
<td>1856357.37</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

†MoFNP, 1990-2008. Budget Address by the Minister of Finance and National Planning. Lusaka: Department of Budget and Planning

The evidence suggests that the share of pro-poor expenditure was at 10.4 per cent of the total budget in 1990 and gradually reduced to a low of 5.7 per cent in 2001. This corresponds with the period of SAP when reduced social expenditure inflicted enormous social damage on the poor. Expenditure suddenly increased from 2002 until it stabilised at 11.5 per cent in 2006 to 2007. The average share of the budget was 9.42 per cent. The
maximum expenditure was 14.1 per cent done in 2002. The general trend in expenditure, then, showed that pro-poor expenditure increased on average by 0.46 per cent per annum. However, much of this humble progress was made after 2000 following the inception of the poverty reduction programme. It is important to mention here that what explains the increase in expenditure culminating in the poverty reduction programme is that following debt forgiveness under the HIPC Initiative, expenditure that would have gone to debt servicing began to be channelled to expenditure on poverty reduction.

Regarding IMR, the data shows that 70 infants died of every 1000 born in 1990 in Zambia. There was an observed increase in these deaths every year for which the data was available until 1997 when the IMR reached 112 per 1000 births and stabilised at that until 1999. From 2000, the evidence suggests that there was a significant decline. During this year, the IMR was at 101 per 1000 births. The decline continued till 2001 when the figure was 95/1000 and then further reduced to 70/1000 in 2007, which is the latest figure available. This marked decline seemed to correspond with the increased expenditure under the poverty reduction programme.

Regarding the HDI, it stood at 0.314 in 1990 and improved to 0.434 by 2005, the latest figure available in the 2007/2008 HDR. This showed an HDI improvement of 0.120. This represents the difference in the quality of life between a country like Tanzania with an HDI of 0.467 and Ghana at 0.553. However, data was unavailable for 2001 up to 2004 as there seemed to have been no reports published for this period. There also seemed to be a significant improvement between the 2000 figure and the 2005 figure.
As for the percentage of people living in poverty, there was evidence that the percentage of people living in poverty had increased from 70 per cent in 1990 to 73 per cent in 1998. After 2000, the available evidence shows a gradual decline to 68 per cent in 2004 and to 64 per cent in 2006. This decline in poverty also occurred during the same period there was increase in pro-poor expenditure.

The data seems to suggest that the gradual increase in expenditure on the pro-poor sector was accompanied by a gradual decline in both the IMR and poverty incidence with an increase in the HDI alongside it, thus indicating that poverty reduction had taken place. Most significant is the observation that the increase in expenditure under the poverty reduction programme could be responsible for much of the decline since the most progress in the indicators took place at about the same time.

Whereas the above evidence suggests that pro-poor expenditure contributes to poverty reduction, it cannot be taken for granted that the perceived increase in expenditure caused the changes in the IMR, HDI and poverty incidence figures. The study therefore used Pearson’s product moment correlation coefficient in correlating pro-poor expenditure with the IMR and a t-test to test the significance of the result. For the period 1998 to 2008, the HDI had four data points while the poverty headcount had 3 out of 10. Therefore too many data points were missing in the HDI and poverty headcount to merit carrying out correlations.

As can be observed in table 14 above, a few data-points were missing in both pro-poor expenditure and IMR. The study triangulated data analysis methods correlating pro-poor expenditure and IMR using mean substitution of missing data and extrapolation of missing
data methods in addition to pairwise deletion of missing data and casewise deletion of missing data methods.

### 4.4.1 Correlation using the Casewise Deletion of Missing Data Method

**Table 15: Correlation between Pro-poor expenditure and IMR using the Casewise Deletion of Missing Data Method**

<table>
<thead>
<tr>
<th>Pro-poor Sub-sector</th>
<th>N</th>
<th>Pearson Correlation $r^2$</th>
<th>$r$</th>
<th>Covariation (%)</th>
<th>Test of Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure and Infant Mortality Rate</td>
<td>7</td>
<td>-0.880(***)</td>
<td>0.938</td>
<td>93.8</td>
<td>0.009 [Correlation is significant at the 0.01 level (2-tailed).]</td>
</tr>
</tbody>
</table>

Using this correlation method, the correlation coefficient between pro-poor expenditure and IMR was $-0.880$. The negative sign signified an inverse relationship in which increases in pro-poor expenditure were accompanied by decreases in the IMR. The correlation figure converted to 93.8 per cent. This meant that 93.8 per cent of the changes in IMR were explained by increases in pro-poor expenditure. The correlation was significant at the 0.01 level and could not be attributed to a chance occurrence. Therefore increases in pro-poor expenditure were associated with reductions in the IMR.

### 4.4.2 Correlation using Pairwise Deletion of Missing Data

In the pairwise deletion of missing data method, the correlations between the variables were calculated from all cases in each variable having valid data.
Using the pairwise deletion of missing data method, the correlation coefficient between pro-poor expenditure and IMR was \(-0.776\) representing an inverse relationship in which increases in expenditure were accompanied by a reduction in IMR. The correlation coefficient converted to \(88.1\) per cent suggesting that \(88.1\) per cent of the changes in IMR were associated with changes in pro-poor expenditure. This result suggested a robust or strong correlation between expenditure and IMR and was significant at the 0.05 level showing that the changes in IMR were associated with changes in pro-poor expenditure.

### 4.4.3 Correlation using the Mean Substitution of Missing Data Method

Using the mean substitution method, the study found that the correlation coefficient between pro-poor expenditure and IMR was \(-0.779\). This suggested an inverse relationship between the two variables in which increases in expenditure were accompanied by decreases in IMR.
The coefficient converted to 88.3 per cent suggesting strong correlation significant at the 1 per cent level. This was evidence enough to warrant saying that changes in the IMR were associated with increases in pro-poor public sector and sub-sector expenditure.

4.4.4 *Correlation using the Extrapolation of Missing Data between Data points.*

Table 18: Correlation between Pro-poor Expenditure and IMR using the Extrapolation of Missing Data Method

<table>
<thead>
<tr>
<th>Pro-poor Expenditure and IMR</th>
<th>N</th>
<th>Pearson's Correlation $r^2$</th>
<th>r</th>
<th>Covariation (%)</th>
<th>Test of Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
<td>-0.878(**)</td>
<td>0.937</td>
<td>93.7</td>
<td>.001</td>
</tr>
</tbody>
</table>

Using this method for correlating pro-poor expenditure and IMR, the study found a correlation coefficient of $-0.878$. The negative sign showed that as expenditure increased, the IMR reduced. The Pearson product moment correlation converted to 93.7 per cent suggesting a very strong or robust correlation between pro-poor expenditure and IMR. The result was significant at the 0.01 level and suggested that 93.7 per cent of the changes in IMR could be associated with changes in pro-poor expenditure. This result was consistent with the other correlation methods for missing data points used above, thus there seemed to be significant evidence for the study to conclude that increases in pro-poor expenditure caused a reduction in the IMR.

Considering that all the methods used found that the correlation between pro-poor expenditure and IMR was strong, it was safe to conclude that there was correlation between
the two variables. The study therefore concludes that increases in pro-poor expenditure between 1998 and 2008 resulted in reductions in the IMR.

Overall, public expenditure contributed to reductions in the IMR with ODA being a significant part showing that pro-poor expenditure contributed to poverty reduction. The study was inconclusive on whether pro-poor expenditure contributed to the increase in the HDI and reduction in the poverty headcount. The HDI definitely improved and so did the poverty headcount. But the study could not attribute this to expenditure due to incomplete data. Notwithstanding the unavailability of data, there is strong indication that the result would be more conclusive with complete data.

In conclusion, this chapter has shown several findings. Regarding ODA, for nine of the fifteen years for which data was available, Zambia received an average of 260.57 per cent of all ODA it requested. A third of all public health expenditure, approximately two-thirds of primary health care, about a quarter of the education sector, slightly over one-third of basic education, nearly a third of the agriculture budget, and almost the entire water and sanitation sub-sector were funded by ODA grants and loans. Regarding the category of pro-poor expenditure composition, Zambia utilised more of a benefit incidence approach for most of the years and therefore expected to improve benefit incidence among the poor in its efforts to reduce poverty. All the methods used found that the correlation between pro-poor expenditure and IMR was strong. For the HDI and poverty headcount, insufficient data led the study to be inconclusive as to whether pro-poor expenditure led to their improvement.
Chapter Five

DISCUSSION

This chapter discusses the research questions by interpreting the findings and integrating the views of other studies thereby locating the study within the wider body of literature on aid and development theory. The chapter further addresses questions that have arisen as a result of the findings. It also critically reflects on the methods used.

5.1 ODA Disbursements to Zambia

The study revealed that Zambia received more ODA than was requested for most of the years between 1990 and 2007. Zambia's major donors during this time were Japan, Germany, Sweden, United Kingdom, United States, Norway, the Netherlands and the United Nations. The greater part of ODA were capital grants which were on average 61 per cent of total ODA as opposed to an average of 39 per cent indicated in the budget as external borrowing. Saasa and Carlsson (2002:69) attributed the large share of capital grants to donors having been more predisposed to giving ODA in the form of grants rather than loans. Donors provided grants because of Zambia's worsening debt burden as a result of external borrowing especially before the year 2000. Provision of grants seems to have become standard practice, six years after Zambia's debt burden was written off in 2003.

However, the reason for the country receiving more ODA than it requested could be attributed to several factors. It may have been a problem of different methods of recording ODA data by donors and the Zambian government. Despite the budget being the most important tool for recording public expenditure, not all ODA recorded by the OECD as
disbursed is reflected in the Zambian budget as ODA received. Mudenda (2005:9) explained that in some instances, donor funds were not integrated into the budget but given directly to line ministries and departments without the knowledge of the budget office. Riddell (2007:166) drove the point home that frequently there were significant differences in data between amounts of ODA recorded by donors and those received by recipient governments. For one, the ODA figures recorded by donors do not include ODA channelled through NGOs. Several donors tend to carry out their own capital grant projects which may not reflect in the budget but may be captured by the OECD as ODA provided. For example, the government of Japan built water reservoirs in some of Lusaka’s shanty compounds as a gesture of goodwill. These may have been captured by the OECD but may not have reflected in Zambia’s budget. Fergernas & Roberts (2004:17) observed that many bilateral and also UN donors fail to report to recipients the procurement transactions for goods and services. These are paid directly from grant ODA and may be reported to the OECD but not to recipients. Fergernas & Roberts (2004:18) confirmed Mudenda’s view that some ODA is given off budget to parastatal organisations and NGOs. This may also not reflect in the budget but may reflect as ODA disbursed from the OECD.

It is also reasonable to speculate that since there was evidence that ODA commitments were not met by disbursements from donors (Bulir and Hamann, 2003) the government tended to set ODA requests in the budget at lower, more “realistic” levels to match expected disbursements rather than commitments.

It could also be a reflection of poor donor coordination which has been a perennial problem among donors in Zambia even though it has improved under the PSRP (Folscher & Chileshe, 2004: iv). Before the reforms of the Public Expenditure Management (PEM)
system under the PRSP, funding of some programmes was duplicated by different donors resulting in more funds being disbursed. Finally, it may just as well be that donors provided ODA without necessarily considering how much the country requested for each fiscal year. However, all these explanations may only account for a small part as to why Zambia received an average of 260.57 per cent of ODA requested.

It was clear that despite donors not meeting their ODA commitments with disbursements as Bulir and Hamann (2003:66) found, the ODA disbursed to Zambia was still far much more than it requested. It was therefore safe to add to the above factors and conclude that donors were driven more by their ODA commitments than by the Zambian government’s expectations.

Though Zambia received so much ODA, there were frequent disruptions in flows coinciding with political events and changes ultimately affecting expenditure on poverty reduction. During the years surrounding presidential elections, donors tend to hold back their disbursements. This can clearly be seen in Table 5 with low ODA receipts corresponding to the election years of 1990, 1996 and 2001. Further, as noted by Saasa and Carlsson (2002:66), when the Zambian government decided to abandon implementing SAP in 1987, donors significantly reduced their disbursements, some completely stopping. When Zambia adopted SAP again in 1991 under a new president, there was a threefold increase in grants. This also signified that donors tended to follow the prevailing assistance framework of the IMF and World Bank. More recently, governance, human rights and macro-economic considerations became important benchmarks that the country should meet in order to access ODA. For example, debt relief was suspended and donor funds reduced significantly when Zambia failed to meet the IMF macro-economic benchmarks under the ESAP regarding
reductions in the inflation rate and privatisation of some public enterprises, was ranked 11th most corrupt country in the world, and had incidences of human rights violations which included unexplained deaths of witnesses to corrupt practices in the political leadership between 1998 and 2000. Funding was only to resume on condition that these issues were resolved.

Regarding ODA disbursements tracked down to pro-poor sectors and further down to sub-sectors, the study revealed that approximately one third of Zambia’s expenditure on education, health and agriculture was covered by ODA while the water and sanitation sub-sector expenditure had donor funds enormously exceeding the government’s own sub-sector allocations. The reason for this could be that whereas there was macro-economic policy orientation to poverty reduction on the part of the IMF and World Bank under SAP, HIPC and PRSP, Zambia’s bilateral donors tended to support the social sectors especially health, education and water and sanitation more than other sectors. During SAP implementation in the 1990s, expenditure on the social sectors was substantially reduced from total subsidizing before the reform programmes to the removal of subsidies during the reforms. The effects of reduced subsidies on the health sector reached the point where public hospitals and clinics had no medication except pain-killers for their patients. School infrastructure and services declined and were no longer subsidised but were encouraged to raise funds for their running costs. However, donor support was reinforced by a commitment to assist Zambia achieve the MDGs from 2000.

5.2 Public Expenditure as a Vital Factor in Poverty Reduction in Zambia

Though Zambia’s PEM system has been described as weak by several authors and the IMF and World Bank, the findings of this study suggested that it provided an effective enough
factor that enabled ODA to be able to reach the poor. This could partly be credited to the work of donors and the Zambian government, who respectively employed and adhered to strict conditions for the allocation, monitoring, tracking and reporting of PRP funds. The PRP funds were debt relief funds released to be spent on poverty reduction efforts (Folscher, 2004:17). The IMF in a paper entitled *Tracking of Poverty Reducing Spending in HIPC* s (2001) urged donor countries to get assurance that the resources they provided under the HIPC initiative were used for poverty reduction (Peters, 2002:8). No doubt these funds and efforts played a significant part in increasing pro-poor sector expenditure and improving the IMR, HDI and generally the poverty headcount.

The other part of the credit can be attributed to the fact that there were improvements in the PEM system as the findings indicate. This is not to undermine the views of the IFIs and other scholars because even the best-designed budgets can be marred by shortcomings resulting in poor delivery of public goods and services. Several studies show that the link between weak budget implementation and high levels of poverty in developing countries was quite clear in the sense that outcomes of weak budget execution were severe for the intended beneficiaries of government services, especially for the poorest members of the society (Peters, 2002:8). However, it is possible that in the midst of PEM reform, the gradually improving level of effectiveness over the years may have been good enough to produce positive results. Perhaps before examining this point further, it is important to reflect on the state of Zambia’s PEM system before the reforms commenced.

**5.2.1 The State of Zambia’s PEM System before the PRSP**

As hinted at above, because of a persistently weak PEM system, Zambia was one of the countries where macro-economic policy and PEM reforms were being carried out in the
context of the PRSP and in conjunction with the related PSRP. The PEM system has over the years been weakened by several obstacles. These were adapted from Folscher & Chileshe (2004:35-36) citing the Public Expenditure Management and Financial Accountability (PEMFA) Programme document. They were as follows;

i. A predominantly manual PEM system with insufficient integration between various parts of the system processes and weak internal control

ii. Lack of tools for economic planning and management

iii. Weak linkages between economic policy, social policy and the budget

iv. Large discrepancies between planned and actual expenditure

v. Unsystematic and unpredictable release of funds

vi. Lack of human and institutional capacity for internal audit

vii. Severely weak legal framework for financial management

viii. Weak oversight by the public accounts committee in parliament

Overall, the above seemed to stem from a weak public administration system with a weak legal and policy framework, weak accountability and transparency institutions and poor participation.

Other problems were revealed by a study carried out by the National Assembly of Zambia in 2000 (Mudenda et al., 2005:7-8). According to the report, the budget was taken to be an accounting tool and not a planning tool. This was changed to a cash budget with the adoption of the SAP, lasting up to 2003 when Zambia adopted the activity based budget. For almost a decade under the cash-budget, expenditure was carried out as revenue came in leading to poor planning and prioritising of expenditures on sectors requiring large disbursements. During this time, civil society organisations on several occasions complained
of the lack of transparency in that they were only allowed to comment on the budget after it had been presented in parliament, though some were invited to submit comments as to what they would like to see in the budget (Mudenda, 2005:8). Questions of capacity, as to whether there was an adequate number of staff in the budget office at the Ministry of Finance and National Planning were also raised (Mudenda, 2005:8).

In addition, the World Bank (2004) in its country study series generally found that Zambia’s PEM system lacked comprehensiveness as it was confined to central government. This was a problem of decentralisation as noted by Peters (2002:13) in which central government lacked information from local structures in addition to public enterprises and pension funds. Most importantly, the system was unable to effectively track and monitor controls of actual use of budgeted spending (Peters, 2002:10). This led to the point where the study by the National Assembly observed that “the annual budget figures no longer serve as a guide to actual spending.” (Mudenda, 2005:9).

The above problems were exacerbated by the more general confounding factors affecting budgets in developing countries during implementation. These included outright theft, misappropriation of funds both within and between sectors and sub-sectors, poorly trained staff in the ministries, unclear or misunderstanding of regulations and procedures, out-dated ICT infrastructure and record-keeping and conflicting reporting by the budget office and the ministries (Peters, 2002:2).

5.2.2 Zambia’s PEM System Improved

Returning to the discussion on the PEM system as a vital factor in poverty reduction, a reflection on the above-discussed problems rendered it impossible for one to conceive of the
Zambian PEM system as being that vital factor between ODA and poverty reduction. Yet the findings of this study indicate that there was a considerable level of effectiveness.

The findings could be attributed to Zambia's PEM reforms under the PEMFA programme and especially the adoption of an Activity Based Budgeting (ABB) system. The adoption of ABB came as a result of the need to link the budget with the PRSP as identified in the PEMFA programme. The ABB system operates within a three-year Medium Term Expenditure Framework (MTEF). The MTEF involves setting the budget within a three year framework, setting of projections for each year using systematically generated data and each spending department developing comprehensive activity-based plans. The first ABB budget under the MTEF was the 2004 budget that set the expenditure framework up to 2007.

Generally, the reforms in Zambia were moving towards ensuring efficient allocation and management of public resources, maintaining fiscal discipline, ensuring commitment to budget priorities specifically under the PRP, reducing delays in the delivery of public services and related payments and increasing the reliability of control processes in budget execution (Mudenda, 2005:17; Peters, 2002:11). Arguably, the PEM system improved and will eventually become an even stronger factor in improving the welfare of the poor.

The increasing growth of the NGO movement in Zambia should be acknowledged as a contributing factor to the improvement of the HDI, IMR and poverty headcount. These NGOs had the capacity to operate in the remotest areas where the poor were found. Sometimes, public services were not available in such locations and these communities relied on the nearest district centre, which may be over a hundred kilometres away. Some NGOs trained traditional birth attendants in several districts and this definitely contributed to reductions in IMR. The author’s experience working with remote communities in
Northern Province of Zambia was testimony to this fact. However, the scale of the work of NGOs compared to that of government was insignificant especially in the health and education sector which were the primary reasons for the improvements in the welfare of the poor.

5.3 The Method

Though there was considerable indication that the budget was a significant factor in the delivery of public services, which resulted in improvements in the IMR, HDI and poverty headcount, the method used in the study was limited in its ability to tell us that the disbursements resulted in services reaching the poorest of the poor, those in extreme poverty. Since the poverty headcount stood at 64 per cent of Zambia's population of 11 million (CSO, 2008:20-25), it was easy for services to reach the poor but not the extremely poor. The method shows that Zambia's government expected to improve benefit incidence among the poor in its budget but only the poor can say that they received improvement in accessing the services. With confidence however, the method, especially by using the IMR and HDI as an indicator of welfare could be credited with telling us the improvements in the quality of life for the individual or household because they captured improvements in health, life expectancy at birth, educational attainment and access to resources needed for a decent standard of living (Gomanee, 2003:4).

5.4 Contribution of ODA to Poverty Reduction through Pro-poor Expenditure as Opposed to Economic Growth

Generally, there is reasonable evidence to conclude that ODA contributed to poverty reduction in Zambia through contributing to pro-poor sector and sub-sector public expenditure. To consolidate this finding, it would be reasonable to discuss other possible
explanations for the improvements in IMR, the HDI and poverty headcount. Perhaps some would argue that pro-poor economic growth policies under the PRSP and the FNDP may have been responsible for these declines. The figures definitely supported this argument. Indeed Zambia registered significant macro-economic accomplishments from 2000 to 2008, the period significantly corresponding to the period used in this study. According to the Central Statistics Office (2008:20-25), the average economic growth rate over this period was 5 per cent per annum. The inflation rate dropped from 30.1 per cent in 2000 to 8.7 per cent in 2007 but rose again to 15.3 per cent by the end of 2008, still representing remarkable accomplishment. The total value of exports grew from approximately US $900 million to US $4.7 billion during the same period.

To the contrary, evidence showed that the positive achievements regarding poverty reduction could have taken place even without the positive macro-economic performance. Likewise, without donor support to the sectors and sub-sectors conceptualised as pro-poor in this study, insignificant progress would have been made by the country in terms of poverty reduction. The Zambian government conceded in the FNDP for 2006-2010 (GRZ, 2006:30) that the persistently high income poverty still prevailing in the country was in contrast to the rapid economic growth rate. The FNDP went on to state that "the country’s improved economic performance over recent years has not translated into significant declines in poverty" (GRZ, 2006:30). This further justified the shift in the wider field of development from focus on economic growth to poverty reduction. Economic growth did not translate into poverty reduction. Folscher & Chileshe (2004) carried out a mid-term assessment of the design, process and achievements of Zambia’s 2002-2006 PRSP in which she noted that "while the policy roll-out in health and education is positive, since it is in line with the PRSP, it is likely that it would have happened in any case on account of donor
support for these sectors” (Folscher & Chileshe, 2004:8). Hence, the improvements in the social sectors were attributed to extensive donor support, which this study has clearly demonstrated, and not to the macro-economic improvements. However, one cannot ignore the fact that the economic improvements supported the social sector improvements by providing cause for international goodwill and a stable context in which ODA was provided and was able to function.

Considering therefore that the improvements in the indicators were as a result of significant donor financing, the improvements were most likely to be unsustainable. It is impossible to ignore the signal that there was a strong element of expectation in the Zambian government that the donors will commit and disburse funds each year. It is seemingly taken for granted that donors will provide ODA. Under changed conditions – such as a global economic crisis – the country could see a significant drop in ODA and a reverse in the social indicators. Donors may not provide as much ODA in the near future especially because there is a high likelihood that they would allocate funds towards bailing out their economies in order to survive the recession.

Though adopting a primarily benefit incidence as opposed to a labour intensive form of expenditure has yielded positive results for the government, there are repercussions for not adopting a labour intensive approach. In the circumstance that the Zambian government loses its creditworthiness for the reasons discussed above, it will not be able to sustain funding of the pro-poor sectors. This is because beneficiaries will become accustomed to receiving government assistance while the government lacks capacity. The labour intensive approach however would accustom beneficiaries to work and pay for their services thereby reducing the impact of a reduction in ODA flows.
This chapter has discussed the research findings in light of the research questions, theoretical context and questions that arose in the course of the study. The reason for the country receiving more ODA than it requested was attributed to several factors which included among others, different methods of recording ODA data by donors and the Zambian government. It was also noted that though Zambia received so much ODA relative to its requests, there were frequent disruptions in flows coinciding with political events and changes ultimately affecting expenditure on poverty reduction. Notwithstanding a weak PEM system as described by several authors and the IMF and World Bank, it was discussed that the findings of the study suggested that Zambia’s PEM system provided an effective enough factor which contributed to ODA being able to reach the poor. The method used in the study was limited in its ability to tell us whether the disbursements resulted in services reaching those in extreme poverty. The method could however be credited with telling us the improvements in the quality of life for the individual or household because they captured improvements in health, life expectancy at birth, educational attainment and access to resources needed for a decent standard of living (Gomanee, 2003:4). Further, cognisant of the fact that pro-poor economic growth policies under the PRSP and the FNDP may have been responsible for the improvements in the social sector, to the contrary, positive achievements regarding poverty reduction could have taken place even without the positive macro-economic performance.
Chapter Six

CONCLUSION

The overall purpose of the study was to describe the contribution of ODA to poverty reduction in Zambia. The research question was: does ODA contribute to poverty reduction by means of pro-poor expenditure in Zambia? To address this question, a number of specific subsidiary questions were addressed. These were:

- To what extent are Zambia’s overall ODA requests for budget support met by ODA disbursements from the DAC?
- What contributions does ODA make to pro-poor sectors and sub-sectors in Zambia?
- What is the pattern or composition of pro-poor expenditure in Zambia?
- How can the impact the Zambian government expects to make on the poor through composition of public expenditure be analytically categorised?
- Does the ODA as part of public expenditure contribute to poverty reduction?

This section revisits the research questions above, summarises the findings of this study and then offers conclusions and recommendations based on the findings. The contribution of this study to the wider body of knowledge on ODA will also be clarified. Additionally, suggestions for further research will be made.

6.1 Summary of Findings and Conclusions

The study analysed Zambia’s ODA requests and the DAC’s ODA disbursements. Whereas several studies use ODA commitments by the donors and compare them to disbursements, by using ODA requests, this study revealed that Zambia received more ODA than expected or requested in its budget. A phenomenal aspect was that there was a strong element of
expectation in the Zambian government that the donors will commit and disburse funds such that it is taken for granted and taken into account when preparing a national plan or MTEF. The large disbursements have been attributed to the use of different methods of recording by donors and the Zambian government and to donors being driven more by their own commitments than by the Zambian government’s expectations.

Therefore, contrary to the initial expectation that low ODA disbursements may limit the contribution of ODA to poverty reduction, Zambia’s ODA requests were remarkably and completely met by disbursements from the DAC donors.

Donor support to sectors and sub-sectors conceptualised by this study as pro-poor was found to be significant. During the period 2002 to 2006, ODA disbursements to Zambia accounted for approximately one third of all expenditure on health, education and agriculture sectors, almost the entire primary health and water and sanitation sub-sectors and for one third of the primary education sub-sector.

Therefore, ODA was a significant part of public expenditure in the sectors and sub-sectors conceptualised in this study as pro-poor.

Regarding the composition of pro-poor public expenditure, the study found that Zambia’s budget reflected the PRP from 2000. This reflects the use of HIPC funds during the implementation of the PRSP. The study further found that Zambia’s functional classification for the budget included functions that were not directly related to pro-poor sectors as conceptualised in this study. For example, the allocations to the Ministry of Education included expenditure on higher education whereas the conceptualisation considered primary
and secondary education. Expenditure was found to prioritise primary education, basic health and secondary education. However, this does not mean that expenditure on the agriculture, rural roads and water and sanitation sub-sectors was ignored.

Therefore Zambia's pro-poor expenditure composition has been found to be in the benefit incidence category as opposed to the labour intensive category. Zambia's government expected to improve benefit incidence among the poor in its efforts to reduce poverty for most of the years. This means that the main impact of the Zambian government's pro-poor expenditure composition is to provide services for low income consumers and to ensure that such expenditures benefit households of the poor more than other households.

As a significant part of public expenditure, ODA has been found to contribute to reductions in the IMR. Using Pearson's Product Moment Correlation and four methods of dealing with missing data, the study found the association between increases in expenditure and reductions in the IMR to be robust or strong. The result was significant at the 1 per cent level using the Casewise, pairwise and mean substitution methods and at the 5 per cent level using the method of extrapolating missing data.

The study was inconclusive on whether pro-poor expenditure is associated with improvements in the HDI due to incomplete data on the HDI. The study however revealed that increases in expenditure occurred at the same time as increases in the HDI. It was likely that the result would be more conclusive with complete data considering that Gomanee et al (2003) found a positive result.
Similarly, the study was inconclusive as to whether pro-poor expenditure contributes to poverty headcount due to several missing data points. As for the HDI, increases in expenditure occurred at the same time as decreases in the poverty headcount but whether they were related could only be ascertained if data on poverty were available for each year.

It is important to mention here that the PEM system was a vital factor through which ODA was able to reach the poor.

Therefore, public expenditure contributed to reductions in the IMR with ODA being a significant part. The study was inconclusive on whether pro-poor expenditure contributed to the reduction in the HDI and poverty headcount. Notwithstanding the unavailability of data, there is strong indication that the result would be more conclusive with availability of data.

Overall, although studies on the effectiveness of ODA contributing to poverty reduction through economic growth have largely been inconclusive (as discussed in the literature review) the study concludes that there is strong indication that ODA contributes to poverty reduction through pro-poor public expenditure in Zambia. Further, the level of ODA disbursements is not low enough to limit poverty reduction.

6.2 Recommendations

6.2.1 To the Zambian Government

Set up mechanisms to replace the share of ODA in the social sector with local resources. The improvements in the social indicators are largely attributed to donor support hence the improvements are not sustainable by the government. Therefore, once funding is reduced – as it is likely to be as a result of the global economic crisis at the time of undertaking this study – the social sector is most likely to be affected first.
Establish a long term poverty reduction programme which is not dependent on donor funding. This can be done by using the labour intensive approach to pro-poor public expenditure as it generates employment opportunities. A balance can be struck by lobbying donors to use benefit incidence expenditure while the government uses labour intensive expenditure.

Since ODA is likely to continue, ensure that all ODA is targeted at primary education, primary health, secondary education, rural roads, and agriculture extension while using local resources for economic growth. This is to ensure that more of the scarce local resources are used for achieving self-sustained economic growth while reducing poverty at the same time.

The government must also develop a system for capturing data on ODA received and that disbursed by its donors and reconcile it with the DAC’s reported ODA.

6.2.2 To the Donors

Disburse all ODA through the PEM system. This should further be on the condition that the country continues to meet benchmarks for the improvement and maintenance of an effective and efficient PEM system.

Disburse only as much as what Zambia requests for because giving more than requested may lead to perpetuating a large share of the budget being dependent on ODA.

A comprehensive and coherent long term plan or a variant of an existing one should be implemented that incorporates a gradual reduction of ODA until a point where it is no longer required. This should include but not focus on benefit incidence expenditure. It must
emphasise labour intensive expenditure. The existing FNDP should have included an aid reduction or eradication plan. The aid reduction or eradication plan would allow the government to realise that ODA is not a permanent source of revenue but a temporary one that should be done away with eventually to ensure a stable path for the country.

Further, donors should concentrate their ODA on the pro–poor sub-sectors namely; primary health, primary education, secondary education, water and sanitation, agriculture extension and rural roads.

6.2.3 For further Research

It is recommended that future studies of this nature with more finances at their disposal should use benefit incidence analysis to measure the access the poor have to public services over a period similar to the one used in this study. In addition to the methods used in this study, it is advisable that beneficiaries be interviewed.
APPENDIX A: Data used in the Correlations between Pro-poor Expenditure and IMR

Data used in the Correlation involving Casewise Deletion of Missing Data Method

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