Education Non-Project Assistance Feasibility Study

Prepared by
William B. Nance
Oliver S. Saasa
(under a subcontract to L.T. Associates, Inc.)

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Acronyms

ASIP	Agricultural Sector Investment Program
BESSIP	Basic Education Sub-Sector Investment Program
CBO	Community Based Organization
CBOH	Central Board of Health
CDF	Comprehensive Development Framework
CIDA	Canadian Aid
CPCC	Country Program Coordinating Committee
CSP	Country Strategy Program
DANIDA	Danish Aid
DFID	Department for International Development (British Aid)
EMIS	Educational Management Information System
FINNIDA	Finnish Aid
GRZ	Government of the Republic of Zambia
HIPC	Highly Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
JSC	Joint Steering Committee
MIT	Management Implementation Team
MOE	Ministry of Education
MTEF	Medium Term Expenditure Framework
NEPAD	New Partnership for African Development
NGO	Non-Government Organization
NORAD	Norwegian Aid
NPA	Non-Project Assistance
PCC	Program Coordination Committee
PIU	Project Implementation Unit
PRSP	Poverty Reductions Strategy Paper
PSCAP	Public Sector Capacity Building Program
PSRP	Public Service Reform Program
Sida	Swedish International Development Agency (Swedish Aid)
SIP	Sector Investment Program
SWAp	Sector-Wide Approach
ROADSIP	Road Sector Investment Program
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WASHE	Water, Sanitation, and Health Education

Executive Summary

USAID/Zambia is beginning preparatory work of developing its Country Strategy Plan (CSP) for the 2004 – 2009. The process includes reviewing each of the sectors in which it is currently cooperating with the Government of the Republic of Zambia. Education is one of the sectors USAID is reviewing, with particular emphasis on the basic education sub-sector. This study, a part of the education review, focuses on the possible use of Non-project Assistance (NPA) as a funding modality USAID/Zambia might consider as a means of delivering assistance to Zambia. There is already some USAID/Zambia experience with NPA in the health and agriculture sectors. Although USAID/Zambia has not used NPA as a funding modality in the education sector, many other international agencies are doing so using a variety of non-project approaches. One of the objectives of this study is to document some of the experiences of other international development agencies in this regard and to make recommendations to USAID/Zambia concerning future funding modalities for the educational sector.

Key findings include the following:

- GRZ has a clear policy to encourage donors to pool their resources, and move away from project-by-project assistance.

- All international aid donors (cooperating partners) in Zambia, including USAID, support Zambia's Sector-Wide approach for the basic education sub-sector, and endorse the principle of pooling resources to accomplish GRZ development goals.

- Despite support for the concept, only a few principal donors have begun pooling some of their aid through GRZ channels, and even they have expressed concern about the Government's ability to adequately use and account for pooled funds, without direct donor involvement to ensure that adequate accountability is in place. The result so far is that some 30 percent of support for BESSIP is funded as NPA. Other donors (and most of the pooling donors as well) continue to provide assistance to Zambia through individual projects.

Key recommendations:

- USAID should participate in some form of pooling of resources in support of BESSIP. The study suggests USAID could reap several benefits through provision of NPA to BESSIP, including: increased influence in the sector, and leveraged support for MOE from other GRZ ministries in key areas.

- USAID provision of NPA would help to strengthen internal Government systems of resource management and accountability, and provide vital support at a time when some donors are beginning to consider "off-budget" alternatives to resource transfers because of worries that the Ministry of Education systems are building capacity too slowly.

1. Introduction

1.1 Background to the Feasibility Study

The United States Agency for International Development in Zambia (USAID/Zambia) is beginning preparation of its Country Strategy Plan (CSP) for the period 2004 – 2009. To begin the process, the Mission commissioned a contextual study, "*The Development Context of Zambia: An Update and Analysis, with Lessons Learned and Recommendations for USAID's Next Strategy Plan.*" This study, completed in early July, 2002, provides broad strategy options that the Mission will consider as it shapes its next multi-year development plan. USAID/Zambia also plans to conduct in-depth reviews of each of the sectors in which it is currently cooperating with the Government of the Republic of Zambia, including the Education Sector – of which this Feasibility Study is a part.

In addition to being asked to examine strategic options the Mission might want to consider for the Education Sector - and the basic education sub-sector, in particular - the Review Team was also asked to look at the feasibility of Non-Project Assistance (NPA) as a possible funding mechanism that could be used to deliver education assistance to Zambia. There is already some USAID/Zambia experience with NPA in the health and agriculture sectors, dating back several years. USAID has not used NPA as a funding modality to the education sector in Zambia, but many other international development agencies are currently looking at, and using, a variety of non-project approaches to deliver assistance to the sector. One of the objectives of this Feasibility Study is to document some of the experiences of other international development agencies in this regard – whether positive or negative, and to make recommendations to USAID/Zambia.

1.2 USAID Headquarters Interest

The broader context in which this examination of NPA takes place is that USAID is beginning to re-think how non-project assistance might be used to support programs in Africa in a changing development environment. A number of discussions are underway in different fora as a result of African leaders taking more direct control of economic development in their countries, particularly with respect to poverty reduction, addressing the problem of HIV/AIDS, and the general well-being of their citizens. Perhaps the most prominent among these developments is the introduction in October 2001 of the New Partnership for African Development (NEPAD). While it is still not clear how different development concepts will take shape under NEPAD, or how concrete ideas within this concept will be linked to specific country plans, it was established very quickly that what happens within this context will be important for all of Africa. There is also the framework of the Heavily Indebted Poor Countries (HIPC), under which Poverty Reduction Strategy Papers (PRSPs) have been developed for many countries, including Zambia, as mechanisms to help focus country development assistance efforts and tie them to specific efforts to each country's economic and social policy framework. Finally, there is an active international discussion of Sector-Wide Approaches (the so-called SWAps) or Sector Investment Programs (SIPs) that address questions of host

country ownership of development resources, issues of donor coordination, and the uses for which donor assistance can best be utilized. USAID has begun to re-examine ways to keep U.S. assistance both relevant and effective in this fast-changing environment.

Against this backdrop, USAID/Washington issued supplemental guidance in early 1999 to sharpen the analytical work that Missions must present in order to gain approval for non-project assistance proposals, and more recently began to review its policies in light of these developments. Early this year (2002), the Assistant Administrator of the Africa Bureau created an NPA Task Team, and encouraged Africa Missions to actively look for ways to utilize NPA where it might be appropriate to support new initiatives. This Feasibility Study looks at some of these issues for USAID/Zambia, within the context of the Education Sector Review. It is also likely that USAID/Zambia will make this report available to the NPA Task Force on an informational basis, to feed into current discussions about possible uses of NPA – as it continues to access whether an NPA program would bring added value to its development portfolio.

2. Current Thinking on Sector-Wide Approach

2.1 Introduction

Throughout most of the 1990s, the international development community has been confronted with a number of interrelated constraints that compromise the effectiveness of aid. The usual list of suspects for this state of affairs include the proliferation of uncoordinated projects, high administrative costs, lack of country ownership, cost and time overruns, and a disappointing record of sustainability - all of which have been both the causes and effects of poor aid management. In some cases, the primary objective of many projects, namely, the building of capacity, has been undermined by the very efforts that are designed to achieve it.

Since the mid to late 1990s, a number of aid agencies in Zambia have tried to respond to aid's disappointing record by devising approaches that are perceived to have potential to reverse the trend, mainly in an effort to depart from uncoordinated donor-led interventions towards more inclusive country-owned and directed approaches. The objectives of the reforms have common aims across most donor camps and include the following:

- build a supportive policy environment and an effective organizational infrastructure in support of poverty reduction;
- create more policy and organizational space in which partner countries take the lead, and ownership, of their own development programs;
- shift to more untying of development cooperation funds, including the provision of more program or budget support;
- foster the integration of development cooperation interventions, including those at the macro and micro levels, and those comprising financial and technical elements;
- reduce the fragmentation of donor interventions, including shifting away from conventional projects and encouraging donors to pool their resource transfers; and
- use more effectively the existing systems and capacities within Zambia in the delivery of programs, in order to reduce the reliance on external technical cooperation.

2.2 Government of Zambia Position on Non-Project Assistance

Zambia was an early innovator in adopting sector-wide approaches (SWAps)[1] in the 1990s, in an effort to take greater ownership, clarify strategic directions and coordinate the myriad donor-funded programs at the sector level. The Zambian government has

[1] For the purpose of this evaluation, a SWAp is defined as "an effort to bring donor support to a sector within a common management and planning framework for implementing agreed sector strategy. Its most important feature is that it brings the sector budget back to the center of policy-making and unifies expenditure management in pursuit of agreed sector objectives" [*Moving from Projects to Programmatic Aid*, OED Working Paper Series, No. 5, Summer 2000].

adopted NPA as the primary and preferred mode of external assistance. The Government has endorsed - through such programs as the Agricultural Sector Investment Program (ASIP), the Road Sector Investment Program (ROADSIP), and the Basic Education Sub-Sector Investment Program (BESSIP) - the SWAp as a better system of utilizing and managing external assistance. Although currently, the Government accommodates the preference of donors (including those that do not fully participate in SWAps), the ultimate goal of the government is to provide an environment within which sector-cum-program support would be acceptable to cooperating partners as the principal route through which they should channel their support. The rationale behind this position is to improve the effective utilization and impact of aid. A common emphasis by both the Zambian government and those donors that argue for NPA is on collaboration and joint action between the government and cooperating partners, and among the donors themselves. Two of these collaborative approaches are the sector investment program (SIP) employed mainly by the World Bank, and SWAp preferred by an increasing number of bilateral donors worldwide. Both these mechanisms attempt to introduce more coherence in the planning and implementation of development interventions at the sector level in accordance with the priorities determined by the Zambian government, and to reduce the administrative burden on all the partners involved. Other collaborative approaches include the Poverty Reduction Strategy Papers (PRSPs) required by the Bretton Woods institutions under the Highly Indebted Poor Countries (HIPC) initiative, the World Bank's Comprehensive Development Framework (CDF), the UNDP's multi-sector program approach, and a variety of sector program support and SWAp-like arrangements.

The rationale for NPA/SWAp is compelling. Firstly, the efficacy of external assistance is better realized when donors operating in the same field/sector collaborate, harmonize their efforts, and build local institutional capacities that empower recipients to better plan, implement, monitor and evaluate their own projects/programs themselves. Hence, instead of donors implementing stand-alone projects that are not wholly tied in to the country's own objectives, more coordinated and capacity enhancing approaches are more effective. Secondly, the proliferation of uncoordinated donor projects has placed overwhelming functional strain on the ill-equipped government bureaucracy. The sheer number of donors, the multiplicity of their uncoordinated projects; and their different planning, reporting, accounting, administrative and legal requirements have led to severe fragmentation in aid management. One pro- SWAp report written by DFID makes the following observation:

> On the whole, funding agency-attributed projects undermine government leadership, contribute to policy fragmentation, duplicate approaches, distort spending priorities and insufficiently address institutional development and sustainability issues. The tradition of stand-alone program implementation units (PIUs) drains capacity of government's own management systems, creates managerial overload fielding separate funding agency missions and distorts salary scales and other incentives.[2]

[2] Ratcliffe, M. & Macrae, M., *Sector Wide Approaches to Aducation: A strategic Analysis*, DFID Education Research, serial No. 32, 1999.

In this regard, the conventional donor-by-donor and project-by-project mode of external assistance often times taxes the already weak absorptive capacity of the government they are attempting to assist. A good number of donors have, thus, concluded that, where conditions are conductive and where their own aid management policies permit, a shift to a sector/program approach is in the interest of increased aid effectiveness and better sustainability of their interventions.

Under SWAp, the Government of Zambia has sought "basket" arrangements in which external resources as well as local ones are placed into a common pool of a comprehensive sector program. Under this arrangement, both policy reforms and sectoral capacity strengthening are concurrently discussed by both donors and the recipient government in the spirit of *partnership* in development. It is also assumed that this form of aid disbursement and management facilitates better collaboration and co-ordination among cooperating partners. The funding agencies that have adopted SWAp and its features and characteristics acknowledge that effective partnerships are strategic in their external support efforts, incorporating broad-based stakeholders *beyond* governments. SWAp - in its purest form - also entails donors' surrendering the right to select projects for funding and, in return, being allowed to directly participate in, and influence the negotiations on how programs are designed and resources allocated and spent. They also participate in sectoral/program performance monitoring and evaluation of the agreed programs. Below is a closer examination of a sample of bilateral and multilateral donors to Zambia vis-à-vis their experience with NPA.

2.3 Donor Experiences with Non Project Assistance

In order to better appreciate the nature of emerging paradigms of development cooperation in Zambia, the operations of three main cooperating countries (Sweden, United Kingdom and Japan) and two multilateral organizations (the World Bank and UNICEF) are presented below.

2.3.1 Sweden

Sweden decided to direct one percent of its GNP towards development cooperation. A rapid growth in aid appropriations followed. The objective of Sweden's development cooperation is "to raise the living standards of the poor." This aim is clarified in six subordinate objectives, namely, contribute to economic growth; economic and social equality; economic and political independence; democratic development; environmental quality and sustainable use of natural resources; and the promotion of equality between women and men. Sida's point of departure is that the governments of partner countries have the responsibility for reducing poverty and for sustainable development. Sida's program states how it can support the efforts and build the capacity of the partner countries. More recently, Sida's *Country Strategy for Development Cooperation with Zambia 1999-2001* gave the following guiding principles for its aid to the country during this period:

- political reforms that promote broader democracy, increased respect for human rights and good governance, as well as gender equality;

- implementation of the economic reform program, including management of the debt burden; and
- poverty alleviation and HIV/AIDS.[3]

Sida has a long-standing history of NPA. In its first guidelines for this approach that were adopted in the early 1980s, however, Sida recognized the importance of the recipient's capacity to fully take advantage of the merits of NPA. Consequently, the following are conditions ought to prevail prior to Sida's adoption of SWAp:

- the recipient government has a plan or strategy for the long-term development of the sector (minimum requirement is that such a plan/strategy is in the process of being elaborated);
- the recipient organization is capable of planning, implementing and coordinating projects in the sector; and
- Sida has access to the technical and financial resources required for implementation of a long-term support.

Sweden believes that a change in the relationship between donor and partner country can also contribute to strengthening the possibilities available to poor countries to participate in international resource flows and to reduce their dependence on aid. The country, thus, maintains that a more unobtrusive role is essential to enable the recipient country to assume a greater amount of responsibility. The relationship, thus, becomes more of a partnership in which the developing country assumes responsibility for formulating needs, planning and implementation while Sida participates in the dialogue and financing and in the follow-up of results. In this regard, Sida puts across the following six points regarding how the aid relationship should be changed to create a clearer division of roles:

- Program support will become a more common form of cooperation.
- An open and unambiguous policy dialogue is conducted with the partner country.
- The aid-supported programs are put into their national context.
- Active donor co-ordination takes place under the leadership of the partner country.
- Aid mobilizes local resources – both human and financial
- The financing is shared among the partners in cooperation, with Sida's and the partners' shares clearly stated.
- Clearly defined project and program goals are set up as well as fixed time limits and end dates for the project.

2.3.2 United Kingdom

The Department for International Development (DFID) is the British government department responsible for promoting development and the reduction of poverty. The current policy of the British government was set out in the White Paper on International Development, published in November 1997. The central focus of the policy is a

[3] Sida, Country strategy for development cooperation with Zambia: 1999-2001, Sida Department for Africa, Stockholm, December 1998.

commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets that include healthcare provision and universal access to primary education. Like Sida, DFID seeks to work in partnership with governments that are committed to the international targets, and seeks to work with business, civil society and the research community to encourage progress which will help reduce poverty. DFID usually prepares a Country Strategy Paper (CSP) for Zambia that provides development assistance programs, normally covering a three-year period. DFID's current portfolio in Zambia reflects the long-standing relationship between the UK and Zambia. In the 1980s, there were over a thousand UK-funded staff working in Zambia, filling critical skills gaps. Since then the emphasis has shifted to building sustainable Zambian institutions, focusing support towards better economic management, health and education, and urban livelihoods, with significant investments also in public service restructuring and good governance.

Under Health and Education, DFID has been working with other donors to develop multi-donor sector-wide approaches that tackle international targets through pooled funding systems. In keeping with a rights-based approach, DFID aspires to work on ways to integrate poor people's voices into the way such sector-wide approaches are designed and managed. In education, BESSIP (Basic Education Sub-Sector Investment Program) is the primary target of intervention and support of the National Health Strategic Plan is also given high priority. In terms of *modus operandi*, DFID does not link counterpart funds from its program aid to expenditure on specific uses. The UK has always opposed the linking of counterpart funds to specific project uses on the grounds that doing so would fragment the budget management process in the recipient country.

Similarly, the DFID policy for program aid was re-appraised after 1987. It saw the contradiction, on the one hand, between the liberalization policy objectives of program aid and actual liberalization of local markets and, on the other hand, the policy of tying aid to UK procurement, thus, administratively controlling the allocation of the imports to chosen local end-users and using agents to directly control procurement. Hence, a 'lighter hand' approach was introduced in 1987 by which UK program funds were increasingly untied, and provided through liberalized foreign exchange markets without donor control over the local allocation.

The UK policy entered a new phase in its approach from about 1991 when a shift from a balance of payments approach to a budgetary approach to the management of program aid funds was made. In this respect, the UK is still in a minority among EU donors. The counterpart funds from balance of payments support, which continues to be quick disbursing, are used by the DFID to reimburse elements in the recipient's budget such as a sector like health or education. To permit flexible use of these funds in a budgetary context, DFID has moved towards a high degree of procurement untying; 75 per cent is now untied within the Special Program for Africa (SPA) framework. DFID justifies this shift on grounds of '*local ownership*.' The aim, it is argued, is to make the recipient government account for its own spending rather than the donor seeking to do so, a move that is perceived to be consistent with present concerns with 'better governance.' The DFID focus of accountability is no longer on imports and how they are allocated and disbursed but on public expenditure - its structure, including allocation.

The main objectives in the DFID use of program aid have continued to be linked to macroeconomic reform, and conditionality remains a strong feature. Program aid to Zambia has been provided but only when the country has a seal of approval from the IMF on its macroeconomic policy. Thus, the disbursement of funds is normally timed and tranched to coincide with agreed 'milestones' or 'triggers' under these IMF programs. The British Government/DFID has in practice held up release of its program aid - temporarily or permanently - if agreed reforms are off-track, as was the case in 1991. It is noteworthy that DFID sometimes add its own sector (budget) conditions to those being negotiated by the World Bank and IMF on more general economic policy. Thus, in its recent program aid agreement with Zambia for the health sector, DFID required, additional to World Bank conditions, that in the event of a reduction of the total budget for the health sector, it would withdraw its support if the non-wage element of the budget were reduced disproportionately. DFID maintains that this is not really a conditionality imposed on Zambia, but a reminder to the government of the need to adhere to the agreed budgetary priorities within the wider multi-donor framework.

2.3.3 Japan

In June 1992, Japan adopted its Overseas Development Assistance (ODA) Charter as a cabinet decision, in order to clarify the basic philosophy and principles for Japan's development assistance. The Charter recognizes "...the fact of interdependence among nations of the international community that stability and further development of the developing world is indispensable to the peace and prosperity of the entire world." It argues that assistance to developing countries should be based on supporting self-help efforts. Ultimately, the goal of Japanese assistance is to improve the living conditions of people in recipient countries.

It is noteworthy that in an effort to strengthen policy dialogues, Japan has effected a policy shift from the request-oriented approach to the jointly initiated approach. Thus, Japan has focused, since 1993, both on closer policy dialogues with the governments of developing nations as a measure to improve the quality of development assistance and on improved preliminary surveys and other studies in the framework of measures to improve the efficiency and effectiveness of development assistance implementation.

With this change in approach, Japan in recent years has dispatched project confirmation survey teams to Zambia to discuss the country's development agendas and priorities; and it has conducted project formulation surveys and dispatched project formation experts to support Zambia's project formulation. Particularly in the late 1990s, JICA commissioned studies annually on the "Development Status of Zambia *vis-à-vis* Donor Involvement".

Development assistance under Japanese international aid is classified into three areas: (a) bilateral grants, (b) bilateral loans, and (c) financial subscriptions and contributions to international organizations (multilateral aid). Bilateral grants are further divided into technical cooperation, whereby technology is transferred to a developing country, and grant aid, which provides funds with no obligation for repayment. JICA implements about half of Japan's governmental technical cooperation and about 70 percent of the

country's grant aid. JICA's budget comes under the jurisdiction of the Japanese Ministry of Foreign Affairs.

For technical cooperation, the aims of this form of Japanese aid are to transfer and disseminate Japanese technology, skills and knowledge; to support the improvement and development of technology appropriate to the technical environment of developing countries; to train people who will come to occupy a leading role in economic and social development in their respective countries; to raise technical levels; and to contribute to the establishment of new organizations and systems. For Zambia, training programs have been arranged under which administrators and technicians from the country are invited to Japan to receive training. Similarly, expert dispatch programs are also facilitated under which Japanese specialized experts are sent to Zambia to help with training and with the planning and formulation of development projects. Aid falling under Japanese technical cooperation programs also involves the supply of equipment. Japanese grant aid involves the provision of funds for the construction of buildings such as schools and hospitals and for the supply of materials and equipment for education, training and medical care.

For bilateral loans, Japan provides resources either directly to the government (called 'yen loans') or a government agency or for private-sector financing and investment. In the latter category, funds are provided to Japanese companies or local companies operating in Zambia. Yen loans previously focused on projects related to economic and social infrastructure, but in more recent times, an increasing share is being extended as commodity loans aimed at improving the balance of payments condition of Zambia.

2.3.4 UNICEF

In accordance with the global UNICEF Mission Statement, UNICEF/Zambia is guided by the Convention on the Rights of the Child and the Convention on the Elimination of All Forms of Discrimination Against Women. UNICEF/Zambia strives to promote a set of legal and ethical standards for the survival, development and protection of women and children in Zambia. UNICEF's program of cooperation in Zambia is structured into four programs, namely, Primary Health Care and Nutrition; Education for All; Water, Sanitation and Health Education (WASHE); and Advocacy, Planning and Action.

The GRZ/UNICEF Country Program Coordinating Committee (CPCC) chaired by government, provides oversight of the GRZ/UNICEF Country Program of Cooperation, while the principal vehicle for program and project management is the regular biannual review meeting. The meetings review progress on implementation of annual Project Plans of Action within each program and the CPCC meets to review any issues that cannot be addressed at the sectoral level. The review meetings also define the broad lines of action to be followed during the subsequent year. The process of developing annual Project Plans of Action is then developed with partners on the basis of these reviews. Through project and program level meetings, all UNICEF partners and interested donors have the opportunity to participate. In 1998, an additional meeting was introduced, specifically to allow UNICEF to brief donor and UN agencies on the outcome of the annual review process. Through this review mechanism, the results of surveys, studies and evaluations are used to inform further program and project direction.

UNICEF Program support is provided in terms of administration, budget and finance, supply and logistics, information technology and personnel. In most programs, UNICEF works with both bilateral and multilateral organizations that are active in Zambia. These partnerships are either in the form of donor government funding for UNICEF projects, co-funding of projects, or simply as cooperating partners in the same field. Over the period 1997-99, for example, more than half the funds channeled through UNICEF in Zambia came from donor governments in the form of supplementary funding. During this period, the largest donors were the governments of Norway, the United States, United Kingdom and Canada. An innovative approach to co-funding was brokered in the WASHE program where UNICEF and EU/DFID are co-funding community-based projects. Although the EU funds are not channeled through UNICEF, they are nevertheless used in support of the UNICEF-assisted WASHE projects. UNICEF also participates in a number of sector-wide partnerships as well as in some activity-specific bilateral partnerships.

The Zambian government provides the lead agency for all UNICEF programs in Zambia, and UNICEF also works collaboratively with active NGOs. UNICEF also supports umbrella NGOs in order to serve as an additional source of information, technical advice and 'networking.' Although quite weak, there has been some UNICEF cooperation with the Zambian private sector.

2.3.5 The World Bank

In 1995 when the World Bank was conceptualizing its Comprehensive Development Framework (CDF) for Zambia, SWAps were thought to offer the best strategy for the realization of the CDF principles of "long-term vision, country ownership, strategic partnerships and accountability for results." The Agricultural Sector Investment Program (ASIP) was the first such program in Zambia, involving about a dozen donors. It was the World Bank's flagship SWAp in Zambia and was launched in January 1996 and focused on the enhancement of food security, employment generation, improvement of the existing agricultural resource base, and sustainable industrial development. In order to achieve these goals, ten strategies were adopted for ASIP. They were: liberalization of agricultural markets, diversification of crop production, development of the livestock sector, services to small holder farmers, expansion of economic opportunities for outlying areas, improvement of the economic status of women, improvement of the use of the available water resources, full utilization of land suitable for agriculture, assistance to farmers to help cope with natural disasters, and emphasis on sustainable agriculture.

Notwithstanding the above goals, ASIP implementation has been very poor as a result of a host of reasons, chief among which being a weak institutional framework and capacity to meaningfully implement most of the programs. Although ASIP resulted in some level of institutional strengthening of the Ministry of Agriculture, the review of the program demonstrated limited success, if at all, in the most critical areas of the development of a meaningful agricultural strategy and the strengthening of the target groups, mainly small-holder farmers.

The World Bank also participated in a SWAp for one of the transport sub-sectors, namely, road transport under the National Roads Sector Investment Program (ROADSIP). The degree to which ROADSIP has so far realized its objectives is considered to be moderate, with visible results more noticeable in the rehabilitation and maintenance of the core road network. An autonomous public/private National Road Board has been established and earmarked fuel levy has significantly contributed to the fund, although leakage of revenue from this source has been a major concern. It is noteworthy that the sub-sectoral nature of ROADSIP has resulted in significant delays in the development of a comprehensive inter- and intra-modal transport policy and strategy.

In the health sector, the World Bank, mainly through technical support, has contributed to the Health Sector Support Project, another early SWAp initiative in Zambia that aims to attain "equity of access to cost-effective health care as close to the family as possible." The Health sector SWAp has resulted in significant institutional reform and capacity-strengthening in the sector, particularly at the district level that now directly receives resources earmarked for district-level basic health services. Notwithstanding these achievements, the health sector SWAp has been unable to make significant progress at different levels of service delivery, particularly in the fields of drug supply and immunization coverage. The capacity of the Central Boards of Health (a system established to deliver at the district level) to manage reforms and develop and maintain a viable expenditure framework has also been weak. More disappointing, almost all social indicators in the health sector are registering declining trends or cannot be measured due to inherent weaknesses in the health management information system.

In the educational sector, some of the World Bank's IDA credits have been targeted at the Basic Education Sub-Sector Investment Program (BESSIP). The BESSIP process aims to remedy a number of the educational sector qualitative and quantitative difficulties that include low access and declining standards of learning amidst deteriorating budgetary resources beyond teachers' salaries. The challenge of HIV/AIDS has introduced a further strain on an already weak managerial and technical human resource. BESSIP is presented and analyzed with some detail in the next chapter of this report.

2.4 Overview of SWAp Performance

A look at the general performance record of SWAps in Zambia bring out a rather mixed record of success. On the positive side, SWAps have generally resulted in a more collective and participatory approaches to sectoral strategy formulation, in general, and the integration of external resources, in particular. Budgetary resource allocations to the country's areas are evident under SWAp and an improvement in local ownership of the developmental agenda seems to be emerging, particularly in such sectors as health where district level actors have been empowered to take the lead in planning, and resource allocation and management. Similarly, public-private partnerships are emerging in the ROADSIP and, to a considerable degree, in the health sector although links with NGOs and community-based organizations (CBOs) are yet to take hold. Under both BESSIP and the health sector, reporting on resource utilization and general sectoral progress is

increasingly being standardized, thus, reducing the general bureaucratic overload when different donors demand reporting using different modalities.

Despite the positive changes registered at the level of process of SWAp, perhaps the biggest challenge regards actual *outcomes* that have generally been disappointing or difficult to measure. In the health sector, despite the more participatory decentralized mode of doing things, all health indicators, as earlier indicated, are deteriorating. The quality of educational services are also declining despite promising signs of BESSIP at the primary/basic education level. Under-funding does explain a significant proportion of this poor performance in a country where the economy is performing poorly and poverty levels worsening. Notwithstanding these factors, it is increasingly becoming clear that SWAp advocates have grossly underestimated the institutional constraints of the government system and the importance of the need to build and, perhaps more importantly, retain human resource capacities that are so pivotal in the planning and implementation of very complex SWAp approaches to service delivery.

Moreover, in the absence of a national development plan that provides a national planning mechanism (until recently when the PRSP was developed and adopted), critical cross-sectoral issues have been neglected. This has resulted in little cross-sectoral synergies between the currently poorly coordinated SWAps (e.g. between BESSIP and the Health Sector). The absence of dependable expenditure frameworks, particularly in ASIP, and inadequate expenditure management structures as well as weak financial accountability have resulted in sub-optimal utilization of external resources and, consequently, checked the attractiveness of SWAps to the more conservative donors that are generally reluctant to embrace a new assistance modality. The average Zambian SWAp's system of monitoring and evaluation is quite weak. A recent World Bank evaluation of its supported SWAps reveal a rather "unsatisfactory" and "unsustainable" result:

> Over 90 percent of the [IDA] credit was allocated to civil works, equipment and drug supplies. However, MOH did not have - and only slowly built - capacity to design and supervise a major civil works program. The bulk of the program was never implemented, and sustainability of completed works is unlikely. Procurement of equipment and drugs was fraught with problems, including instances of mis-procurement...In the absence of a clear expenditure framework, IDA resources were not channeled toward high priority financing gaps. At its closing date in financial year 2000, the credit was only half disbursed.[4]

What the above analysis suggests is that while SWAp as a concept is quite attractive when looked at against the somewhat disappointing record of project-by-project approaches, the performance record of SWAps in Zambia is either unclear or disappointing. A closer examination of the educational SWAp is made in the next section.

[4] World Bank, 2002, Zambia Country Assistance Evaluation, Operations Evaluation Department, May (Draft).

3. Review of USAID Policy on Non-Project Assistance (NPA)

3.1 Defining Non-Project Assistance in a USAID Context

Over the years, USAID has used a number of different programming techniques and funding modalities to support international development programs around the world. Programming techniques have included different forms of dialogue with host governments, maintaining a large in-country presence in many countries, working with host governments to help support their long-term development plans (whether well articulated or not), and developing USAID multi-year programming documents that were either based on or intended to contribute to host government goals and objectives. Funding modalities have included development loans, grants, projects, cash transfers in the form of program or non-project assistance, technical assistance, and various types of commodity transfers. In all cases, regardless of the programming techniques employed or the funding modalities used, the objective always has been to assist economic development in the most rational manner possible.

Until the late 1980's, USAID guidance on non-project assistance was provided in two places in USAID's policy manuals (Handbook 1, Part VII which covered "Program Sector Assistance", and Handbook 4 which applied only to Economic Support Funds [ESF] balance of payments programs, designed as Cash Transfer Programs or Commodity Import Programs). In 1988, the Africa Bureau issued preliminary guidance for NPA using Development Fund for Africa monies. Four years later, the Africa Bureau issued comprehensive new guidance, entitled *Non-Project Sector Assistance under the Development Fund for Africa (DFA): New Africa Bureau Guidance*. This Bureau guidance remained the definitive policy on NPA using non-ESF monies until the issuance in February 1996 of the USAID Policy Paper entitled "Program Assistance". The 1996 Policy Paper is still in effect, although the 1999 Foreign Operations Appropriations Act included language that restricts the use of NPA for health programs. The provision reads: "...none of the funds appropriated under this heading may be made available for non-project assistance for health and child survival programs, except that funds may be made available for such assistance for ongoing health programs."[5]

"Non-Project Assistance" is defined as "a generalized resource transfer, in the form of foreign exchange or commodities". USAID policy guidance describes two categories of such resource transfers: "sector program assistance" and "balance of payments and budget support". The two categories of assistance differ in their focus and objectives. They differ also as to the types of funding (e.g., development assistance, DFA, ESF, SEED Act, Freedom Support Act, PL 480, etc.) that can be used for either category. Sector Program Assistance can use any type of funding; whereas, the Balance of Payments and Budget Support category can only be funded by ESF or SEED Act monies.

[5] In July 1998 the House Foreign Operations Subcommittee expressed their concerns to USAID about using child survival funds for non-project assistance in Ethiopia.

Sector Program Assistance is used to promote medium- to long-term improved efficiency in a specific economic sector. It is linked to specific policy or host country actions to make progress toward achieving agreed-upon development objectives at the sectoral level. The Balance of Payments and Budget Support (BPB) category is primarily concerned with promoting economic and political stability by bridging a public sector budget and/or balance of payments shortfall. Since BPB may also be accompanied by policy reforms, the time horizon may be of any length – short-term, medium-term, or long-term.

Since neither ESF nor SEED Act monies are available to Zambia, we need not look further at the Balance of Payments and Budget Support category of Non-Project Assistance. However, as we will see immediately below, there is a difference between the Non-Project Assistance "categories" and the "method" of disbursements using different resource transfer mechanisms.

For either category of Non-Project Assistance there are only two resource transfer mechanisms available: cash disbursements or commodity import programs.[6] Cash disbursements, however, are often referred to simply as budget support or budgetary support, since funds (U.S. dollars) go directly to the recipient government. Therefore, for the rest of this study we will use the term "budget support" to mean a cash disbursement under the Non-Project Assistance category of "Sector Program Assistance," as defined in USAID Policy Paper "Program Assistance".

Budget support seems to be defined by the cooperating partners in Zambia as funds that go to the Ministry of Finance, rather than to the Ministry of Education, and that then are used by GRZ for any purpose that is consistent with its overall budget. In this regard, none of the cooperating partners are providing budget support under BESSIP, rather they describe their support to Zambia as "sector support", which in the case of BESSIP is seen as monies provided directly to the Ministry of Education, clearly earmarked for use in the basic education sub-sector. This is markedly different from the way that USAID uses the term. While in a USAID context, "budget support" – for our purposes in this study - is intended to mean a "cash disbursement transfer mechanism" used to provide Non-Project Assistance (cash) as *an* element (or *the sole* element) of "Sector Program Assistance". Thus, there seem to be several practical differences between the USAID use of the term and the way other cooperating partners in Zambia use the term: 1) for USAID, budget support can be limited to a single sector, or not; it may be channeled through a line ministry, or not; 2) For our cooperating partners, budget support is not limited to a single sector, and usually is not given to the line ministry; 3) USAID normally has to establish separate accounts to track both the hard currency (and the limited number of purposes for which it can be used), and (in some cases) the local currency; whereas, cooperating partners seem not to have to do either - for budget support or for sector support.

3.2 Current Policy

USAID's February 1996 NPA policy paper is the operative Agency-wide guidance that Missions must follow in seeking approval for non-project assistance. However, language

[6] We will not address commodity import program requirements in this study.

in the 1999 Foreign Operations Appropriations Act language (referred to in Section 3.1 above) modified this basic guidance restricting USAID from using NPA for health programs. In addition, in early 1999, the Africa Bureau issued clarifying guidance which emphasizes the contents of the required macroeconomic assessment, deals with financial accountability issues, and describes the "funds disbursement triggers" (as opposed to conditions precedent to disbursement or "conditionality" requirements) that Missions need to establish.[7] The thrust of the revised guidance is to ensure that in determining the suitability of using NPA, USAID Missions ensure that the assistance will not lead to increased donor dependency, and that the following factors apply:

- The NPA resources are "on budget," meaning funds must be used as part of a recipient government's normal budget process and flow through the budget system.
- Policy objectives are "harmonized" with resource requirements to achieve the objectives.
- Assistance fits within a medium-term (3 - 5 year) perspective.
- Fits within a framework for improved donor coordination.

There are within the same Africa Bureau guidance several other "clarifying" elements. One, new NPA programs must be approved as a part of a Mission's strategic plan. Therefore, the macroeconomic assessment work that is being done in preparation for USAID/Zambia's upcoming 2004 - 2009 Country Strategy Paper could be expanded to include an NPA for basic education, if the Mission were to decide to pursue developing an NPA.

Two, an NPA program that is part of a sector program (or sub-sector program such as BESSIP) would need an updated macroeconomic analysis for the sector. USAID policy guidance provides considerable leeway in conducting these judgments, and a separate sector analysis need not be performed if sufficient information is available through other analyses and/or through a long history of involvement in the sector along with adequate information to design the assistance program. For example, the Contextual Study already completed for Zambia in preparation for the upcoming new country strategy – which includes a section on the education sector – could well form the basis for meeting this requirement, or the requirement might be handled in the context of other analytical work the Mission has already planned during the "lead-up" to the new strategy.

Three, key results of a macroeconomic update must be included annually in Congressional Notifications (presumably prior to any release of "tranched" funds under the NPA).

Four, in addressing the donor dependency issue directly, a Mission must address questions of whether and to what extent a host government is taking increasing responsibility for its own development; whether the macroeconomy is stable or if there is

[7] See "NPA Supplementary Guidance" issued in January 1999 as STATE 014969. Text attached as Appendix 4.

likely to be significant revenue shortfalls. This analysis is intended to assess the impact of planned sectoral reforms on macro balances.

Five, following the lead of the World Bank, USAID no longer requires "conditionality" in NPA agreements. Rather, Missions are asked to develop "triggers" that would prompt the release of NPA funds. Program objectives would be established during the development of the NPA and disbursement of funds would be "triggered" by pre-scheduled assessments that would involve "sector partners" (host government officials, other donors, private sector, NGO, and/or civil society participants active in the sector).

Finally, while the Africa Bureau clearly reiterates that dollar disbursements must still be placed into separate accounts, and tracked to disbursement, the guidance includes a very important change with respect to the way local currencies are handled. The Africa Bureau guidance advises that local currencies must be included as "part of the overall fiscal plan of the host government," and must *"be tracked up to the point where they enter the budget for an agreed upon use."* [emphasis added.] Therefore, a logical deduction based on this revision is that if the USAID Mission determines that the host government has the fiscal management capability to adequately account for its resources, if local currencies provided to a sector under an NPA program are a part of the government's "on-budget" resources, and if these funds have been provided for agreed upon purposes, then USAID does not have to track the local currencies beyond the point that they enter into the host government's budget. We should point out that this new guidance seems to be in conflict with Agency guidance (the 1996 Policy Paper) which reads in relevant part as follows:

> "When a generalized resource transfer results in a tangible flow (generation) of local currency to the host government, or when the assistance agreement requires the host governmengt to set aside local currency, that local currency is considered to be owned by the host country (HCOLC) and it must be deposited into a separate account. In those instances, the HCOLC must be programmed jointly with USAID and in a manner consistent with applicable foreign assistance appropriations legislation..."

The authors of the report believe USAID/Zambia will need to clarify whether there is, in fact, a conflict between Agency and Africa Bureau NPA guidance, and how any differences in application of NPA guidance would impact on the Mission's programming options. For example, as was described in an earlier section of this study, the policy of the Government of Zambia is have all cooperating partners provide funds to a common fund that would be jointly programmed for specific development purposes. The question at the heart of the different language used in the Agency guidance and that used in the more recent Africa Bureau guidance is whether, and in what ways, USAID/Zambia can participate as a full partner in SWAp programs such as BESSIP.

To our knowledge, the Africa Bureau of USAID is the only bureau in the Agency currently using NPA with development assistance funding, although other bureaus from time to time use NPA funded by Economic Support Funds to address short-term policy issues.

3.3 'Triggers' to Disbursement of Non-Project Assistance

Up to and including guidance contained in the 1996 Policy Paper on Program Assistance, USAID required conditionality as an integral part of any NPA program. This was considered crucial in a Mission's design of an effective NPA program. Missions were encouraged to devote considerable attention to developing conditions to the release of funds – conditions precedent to disbursement – that would ensure that the recipient country was given clear, specific achievement objectives, that were seen and agreed by both parties as milestones toward reaching the target objectives of the NPA program. The conditions were to be crafted in such a way that they were "actionable" and so that measurable indicators could be used to determine if progress was being made toward the ultimate program objective(s).

With the revised Africa Bureau guidance, the introduction of "triggers" was intended to convey several ideas. First, the idea of targeted accomplishments that must be achieved before a new infusion of funding is provided is the same as with the previous conditionality. The release triggers are also intended to be tangible, measurable milestones, just as under the previous guidance. However, describing the funds release points as "triggers" rather than as "conditions" was intended to convey a more positive, "partnering" relationship, rather than one of a "donor" requiring the host government to perform an action that would then be rewarded by a release of funds. Another subtle, but important, idea conveyed with this change of language is that since the host government is fully in charge of its development processes, the milestones are reached not because of a donor requirement or incentive, but because the government is making progress against its planned objectives. Nonetheless, when a certain point has been reached - a point that has been established by, or at least agreed to by the host government, the cooperating partner is willing to release funding that will help the host government finance the next stage.

Another idea conveyed by the guidance change - joint assessments - is a new development. It introduces a level of cooperation with a broader partnership - made up of host government representatives, international development agencies, private sector entities, NGOs, and civil society groups - all of whom are now referred to as cooperating partners. The assessments are also to be pre-scheduled, suggesting regular performance review of progress against stated - and previously agreed upon - criteria.

In the basic education sub-sector, the triggers would need to be negotiated with GRZ and the cooperating partners would ideally be brought into the process in some way. Therefore, it is not possible in this Feasibility Study to identify or to say with any assurance what are the most effective triggers. However, we have reviewed the Ministry of Education's draft "Strategic Plan: 2003 – 2007" and suggest the following candidates for consideration as funds release triggers under a USAID/Zambia NPA in support of the GRZ's ongoing basic education sub-sector investment program (BESSIP), should the Mission elect to pursue this course of action.

Possible "Triggers" for Release of USAID Funds in Support of BESSIP Under an NPA Program

- Capacity building program for new Boards of Education (planned for 2003/2004)
    - underway by 2004
    - completed by 2006
- Increased expenditure to basic education sub-sector by xxx percent at end of
    - 2002
    - 2003
    - 2004
- By end 2003: ensure a mechanism established for providing schools with immediate permanent or temporary staff replacements in response to teacher absences due to training, sickness, or death
- By end of 2004: system in place of regular and sufficient quarterly disbursements to District Education Boards, based on agreed budgets
- By end of 2003: develop and disseminate relevant information on HIV/AIDS and skills for preventing its transmission to reach all pupils and teachers
- By end 2004: ensure that every school develops and implements a plan for preventing HIV/AIDS transmission and mitigating its impact in the school community
- By end of 2003: complete school health and nutrition school policies and plans
    - implement in all schools by 2007
- By end of 2007: increase the rates of retention and progression of the girl-child from Grades 5 7, especially in rural areas from 82 percent to 100 percent
- By end of 2007: Increase progression rates from Grade 7 to Grade 8 from 51 percent to 69 percent, especially for girls

4. Education Sector and SWAp: The Case of BESSIP

4.1 BESSIP Background

The Government of Zambia's policy for its education sector currently emphasizes *partnership* among all the main stakeholders, including the private sector, local communities, and donors. The guiding principles are liberalization[8]; decentralization[9]; and cost-sharing.[10] The Basic Education Sub-sector Support Program (BESSIP) targets basic education (grades 1 to 9) focusing on both quantitative and qualitative considerations and include issues of access, quality, and equity in the provision of basic education. The broad objectives of BESSIP are (a) to increase school enrolment and reduce disparities that exist in educational provision between rural and urban areas; and (b) to enhance the learning achievement of all pupils, taking into consideration the need to ultimately eliminate gender inequalities. The Program is currently being guided by the following principles:

- Coordination of government and donor activities in support of an agreed common prioritized policy framework and strategic plan;
- Integration of government budget resources and aid within a mutually-agreed government program for the improvement of basic education;
- The intention to finance the program through common basket funding consisting of government and cooperating partner inputs which will be controlled and managed by an agreed system of accounting and reporting designed to meet the requirements of both;
- Emphasis on efficiency, transparency and realism in the design and implementation of the program;
- Strengthening of links between the sub-sector expenditure program and the macro-economic framework (Medium Term Financial Framework);
- Fostering a sense of cooperation and partnership with all stakeholders through regular consultation and reporting while firmly maintaining control and leadership within the Ministry of Education Planning Unit;
- A program design taking into account cross-cutting objectives; and
- Development or strengthening of mechanisms for measuring sector performance.

[8] The private organizations, individuals, religious bodies, and local communities are expected under liberalized educational service delivery to provide and manage their educational establishments.

[9] This entails the devolution of power from the center to the local levels in districts and schools. Education Management Boards have been established at lower levels although they are not yet fully operational.

[10] Cost- sharing is expected to tap resources in households through fee paying, PTA levies, examination fees user charges; boarding fees, etc. The new government of President Mwanawasa has, however, abolished educational fees for basic education, a policy whose implementation is yet to take hold.

4.2 BESSIP Modalities

The government and most donors that participate in BESSIP have agreed on a common 'basket' or 'pool' approach whereby plans, budgets, financial flows and accounting systems are to be integrated in a manner that will make budgetary resources of donors and the government indistinguishable under the system. It is expected that the Ministry of Education is in a position to put in place and implement financial management systems that are effective, reliable and transparent. Notwithstanding this understanding, the financial management relationship between the Zambian government and donors is significantly conditioned by the preferences of the donors. Thus, although a pure education SWAp is mainly predicated on the assumption that donors pool their resources into a common basket, the reality presently is that many donors still do not adhere fully to this modality. The principal reasons that some donors are not fully participating in the Government's vision of the BESSIP SWAp is that donors still do not find the government financial management and reporting systems to be sufficiently robust and transparent. Others face constraints from their national headquarters that limit their ability to participate in the way the Government envisions. Currently, donor resources in support of BESSIP are channeled through four different modalities as follows:

> *Case 1*
> Funds *are controlled* by the Ministry of Education and are made available for all BESSIP components (i.e. the 'pool approach'). Under this modality, funds from various sources are mingled in a common bank account.
>
> *Case 2*
> Under this modality, funds *are controlled* by the Ministry of Education. Although the funds from different sources are made available for all BESSIP components, they are not co-mingled in a common bank account.
>
> *Case 3*
> While funds *are controlled* by the Ministry, they are available only for a restricted and specified components, and they are not co-mingled in a common bank account.
>
> *Case 4*
> Under this modality, funds *are not controlled* by the Ministry but are made available to the government for a number of specific BESSIP components.

All donors in Zambia support the SWAp program for BESSIP. However, although the donors support the view of the Zambian government that the ultimate financing model for all activities related to BESSIP is the common 'basket' or 'pool' (modality 1 above), it is currently accepted that this shall not be the exclusive funding mechanism until GRZ financial management and reporting systems are in place and meet acceptable standards.

There is also a long-term goal of phasing out on-going stand-alone projects, as cooperating partners move fully toward the Case 1 modality.

In the area of capacity building, BESSIP is emphasizing the training of professional cadres to improve the performance of a restructured Ministry of Education, and to inculcate an improved and decentralized management culture. Rapid restructuring of the Ministry of Education has been recognized as a prerequisite to BESSIP. A restructured and strengthened planning unit within the Ministry of Education (the Directorate of Planning and Information) is expected to provide implementation guidance and support for BESSIP, which is currently managed through a committee system with the BESSIP Coordinator as the chief executive. The BESSIP planning, management and supervisory structure and systems are accountable to the Joint Steering Committee (JSC)[11] under the chairmanship of the. Minister of Education. The Program Coordinating Committee (PCC) provides technical support to the JSC and is in charge of monitoring BESSIP activities. The Management Implementation Team (MIT) is responsible for the day-to-day management and implementation of BESSIP. At the technical level, there is a Financial Technical Committee, and there are Core Indicator Working Teams (finance, strategic planning, girls education). There is the so-called "Four Plus Four" Task Team (consisting of representatives from the four main donors[12] and four government representatives) which was turned into a permanent working group during 2001. BESSIP is subjected to semi-annual reviews. An Educational Management Information System (EMIS) has been established. District Education Boards have also been established in the districts although many are not yet functional. Under BESSIP, districts are expected to be in charge of local procurement of materials, maintenance of facilities, and district-level capacity building. Finally, an Informal Donor's Group has been established and meets periodically as an information-sharing body.

4.3 Critical Analysis of BESSIP

The success of any mode of service delivery should be judged less on the process used and more on actual results and outcomes. While it is important to recognize the importance of inclusive mechanisms in service delivery to the extent that they promote 'good governance' and sustainability, the ultimate worth of any intervention should be judged by the degree to which it has attained its set goals and objectives. It is in this light that the importance of *Monitoring and Evaluation (M & E) systems* find expression. BESSIP, like most SWAp efforts in Zambia, has exhibited weak *ex ante* definition of performance indicators, poor baseline data generation, and crippling capacity limitations in the area of data collection design and analysis. Although BESSIP is currently focusing on *ex ante* definition of sub-sector indicators and baseline data has been collected, the capacity to analyze this data and use it to influence policy direction and investment choices is evidently weak in a ministry with a weak planning directorate. Although significant progress has been achieved in standardized reporting of donor resources, the paucity of performance measurement due to weak M & E systems and weak capacity has minimized the usefulness of such harmonized reporting.

[11] JSC ensures the effective development, implementation and realization of the objectives of the country's education policy as it relates to BESSIP.
[12] NORAD, Ireland Aid, DFID, and DANIDA.

The liberal approach to accommodation of external resources under different modalities explained earlier has its justifications. In particular, Zambia's weak record of 'good governance' particularly in the area of accountability of resources (both domestic and external) has resulted in the general apprehension on the part of the average cooperating partner to pool its resources in a system perceived as non-transparent and less than fully accountable. Weaknesses in public resources management and accountability are reported periodically in the Auditor General's reports to the Executive. Unauthorized and unconstitutional expenditures are reported by oversight institutions. All these revelations raise serious questions regarding financial resource management capacity of the government system in Zambia.

While appreciating cooperating partners' concerns over financial accountability, it is equally important to appreciate the reality that the proliferation of financial management systems of a multiplicity of donors cannot be a solution to the challenge of improving *outcomes* (as opposed to processes). The process of earmarking external support towards preferred activities, apart from its threat to local ownership, tends to result in the consolidation of a set of coordinated *projects* rather than sector-wide programs *per se.* Already, earmarking appears to many to encourage the 'projectization' of BESSIP, rather than facilitating the realization of the more global sectoral objectives and outcomes as expected under SWAp. Already, there are signs within BESSIP, as earlier proved under ASIP, that donor variations in financial routes can compromise management and budgetary flexibility, introduce administrative overload, and are inherently capacity draining. Similarly, unless cooperating partners synchronize their funding cycles with the government's financial year, the Zambian government's efficiency in managing external resources may continue to be problematic. In 2002, for example, while the government budget was announced in March and anticipated around 40 percent of its development finance to come from donors, the Consultative Group Meeting where most commitments are pledged, was held in July - more than 6 months into the financial year for which resources were being sought. This is not uncommon for such "pledging" meetings. Yet such conditions do not lead to effective integration of external resources into plans and budgets.

Another major weakness of Zambia's BESSIP in the area of financial planning and management is the absence of a clear medium-term expenditure framework, including education spending projections. This situation seems to have been exacerbated by the cash budget principles of the Ministry of Finance and National Planning as well as the reluctance of some of the cooperating partners to make long-term financial commitments. It is particularly noteworthy that many cooperating partners in the education sector in Zambia have not as yet fully harmonized their respective inputs into the BESSIP agenda and their funding cycles are still largely different from each other. Indeed, varied timeframes exist within which they have to present budget proposals to their respective boards/governments for approval and funding. Consequently, the timeframe for signing-on to the SWAp mode of support seems to be as much dictated by partner funding cycles as it is by, *inter alia,* the Government's ability (or otherwise) to provide recurrent funding for its line ministries. Thus, the speed and degree to which cooperating partners in

Zambia have embraced the Government's preferred sector-wide modality for BESSIP seems to be linked to whether local donor offices have authority to negotiate and commit funds without further consultations and approvals by their headquarters. Agencies that have had SWAp previously endorsed in their headquarters (such as the Norwegians and the Irish), seem to enjoy fairly wide latitude at the recipient country level to negotiate freely with the Government of Zambia and to commit funds, in some cases "on-the-spot". Agencies with these local authorities appear to perceive fewer apparent risks with 'pooled funding' than seems to be the case for other donor agencies.

The "Four Plus Four" Group is comprised of NORAD, Ireland Aid, DFID, DANIDA, plus four representatives from the MOE. This group plays a special role and is being given more and more leeway to make decisions on behalf of the PCC. In effect, this group is felt to increasingly make decisions that the rest of the BESSIP cooperating partners must live with, even though they may have no input into the decision-making process.

Whether through the "Four Plus Four" or through other interactions, it is clear that NORAD, Ireland Aid, DFID, and DANIDA are the most influential of all the cooperating partners. Clearly, many feel that much of the influence comes from participating in the "pooling" group. The representative from Ireland Aid said he believes their participation in the group gives them a "seat at the table", even though they entered the group on a "leap of faith" and they are still not entirely happy with the overall operation of the BESSIP structure. Even though Ireland Aid is also being encouraged by their headquarters in Dublin to participate fully, they still are not willing to provide "budget support"; they are providing "sub-sector support" instead. Similarly, the DFID representative, although very deeply involved in Zambia and elsewhere as a leading proponent of "pooling" monies through SWAps, was quick to point out that they are providing "sector support" to BESSIP, rather than "budget support." He also noted his skepticism about providing budget support in the future, although he expects they will be providing some budget support by next year because their Minister for International Development (Clare Short) is very keen to do so.

5. Issues for USAID Consideration Regarding Future Funding for BESSIP

5.1 Sectoral Resource Allocations

As described in earlier sections of this study, the Ministry of Education has established a very pragmatic view toward BESSIP. The four cases or channels of assistance permit both sector support and project support. In this way, all external funding – grant and loan – can be accommodated. The BESSIP Budget for 2002 is given in Table 1 and illustrates how donors are currently supporting BESSIP, and the funding modalities currently in use.

For all funds, both those controlled by the MOE and those held outside, there is a single *Annual Workplan*. Also, the Financial Report (prepared on a quarterly basis) covers all four cases, although reporting of Case Four expenditures is often delayed and may not be current in the BESSIP report. The Ministry of Education has been selected to participate (on a pilot basis) in the Ministry of Finance's Integrated Financial Management Information System (IFMIS), and the BESSIP Financial Manager told us that BESSIP finances will be integrated into this system. For the moment, however, in addition to the overall financial reports prepared by BESSIP, they also prepare special financial reports for the World Bank, the Netherlands, Ireland Aid, and the Asian Development Bank. Once BESSIP finances are integrated into IFMIS – and presumably available from the Ministry of Finance and National Planning – it is not clear whether these same cooperating partners who require special reporting now will need BESSIP to continue this practice.

5.2 Government Implementation Capacity Considerations

In many of our conversations (with the British, the Dutch, the Irish, the Japanese, the Danes), we heard reservations expressed about the ability of GRZ to implement programs. These comments were expressed in different ways – most times with respect to the Ministry of Finance, but sometimes also with respect to financial and accounting capabilities at the district level. Everyone seemed to have high regard and strong support for the SWAp concept, but no one we talked with seemed to have any confidence that funds could flow unassisted through the "regular" GRZ budgeting mechanisms, which would mean from the Ministry of Finance and National Planning to the Ministry of Education (first through the central offices and down to the districts). Budget support seemed to be equated with this process, and none of the cooperating partners – including the poolers – seem willing to do this. Even though one of the strong basic objectives of SWAps is to use and strengthen existing government structures, the way BESSIP operates now does not embrace this objective.

TABLE 1: BESSIP 2002 BUDGET SUMMARY SOURCE OF FUNDING (US$)

Source of Funds	Overall Mng	Infrastr.	Teacher Dev.	Educ. Materials	Gender & Equity	Sch Health & Nut	BSC	Capacity Building	HIV/AIDS	TOTAL
Netherlands (pool)										4,680,000
Norway (pool)										4,500,000
Ireland (pool)										4,350,000
DFID (pool)										2,153,436
Finland (pool)										1,041,385
DANIDA (pool)										1,000,000
Sub-total (Pool- 2002)										17,724,821
Roll-over (Pool-2001)										11,173,206
Sub-Total (pool)	3,537,676	4,825,578	6,999,500	1,724,230	5,401,513	846,980	459,000	3,224,950	1,878,600	28,898,027
Cases 2,3,4										
ADB	146,375	4,244,878	175,590	-	-		-	292,000	0	4,858,843
DANIDA	0	5,867,000	435,000	-	256,000		134,000		-	6,692,000
DFID	0	-	5,087, 250	-			-		-	5,087,250
Finland ESSIP	527,969	109,500	-	-	232,354		-		378,000	1,247,823
IDA	0	10,173,777	-	3,014,100	500,000		-		-	13,687,877
IDA-ZAMSIF	0	4,378,483	-	-	-	-	-	-	-	4,378,483
European Union	0	4,876,446	-	-	458,000		-		-	5,334,446
Japan CVF	150,000	1,052,000	550,000	1,000,000	30,000	474,016	-		1,343,300	4,599,316
Norway Redd Barna	0	179,500	-	-	-		-		-	179,500
UNICEF	0	-	-	-	2,161,000	1,200,000	-		1,000,000	4,361,000
USAID/CHANGES	1,467,090	-	-	-	1,079,630	409,280	-	440, 000	145,000	3,541,000
OPSUP	0	2,705,209	-	-	-		-			2,705,209
Sub-total (Cases 2,3,4)	2,291,434	33,586,793	6,247,840	4,014,100	4,716,984	2,083,296	134,000	732,000	2,866,300	56,672,747
Grand Total	5,829,110	38,412,372	13,247,340	5,738,330	10,118,497	2,930,276	593,000	3,956,950	4,744,900	85,570,775

Source: Ministry of Education, BESSIP Annual Work Plan and Budget, January – December 2002, Lusaka, Management Implementation Team (MIT), December 2001, p.vii.

Aside from the lack of coordination between the Ministry of Finance and National Planning and the Ministry of Education concerning the flow of program funds (all recurrent funding, including for MOE staff is provided by MFNP to MOE, and is not a part of the cooperating partners' funding), there is another issue, equally difficult. The Component Managers, accountants, other BESSIP staff responsible for the program are all outside the MOE system. The Acting Director of Planning within the MOE, to whom the BESSIP personnel are supposed to report, complained that they do not report to her and that, in fact, BESSIP operates "like a project." She is correct in a very real sense: BESSIP staff are recruited from outside the Ministry, receive higher pay than Ministry personnel, have better equipment and office facilities than Ministry personnel, and even receive certain "allowances" from cooperating partners. In addition, none of BESSIP program funding flows through the "normal" GRZ channels. DFID and Ireland Aid complain about the slow pace of funds flowing to the districts, and even talk about wanting to set up accounts so that funds can go directly to district offices, perhaps directly through the District Education Offices, once they are fully functional. While it is understandable that cooperating partners want funds to flow quickly, efficiently, and through competent and predictable channels, it seems inconsistent to talk about the SWAp mechanism in terms of increasing Government ownership of BESSIP and the resources available to it, while at the same time supporting a system that, in the long-run, may well work to undermine that very GRZ ownership.

In the discussion with DFID, we were told that the model on which the District Education Offices might be based is that of the Central Boards of Health that were established to implement the Health SWAp. The good news is that the Ministry of Education, in its draft Strategic Plan 2003 – 2007 states its intention to complete the re-structuring of the Ministry by the end of 2002, which includes the establishment and empowerment of District Boards of Education in all 72 districts. The bad news is that the same Strategic Plan calls for a major capacity building program for the District Education Boards to take place only in 2003/2004. The MOE envisions that decentralization to the districts – through its District Education Offices – will also include delegations of authority with respect to financial management, transparency, and accountability. One troubling fact, since one idea would be to build the Education Boards on the CBoH model, is that such an arrangement, in the long-run, may increase the time it would take GRZ to gain full ownership of its educational programs. This is in spite of the reality that actual service delivery under such parallel arrangements may, in the short-term, be much faster. By the same token, ASIP (agriculture) is generally assumed not to have been successfully executed, in large part because the requisite top level support was absent in the Ministry when the program began. Yet, ASIP rejected all attempts to create a parallel structure, and tried to work within the GRZ's existing systems – an excellent and laudable attempt, even if implemented unsuccessfully. The point we want to emphasize is that there seems to be more concern among the cooperating partners about increasing the flow of funds to the district level - which is important, to be sure - than there is about ensuring that that a strong system of accountability will be in place several years hence. The MOE has expressed its desire to meet "the huge challenges for the Ministry to absorb the good elements of BESSIP management and accountability into the structure as a whole." Would not cooperating partner concern and support for this Ministry goal increase the possibility that the basic education interventions under BESSIP will have a greater chance at long-term sustainability?

We heard mixed messages. On the one hand, every partner we talked with – except the Japanese – was adamantly opposed to projects as a funding modality in the education sector, yet many partners are implementing projects in Zambia in other sectors, and to a large extent,

in the education sector as well. On the other hand, almost everyone seemed to try to justify this apparent dilemma by expressing the belief that the Ministry of Education wants a mixture of program support and project support.

There seemed also to be concern about helping to strengthen capacity, in a targeted way, by continued use of technical assistance (TA) – even outside the BESSIP framework. The Irish, who were for some time opposed to providing TA, are now re-thinking the need for such assistance. While there are different approaches under consideration concerning how TA should be provided, the areas in which it should be provided, and who should approve and manage it, there is little disagreement about the need for it.

Other partners also expressed thoughts about the need for technical assistance, and the manner in which it should be provided. There is a very strong feeling that TA should be coordinated, and that consultants should report to GRZ officials, rather to the cooperating partners. The Ireland Aid representative made a point of saying there is no Irish technical assistance in Zambia now, a huge change from the very large presence they once had in the Northern Province. Nonetheless, they have set aside $300,000 as "process money" that could be used for TA or to support civil society activities. DFID was even stronger in expressing the view that TA should not only be agreed by the Ministry, but funding to support it should be pooled. DFID also believes the TA should be "part-time", i.e., come in every few weeks rather than be assigned on a long-term basis. According to DFID, this would emphasize that the TA is being brought in to do a specific job and not "take away the power of Ministry personnel". The Ministry of Education participates in the selection of TA engaged by DFID, including sitting in on interviews of candidates – who are brought to Lusaka as a final stage before selection. DFID has dedicated some 600,000 British pounds to BESSIP for TA. Nonetheless, it seems to be the cooperating partners who continue to draft the terms of reference for the TA, a phenomenon that raises questions regarding the degree to which the Zambian government is involved in designing modalities for TA use. Moreover, with all the concern expressed by cooperating partners about TA, we were surprised to find that even though FINNIDA is a "recently converted" pooler, they have a TA, a financial advisor, sharing an office for two years with the BESSIP Financial Manager.

The Review Team is convinced also of the continuing need for TA. We are also convinced of the need to coordinate all efforts in the sector, including where TA is concerned. We are not so sure, however, that the best way to provide it is through maintaining the separate "TA set-aside funds", as such funds may serve as negative incentives for the Ministry of Education or BESSIP planners. The concern here is that if BESSIP personnel know that there are 'set-aside' funds available – outside their own budgets – for bringing in TA, or for other purposes – there may be a tendency to "under-budget" for those needs. This could occur on the assumption that planners would be able to tap the set-aside funds to meet TA requirement without having to prioritize their full array of budget requirements and fight for all their anticipated needs as part of the regular budget process. We believe that if the Ministry believes TA is important – as we do – then it should be included as an integral part of its budget, not available "off-budget" through special set-asides that are not subject to normal budget scrutiny. It may be better to include such TA in a well-targeted project that is negotiated and approved by the Ministry, than to have funds available in a special set-aside fund, the use of which is agreed (controlled?) by the cooperating partners.

5.3 Sustainability Challenges

When BESSIP first began, it was to have been placed under the direction of the Ministry of Education's Director of Planning. There was no director at the time, so temporary measures were taken in order that BESSIP could begin without delay. There is now a BESSIP Coordinator, who comes from the Ministry of Education, and an Acting Director of Planning, who is responsible – at least in name – for BESSIP day to day operations; but in fact, she has no direct influence on BESSIP. Salary enhancements for BESSIP staff began at the outset of the program to quickly attract well-trained staff, and these provisions were to remain in place only for one year, after which the staff were to be absorbed within the Ministry's regular employee structure. This merger was postponed, and only recently the salary enhancements were to cease – although it is not clear they have ceased in fact. GRZ has plans to implement its Public Service Reform Program (of which the restructuring of the Ministry of Education is a part), and a Public Sector Capacity Building Program. Both of these programs are expected to begin implementation during the current PRSP (2002 - 2004), and will effect a rationalization of personnel, including those of all the line ministries. There is lots of concern and speculation about what these changes will mean for BESSIP staff. In discussions with them, they are very much uncertain if they will be able to continue to work with BESSIP, and, perhaps equally important, what impact these changes will have on their compensation, even if their jobs continue.

The Public Service Reform Program is already underway, as is the GRZ commitment to decentralization within the Ministry of Education. There has been some movement in the education sector toward decentralization of delivery of services at the district level, but it has been slow and tedious. District Education Boards (and school boards) have been operating in one province (Copperbelt) since 1998, and by the end of 2001 such boards were operating in 5 of the 9 provinces around the country. District Education Boards are to be established and operational in the remaining provinces by the end of 2002.

The PRSP also has links to the Medium Term Expenditure Framework (MTEF) which is intended to improve expenditure planning, management, and tracking. The BESSIP Financial Manager is already expecting that BESSIP finances will be integrated into the Ministry of Education's Integrated Financial Management Information System (IFMIS) during 2002.

These longer-term systems changes may well have an effect on BESSIP, and at this point it is not clear if the immediate impact will be positive or negative. The Dutch representative summarized an issue raised by several cooperating partners when he pointed out that the biggest problem he believes GRZ staff face is one of motivation. He said there is an immediate need to reform the GRZ salary structure, which he believes would go a long way toward motivating staff to work more effectively. This, he said, is a much greater problem than the perceived lack of staff capacity. This issue was echoed by several people, and is, we believe, one of the more difficult issues GRZ faces. It is also an area in which we believe USAID may be helpful.

5.4 BESSIP Funding Options

5.4.1 Option One: Current Funding Directly Through the MOE

We learnt through our discussions with cooperating partners that all funding provided in support of BESSIP under Case 1, Case 2, and Case 3 have been provided directly to the Ministry of Education; and that no money has been provided through the Ministry of Finance and National Planning. This was especially surprising with respect to Case 1 (the "poolers").

We also learnt that even though Case 2 and Case 3 cooperating partners insist that their funds be kept in separate accounts, none of the partners in any of the three cases make any effort to track their hard currencies separate from the local currencies that are used by BESSIP. We were so concerned that we get the facts right about how funds flow into the pool, who controls them, and how they are tracked, we held a second interview with the BESSIP Financial Manager. She confirmed that all "poolers" deposit their hard currencies (in British pounds, Danish kroner, U.S. dollars, etc.) into a single common bank account that is controlled by the Ministry of Education. The Ministry holds these funds in U.S. dollars, and the funds are not tracked by any of the poolers. She explained the concept quite vividly by making the analogy to pouring water into milk. Once mixed, she said, it is impossible to determine the original of any of the funds. Prior to the second interview with the BESSIP Financial Manager, we had thought the funds from DANIDA might somehow be tracked even after they were deposited into the BESSIP account. However, it seems that the tracking procedure the DANIDA representative had explained to us, was in fact describing the accounting for a separate project with the Teacher Training Division of the Ministry of Education, which is separate from the $1 million that DANIDA has provided to the BESSIP pool.[13]

The pool system for BESSIP seems to be working well, yet despite all the support for the system, all pooled funding is solely within the Ministry of Education, and pooled resources have not build up as rapidly as discussions might suggest. A glance at the BESSIP (Table 1) shows pooled resources of about half the level of Cases 2, 3, and 4 combined – or about 30 percent of cooperating partner resources available to support BESSIP. Only three partners (the Netherlands, Norway, and Ireland) have contributed in excess of $4 million, and no partner has contributed as much as $5 million to the pool. Even these numbers are somewhat misleading in that they reflect only funds that have been formally signed (obligated in USAID terms), and do not reflect commitments. For example, the Danes, Case 3 BESSIP partners, have pooled the equivalent of about $1 million (out of a 5-year commitment of $30 million).

Again, all BESSIP funding flows through the Ministry of Education; and even so, cooperating partners continue to complain about the slow pace of getting funds to the district. The Danes are also planning to have a financial consultant travel out to the districts early next year to help them develop a system that will help them use GRZ channels better, and that will afford them the level of accountability comfort they require. The DFID representative expressed similar concern that funds do not reach the districts fast enough. He is contemplating disbursing funds directly to District Education Boards, similar to the way disbursements are made in the health sector SWAp through Central Boards of Health, notwithstanding the fact that these bodies in the health ministry were established as parallel systems, outside the ministry's existing ones, in order to ensure swift disbursement of funds at the local level. The Irish also made this point, but all of the partners seem reluctant to deal with GRZ entities outside the Ministry of Education to do so, or to address any of the broader Ministry of Education issues – such as restructuring – which affect BESSIP as well as other programs.

[13] DANIDA maintains a separate hard currency (Kroner) account (held in Citi-Bank in Lusaka), along with several sub-accounts held in Kwacha that support the Teacher Training Division. They track closely the Kwacha accounts, and convert Kroner to Kwacha and replenish the Kwacha accounts when needed for this project, which is outside the pooled BESSIP funds.

Implications for USAID: Providing funding solely to the Ministry of Education – even if one participates in Case 1 – pooling monies under the control of the MOE – is limited in its ability to effect results at the district level. This is true because the majority of funds that flow to the MOE, those that pay salaries and other recurrent costs, are not affected by donor contributions to the MOE pool for BESSIP. Contributions made directly to the BESSIP pool, therefore, do not affect an important motivation of staff who work on the program – their salaries – unless USAID wants to join the practice of paying special allowances to BESSIP staff – which we recommend against because of the likely negative long-term effect on internal GRZ systems.

Also, certain other important factors that impact BESSIP are outside the BESSIP program and also outside the MOE, including the pace of delivery of program monies to the district, and restructuring decisions which will affect the status and pay of BESSIP staff.

5.4.2 Option Two: Funding Directly Through the MOE (Case 1 Pilot) While Conducting a Thorough Study of "Pooling" Experiences

The authors have conducted interviews with the key cooperating partners, including the Ministry of Education, and we have reached certain conclusions. However, this was not intended to be a thorough vetting of experiences that cooperating partners have compiled, and there would be much to learn from a well-planned in-depth study that looked at procedures, measured capacities of key personnel, and documented progress over the life of BESSIP to date.

Nonetheless, it is our judgment that even if USAID opts for this approach, it should not wait to take formal steps to provide some non-project funding to the BESSIP program. Not doing so, we believe, would continue to leave USAID outside the main decision-making mechanisms that have been established in BESSIP. It would also indicate to Government that USAID intends to continue only in project mode, is either unable or unwilling to join GRZ in a more cooperative assistance approach, as the most influential donors have been doing for some time. Whether this option is a feasible one depends on a favorable review and interpretation by USAID/Washington on the apparent discrepancy between Agency guidance and Africa Bureau guidance on NPA, since this option would require co-mingling local currency into a single account. We are also making the assumption that the Ministry of Education will agree to placing the U.S. dollars into a separate account and that USAID will be able to track the dollars, as required by U.S. law. The underlying assumption here is that the pooled monies – the Kwacha – are the important attraction for the Ministry of Education, and that how USAID would have to deal with the dollars is less important to the ministry.

Steps	Action
1.	Commission an in-depth study that looks at the feasibility of the experiences of all the main 'poolers' in BESSIP, namely, Netherlands, Norway, Ireland Aid, DFID, Finland, and DANIDA. Also evaluate the *BESSIP Financial and Procurement Manual* (FPM) with a view of establishing the best entry point for USAID as well capacity building requirements.
2.	On the basis of the findings, determine the level of *pilot* funding to the BESSIP pool, say.
3.	Seek to participate in the most influential committees of BESSIP so as to enhance the policy-making influence/impact of USAID during the on-going restructuring exercise.
4.	Review the experiences of other donors as well as the findings of the FPM assessment and, if the results are encouraging, consider increasing the pool

	contribution by a reasonable margin.

Comments
Under this Option, it is still recommended that USAID continue with its on-going project support to BESSIP, namely, support to overall management, Gender and Equity, School Health and Nutrition, Capacity Building, and HIV/AIDS.

Implications for USAID
This NPA option would permit USAID to put money into the BESSIP system, but would also permit an in-depth study of cooperating partners' experiences to date. However, since funds would be given only to the Ministry of Education, the same limitations apply to this option as are identified with Option One, i.e. this option provides USAID no leverage outside the Ministry of Education.

5.4.3 Option Three: Funding Directly Through the MOE (Case 2 Pilot)

The essential difference in this option from Option Two is the treatment of local currency. In this case, not only would USAID have to put its U.S. dollars in a separate account, and track their use, but the local currencies would also have to be placed in a separate account and their usage tracked. While the funds (the local currency) would be owned and controlled by the Ministry of Education, they could not be co-mingled in a common bank account, USAID would have to agree on how the funds would be used, and USAID would have to track and report on their usage.

Steps	Action
1.	Disburse resources directly to the Ministry of Education but earmarked for, say, two districts but not mingled in a common bank account.
2.	The money should be at the disposal of the district level committee for use in all their activities as determined by them but in line with the respective district's Annual Work Plan and budget.
3.	The money should be tracked by USAID

Comments
The main idea for this option is to test the dependability of the existing financial and procurement system. An evaluation of the experience should be done at the end of the year and findings linked to the findings of the FPM review proposed in Option 2 above. Possibility of linking TAs to the district during this pilot phase may be advisable to assist in the monitoring of activities and results for the purpose of reaching informed decisions for the future course of action.

Implications for USAID
This NPA option requires USAID tracking of both dollars and local currency, but it does permit USAID to participate in BESSIP activities at a higher level of involvement than is currently the case.

5.4.4 Option Four: Funding BESSIP Through the Ministry of Finance - A Leveraged Approach

As seen in several sections above, the cooperating partners working on BESSIP have expressed no interest in dealing with the Ministry of Finance. In fact, most want to deal exclusively with the Ministry of Education. Also, it is clear that the monies available from "pooled" funds for "all BESSIP components", are not available for recurrent costs, the bulk of which cover salaries. Thus, ninety percent of the funds that support BESSIP are beyond the influence of cooperating partners, and as far as we could determine from our interviews, none – except perhaps DFID (which is being pushed by its headquarters) are even considering providing general budget support to GRZ. None of the cooperating partners are

attempting to address the issue of trying to improve the flow Ministry of Finance and National Planning resources to the Ministry of Education. None of the cooperating partners, therefore, are dealing with what we see as one of the basic obstacles to better motivation within the Ministry of Education, since the source of the obstacles rests outside the education sector.

The Ministry of Education had the following to say about the Ministry of Finance:

> "The Ministry of Finance and National Planning has enormous influence on the whole education sector in its decisions on how much to allocate of the annual budget to education, and its response to the forecasts from the Ministry of Education. Conversely, it may not have great interest *per se* in the education sector, except in following agreed government priorities on support to the social sector."

While the Ministry of Education is only one of five ministries with responsibilities in the education sector – and BESSIP is but one sub-sector within the sector, it seems to us that the link with the Ministry of Finance and National Planning (MFNP) is crucial. Its role in providing funding support to all line ministries generally, and the impact of its decisions on BESSIP directly are simply too important to be ignored as cooperating partners consider the most effective ways to support the sub-sector.

The use of NPA as a funding modality may hold great promise in this situation. While we want to work as much as possible through GRZ existing systems, in support of its programmatic priorities, there is nothing inconsistent with giving MFNP the hard currency it needs in exchange for priority allocation of local currency, through its own budgetary system, in support of an already approved program. The flexible BESSIP funding arrangement makes this possible under either Case 2 or Case 3, and perhaps even under Case 1. It would also respond positively to the BESSIP request that USAID raise its profile in BESSIP by giving BESSIP control of local currencies that could be used for any of its activities. At the same time, it would give BESSIP added support in the priority allocation of GRZ funds for recurrent costs (especially salary).

For MFNP, the attraction for considering an NPA program would be that U.S. dollars would be made available to the MFNP. In return for providing dollars, USAID would want two things from the MOFNP. The first is that USAID would seek agreement that the MFNP would expedite the processing and release of MOE recurrent cost support of BESSIP. These funds which would be provided in any case to fund MOE (and BESSIP) staff at some point during the budget year, the timing and ultimate funding levels are often uncertain. Through the NPA, USAID would seek MFNP agreement to ensure that the MOE would be at or near the top of the list as the Ministry makes its monthly decisions of how and to which line ministry to disburse funds. This is important because the Government of Zambia operates on the basis of cash-based budget, meaning that even though each government entity submits and eventually receives an agreed budget for each coming year, the actual level of funding it receives will depend on gross revenue collections, how the MFNP decides during to year to re-prioritize the disbursement of these funds, and when they decide to release them. If the attraction of receiving dollars under the NPA is sufficient, the timing releases to MOE would be based on accomplishment of certain benchmarks in the Ministry of Education, and the incentive would be increased for MFNP to make the core funding available to the MOE in order that these thresholds could be reached. This would, in turn, give the Ministry of Education much greater certainty that their overall budget would be funded on a regular basis

– at or near its requested budget level. This kind of assurance concerning how the MOE (and other ministries) currently receive budget resources should have a positive impact on MOE and BESSIP personnel.

Another trigger we suggest USAID consider addresses completing the restructuring of MOE. If the MFNP can be encouraged through this mechanism to help push for this restructuring to be completed, in order to reach the funds release trigger, it will remove one of the principal current distractions within the Ministry of Education regarding the uncertainty of job security and the relationships of Ministry of Education personnel vis-a-vis BESSIP management staff.

The second thing that USAID would want from the NPA is the generation of additional local currency (an amount equivalent to the value of the dollars) that would be provided to MFNP to support BESSIP. Ideally these monies could be placed in the BESSIP "pool" for use in support of BESSIP activities (see discussion concerning differences in Agency and Africa Bureau NPA guidance). However, even if that is not feasible, USAID could earmark the local currency for specific components of BESSIP that the US supports. Clearly, one would expect greater leverage with BESSIP if these funds are allowed to go into the general pool. If USAID made the dollars available through an open market auction (an option that SO3 is exploring for the Essential Health Care NPA), in which case U.S. dollars would be released to a separate dollar account once certain "triggers" are reached in the basic education sub-sector. GRZ would then auction the dollars to commercial banks through the foreign currency window of the Bank of Zambia. On the other hand, local currencies "generated" as a result of the auction may have to be tracked, and would need to be kept in a separate BESSIP account.

Steps	Action
1	Provide dollars to the Ministry of Finance and National Planning (MFNP) for auction through MOE-led interventions in the BESSIP area.
2	Dollars are placed in a separate account once a release of funds is triggered. The dollars are then auctioned to commercial banks through the Bank of Zambia foreign exchange window. A further iteration of this procedure might be to discuss with MFNP the feasibility of restricting those eligible to participate in the auction to importers interested in importing goods that directly support the basic education sub-sector, such as school infrastructure, educational materials, drugs or nutritional supplements that support school health and nutrition programs.
3	A separate local currency account is opened to receive the Kwacha generated from the sale of dollars. The Kwacha then tracked to BESSIP pool account for use in BESSIP program. Assuming favorable ruling/interpretation on discrepancy in Agency guidance and Africa Bureau guidance, USAID tracking of local currency ceases at this point. If advice on the language discrepancy is different, USAID would have to continue to track the local currency to ensure that it is used for the intended purposes.
4	There should be a commitment on the part of MFNP that budget disbursement to BESSIP for the USAID-supported activities (i.e. those that shall benefit from the dollar grant) shall be honored prior to the application of the application of the grant.

Comments
The aim of this Option is to, firstly, entice MFNP to release in a timely and sufficient manner the approved budgetary resources to BESSIP while at the same time USAID is providing financial support for BESSIP activities. The enhancement to this option is to engage private sector importer, in some form of alliance, in the delivery of BESSIP services to the community. For this option to work (particularly with respect to the MOFNP incentive to release budgeted BESSIP resources), the dollar grant should be sufficiently attractive to induce the desired response.

Implications for USAID
This option affords USAID the greatest leverage, both on 1) influencing the GRZ to give priority to funding recurrent costs of Ministry of Education personnel working on and supporting BESSIP, and 2) generating local currency (from the auction of dollars) that can be made available for supporting BESSIP activities.

The dollars would be auctioned to commercial banks. A separate local currency account is opened to receive the Kwacha generated from the sale of dollars. The Kwacha would then tracked to BESSIP pool account for use in BESSIP program. Assuming favorable ruling/interpretation on discrepancy in Agency guidance and Africa Bureau guidance, USAID tracking of local currency ceases at this point. If advice on the language discrepancy is different, USAID would have to continue to track the local currency to ensure that it is used for the intended purposes.

5.5 Technical and Political Implications of Funding Choices

5.5.1 Technical Implications

5.5.1.1 NPA Development versus New Project Development

Technically, there is not much difference in the amount of research, analysis, and proposal preparation that goes into developing a project or developing an NPA proposal. The essential steps are the same: a proposal is developed that demonstrates USAID's understanding of the economic and political environment, identifies and describes the objectives of the proposal. The proposal must show how those objectives fit within the government's priorities, how they fit within the USAID strategic plan, the likelihood of success, and the obstacles that must be overcome in order to succeed. First, the Mission must be satisfied that all these questions are answered adequately, then the USAID/Washington approval process within the Africa Bureau will have to be satisfied. In either case - project or NPA - the process eventually must include a Congressional Notification, which in most cases does not add more than the mandatory 15-day waiting period.

Nonetheless, there may be some additional scrutiny for NPA programs, for several reasons. One, a lot of attention is directly toward Africa problems these days because of the high profile the Bush Administration has focused on the continent. This may shorten or lengthen the approval process, depending on what other Africa Bureau programs come under review at the time the Zambia program is being considered. Two, given the Assistant Administrator of Africa' renewed interest in NPA, there is likely to be a lot of attention given to any NPA program for the foreseeable future - again, this may be positive or negative for Zambia. Three, USAID/Washington is likely to focus a lot of attention on a Zambia NPA program because a) the Ethiopia Mission recently decided to suspend implementation of an NPA program and to re-program remaining un-disbursed funds through a project modality; b) given the on-going work of the NPA Task Force there will likely be interest in Zambia's experience with other donor contributions to BESSIP; and c) we would expect that the NPA Task Force will also want to make sure that any new NPA program for Zambia reflects any

new guidance the Task Force might develop. Four, there may be interest on Capitol Hill in NPA programs, as was the case in 1998 when staffers inserted language in USAID legislation prohibiting the use of NPA funded by monies appropriated for Health and Child Survival programs. Capitol Hill may also be interested in Africa NPA programs because of the issues surrounding debt relief, the President's initiative for support of Africa, and the recent passage of a trade law (AGOA) opening some U.S. markets to African countries.

5.5.1.2 Next Steps in Developing an NPA Program

If USAID/Zambia decides to develop an NPA program in some form, it will need to consider several factors. We would recommend the establishment of an NPA Design Team, comprised of USAID/Zambia staff with experience in NPA programs in Zambia, especially from the Program Office and the Health Office. USAID/Zambia is already in touch with the NPA Task Force in Washington, and should consider inviting someone from the Task Force to take part in the preparation of the NPA assessment and proposal. In view of the importance of the country macroeconomic analysis that needs to be made, it would be good if the member of the Task Force could also help in that regard. As we mentioned in an earlier section of this study, the Contextual Study recently completed for the Mission, may serve as an important starting point for addressing the macroeconomic issues that will need to be documented in the NPA proposal. The NPA Design Team may also find it useful to review the World Bank country assistance evaluation of Zambia, which was just being completed as we were conducting the current study.

It would probably be very useful for the NPA Design Team to contact other Africa Bureau USAID Missions about their experiences with NPA, particularly USAID/Ethiopia in light of its recent decision to suspend implementation of one of its NPA programs. USAID/Uganda has been implementing an NPA program for the past decade, seems well pleased with the results so far, and it is about to begin implementation of a new one. Their insights should be extremely helpful to USAID/Zambia. USAID/Malawi is another Mission with recent NPA experience that might be useful to USAID/Zambia in helping to think through some of the issues they faced, and to provide insights of their interactions with USAID/Washington on the issues. USAID/Mozambique may be another Africa Mission with NPA experience helpful to USAID/Zambia.

As the use of NPA must be a part of the Mission's strategic plan, the research and analyses performed in preparation for the NPA should be made available to those in USAID/Zambia charged with developing the Country Strategic Plan (CSP), so that the rationale and expected impact of NPA can be woven into the overall Mission strategy. This would argue for an early decision as to whether or not to include an NPA component in the BESSIP support arsenal, so that the necessary research and analyses could be done in sufficient time to be included in the CSP development process. The rationale here is that it will be much better to consider NPA as a possible component of the Mission strategy during the early stages as the Mission is open to different approaches, rather than waiting until later in the decision process as the elements of the new strategy have already begun to form.

As USAID/Zambia is no doubt aware, implementing an NPA program is not necessarily less personnel intensive than implementing a project. In many ways, it may be more personnel intensive because Mission staff will need to spend much more time collaborating with Government of Zambia officials as well as with the coordinating partners. Within the Ministry of Education itself, there will need to be more frequent attendance of the key committees that administer the BESSIP program, particularly those that are being

increasingly regarded as "decision-making" bodies – such as the so-called "Four Plus Four" Committee. If USAID is to be perceived as a full partner by GRZ and by the cooperating partners, it will need to have the staff to cover all these bases on a continuing basis. It is not clear to the authors that the Mission as a whole appreciates fully the amount of time that the SWAp programs require, nor of the amount of time other donor organizations are currently devoting to the program. It is our observation that the most influential of the cooperating partners have their principal education representatives spending the majority of their time collaborating on BESSIP, and to a lesser extent on other education-related issues. We believe there is a direct and positive correlation between the amount of time spent collaborating with BESSIP cooperating partners and the influence wielded on issues of importance to the sub-sector. If USAID/Zambia decides to develop an NPA program to support BESSIP, from the beginning of deliberations it should consider equally carefully the level and type of additional mission personnel that might be needed to adequately ensure that USAID reaps the full benefit from its increased support.

Similarly, if the Mission designs an NPA program for BESSIP that involves the Ministry of Finance and National Planning - as we are recommending - or if only the Ministry of Education is involved, USAID/Zambia will likely need to involve other elements of the Mission in addition to the SO2 Team. This is true because of the establishment of a separate US dollar account, and the tracking of US dollars that will need to occur, as well as possibly doing the same thing with respect to local currency, will require the involvement of several different individuals making direct contact with GRZ officials and cooperating partners. While we are aware that the SO2 Team is multi-disciplinary, with members from different offices, such as Financial Management and Program, our impression is that many of the participants operate mostly in an internal support mode, rather than in situations where they are in direct contact with BESSIP or cooperating partner personnel. In an expanded collaboration mode, we can envision a need for more direct participation of SO2 Team members in various BESSIP coordinating meetings, the Core Indicator Working Groups or the Financial Technical Committee. If USAID is to exact leverage from the NPA, particularly if ministries other than the Ministry of Education are involved, there may well be a need to involve senior management on occasion, in addition to a possibly expanded SO2 Team.

5.5.2 Political Implications

5.5.2.1 Generic Risks Specific to Zambia

There are other considerations also that should be taken into account. In the approval process for any NPA program for Zambia, there would likely be concerns raised about the high profile scandals that have been publicized recently. These are valid concerns that would need to be addressed thoroughly in the various risk assessments that the Africa Bureau will likely insist upon. To be sure, our interviews with cooperating partners resident in Lusaka revealed that there is a perception that the Ministry of Finance and National Planning is a place to be avoided. The skepticism, however, is not a concern about monies not coming through MFNP, but the pace with which it is perceived it will flow - very slowly! Also, there was a concern expressed several times that partners while wanting to use the SWAp mechanism, were unwilling to leave funds flow issues solely to GRZ systems. We are suggesting that use of NPA may be a way to influence the GRZ system to work the way, and at the speed and efficiency, for which it was designed.

It should also be taken into consideration the equally high profile anti-corruption campaign being conducted – very publicly – by top Government officials. During the course of the

feasibility study, the President of Zambia brought public, through a unique Parliamentary submission, a number of allegations that may implicate the previous president in mis-handling of large amounts of public funds. The Parliament debated the issue, and voted to lift the former president's immunity so that a full investigation can be conducted. Regardless of the outcome of any subsequent investigation, the current president's actions, the outcry of public outrage and public demonstrations, and broad media coverage all send a very strong message that corruption will not be tolerated, and that the same high standards will be applied to any citizen – regardless of his or her position. These events bode well for Zambia. They help to instill a sense of confidence that the country and its leaders are prepared to take difficult decisions to safeguard the public trust. They also help to reassure investors, the international financial institutions, commercial banks, and cooperating partners as well that Zambia is a country well worthy of any support available, from public and/or private sources.

5.5.2.2 Possible Government of Zambia Reaction to NPA Proposal

Designing an NPA program would mean opening negotiations with the MOFNP, as well as with the MOE concerning BESSIP. USAID/Zambia currently signs all of its assistance agreements with the Ministry of Finance and National Planning. However, before these documents go to the MFNP for signature, USAID negotiates the substantive program with the concerned line ministry – in the case of BESSIP – the Ministry of Education. Holding substantive discussions with the Ministry of Finance and National Planning concerning NPA for BESSIP would introduce a new element to the USAID relationship to the substantive side of negotiations concerning BESSIP. This would also bring in USAID staff from outside the SO2 office, most likely involving the Program Office, and perhaps USAID/Washington offices such as PPC or the newly formed NPA Task Force.

It would also introduce a new dynamic to USAID's existing relationship with the Ministry of Education. One possible adverse consideration is that the Ministry of Education may not want to involve the Ministry of Finance and National Planning, since the U.S. dollars involved would not be available to the MOE as in the case of other "poolers" under BESSIP, and in a sense they may interpret the change as a loss to the Ministry of Education, particularly if it is tasked with finding the hard currency needed to pay for education sector-related imports such as educational books and materials, construction materials for use in school construction, or even for the purchase of drugs and nutritional supplements used in the school health and nutrition program. A counter argument – and we believe a persuasive one -- that USAID could make should the Ministry of Education raise such issues, is that MOE would benefit from the added leverage that USAID would bring to the table to encourage MFNP to release MOE recurrent funds on a priority basis. It is also hoped that with USAID coming into the BESSIP fold with added funds, on a non-project basis, MOE will find this another welcomed advantage

5.5.2.3 Development Assistance Environment in Zambia

In the current debate of aid effectiveness, it is increasingly being accepted by both donors and recipients that aid ought to be accommodated in the context of the recipient country's own priorities and structures. In this respect, it is expected that USAID activities in Zambia ought to be sensitive to an environment where the government of Zambia and other major donors have moved towards sector program assistance. Notwithstanding this, both the donors and the recipients ought to strike the balance between the need to *get things right* and the need to *get it done*. Thus, while it is important to ensure that there is national ownership with respect to the activities being supported by cooperating partners, considerations of effectiveness, efficiency and sustainability demand that capacity limitations of the government to manage

and account effectively for external resources should be considered when designing the form and level of external support. In the Zambian educational sector, in general, and in BESSIP, in particular, there is ample evidence of capacity limitations that must be addressed prior to the full integration of external resources into the government system through NPA/SWAp approaches. To assure sustainability, the role of donors in helping the country develop these requisite capacities should be considered to be as important as the need to pool resources towards a common mission. Indeed, increased capacity for policy analysis, strategy formulation, implementation, and M&E would promote national ownership and, consequently, reduce donor dependence on both financial and technical assistance.

In designing NPA, it is important also to consider the motivation for entering into this form of partnership. From the government standpoint, it concedes to some enhanced donor voice in both policy and strategy discussions, in return for the latter providing more predictable, flexible, and increased support to the target sector. It is clear worldwide that countries with very high aid dependence, like Zambia, are much keener to adopt SWAps due to their experience with the multiplicity of competing and poorly coordinated donor projects. From the donor perspective, the incentive to move into NPA is strongest among donors that are keen to influence policy dialogue and whose systems are supportive of more flexible budget or sector support and where past experience has exposed them to the serious problems of stand-alone projects. In general, donors with very strong commercial interests, with a high preference for TAs, and with incompatible and inflexible disbursement procedures are generally less keen on NPA. For them to move into this mode of assistance, the needed capacity and structural changes would have to be effected not only in the recipient country but also in their own systems back home with respect to their standing procedures and enabling legislation. The failure to recognize these realities have often resulted in focusing almost exclusively on what ought to be changed in the recipient country and, in the process, sideline the some of the most important changes in the donor side of the aid relationship.

The issue of resource management also matters when designing NPA modalities. With respect to human resources, technical assistance (TA) should not be supply but demand-driven, with preference to short-term and local TAs. At the financial level, pooled resources should be channeled through the government system and consolidated into relatively few accounts that are closely monitored and their expenditure tracked with a view to minimizing resource leakage. In this regard, the recipient government ought to as much discourage the proliferation of parallel donor structures as it should avoid setting parallel implementation arrangements within the government system itself as these tend to be state capacity draining. The arrangement in Zambia's health sector (where the Central Board of Health has been created), though it may appear to be performing better outside the government system, tends to breed unjustified disparities within the government system that evidently threaten more sustainable modes of service delivery. The ideal situation is an arrangement whereby the government sector (or sub-sector) is given the needed capacity to deliver its mandate within the government system itself through, *inter alia*, capacity strengthening of all the major actors. Indeed, experience to date suggests that where parallel structures have been established to plan and manage SWAp activities and the flow of funds, the issues of local ownership and sustainability have remained unresolved.

6. Conclusions and Recommendations

6.1 General Conclusions

The following general conclusions from this evaluation are noteworthy:

1. It is government policy to encourage donors to work towards the pooling of their resources away from project-by-project mode of external support.

2. All cooperating partners in Zambia, including USAID, support the Government's Sector-Wide approach for the basic education sub-sector, and the principles of NPA and pooling resources as assistance delivery modalities.

3. A sizeable number of donors to Zambia are channeling their aid through NPA. Notwithstanding this reality, there is still a general apprehension regarding the degree to which pooled resources could be allowed to be applied without some level of tracking. Consequently, many donors in Cases 2, 3 and 4 of the SWAp modality still insist on either earmarking their resources for easier monitoring and attribution of performance record or are unable or unwilling to have their resources inter-mingled with those of other donors. The result of this has been the creation of many foreign exchange and locally-demoninated accounts, a phenomenon that runs counter to the long-term ideals of SWAp.

4. USAID in the educational sector is still outside the resource pooling NPA modality in BESSIP (presently classified as belonging to Case 4 category) and its currently anticipated contribution to the sector in 2002 will account for roughly 4 percent of the total 2002 BESSIP budget.

5. USAID is presently outside the consultative structure that brings together the principal strategic donors in the educational sector to provide leadership and direction in and for the sector. An important outcome of USAID not being included in this "inner circle" – we believe – is that USAID currently exerts limited influence on the form and nature of how the SWAp is evolving in the educational sector. This has evidently denied the United States the opportunity to participate fully in the on-going rethinking of the vision and process towards an effective structure of educational service delivery and collaboration and co-ordination between the Ministry of Health and its cooperating partners. We believe that USAID should take a more "hands-on" role in the sector, and we believe that providing NPA support to BESSIP will help in this regard. The value of USAID taking up an appropriate place at the 'education roundtable' would enable it to strategically view the educational sector as a whole in the areas of planning, resource allocation, identification of resource gaps and requirements, monitoring-cum assessment of progress, and, most importantly, in the pooling of resources towards common BESSIP goals.

6. We believe that USAID/Zambia may not currently have the human resources to greatly increase the time needed to more effectively collaborate at the level that more enhanced participation in an NPA program will require.

6.2 Specific Recommendations

- USAID/Zambia should provide NPA to the educational sector. Of the four options in Section 5.4, we strongly recommend Option Four (i.e. funding BESSIP through the Ministry of Finance and National Planning). It is the judgment of the authors that this option would greatly enhance USAID/Zambia's ability to play a substantive role in the basic education sub-sector, and to influence factors outside the Ministry of Education that impact on its efficiency and the motivation of its personnel.

- USAID/Zambia should try to find ways to deliver assistance through existing GRZ systems, rather than by establishing or encouraging the development of parallel or external mechanisms that may increase delivery in the short-run, but which may not contribute much to long-term GRZ systems development. We believe that one way to do this is to try to provide incentives to the Ministry of Finance and National Planning through an NPA program to give higher priority to the Ministry of Education by disbursing funds – recurrent and program support – to the MOE on a high priority basis.

  Rationale: USAID is currently at the periphery of activity in BESSIP. It is addressing many of the important issues that GRZ has found difficult to handle (and find funding for), such as dealing with school health and nutrition (which used to be provided by the Ministry of Health), gender issues, and HIV/AIDS. Yet, USAID is not a member of the "Four Plus Four" group, nor is it consulted routinely on important education issues – either by the MOE or by other cooperating partners. Providing NPA in a way that would be expected to have a positive impact on all BESSIP activities would help to "place USAID squarely at the table of decision-makers" with respect to BESSIP implementation and policy issues. Of course, the size of the USAID NPA program would have to be of sufficient size to be attractive to both the MFNP and to add substantially to the BESSIP "pool".

  Providing NPA in this way would also give USAID a "voice" to press for other issues that we did not hear much about during our interviews. For example, USAID has always championed institution-building (which is exactly one of the principal objectives of the NPA used in this way), transparency concerning procurement and budget management issues, as well as personnel issues. USAID could push for these principles if it had a greater voice in education issues, and thereby help GRZ implement its own program objectives.

- USAID should take a more prominent role with the MOE and the cooperating partners in the full range of discussions and decisions that affect the education sector, especially with regard to the basic education sub-sector. This may mean bringing in other USAID staff resources when necessary, such as funding specialists (economists, systems management specialists, planning consultants) and experts in other fields (such as the health and agriculture – perhaps from current USAID/Zambia staff) who can share their experiences with the cooperating partners. It may also mean considering augmenting permanent staff so that resources could be dedicated to NPA implementation as well as increased collaboration with cooperating partners. It might be instructive as USAID/Zambia examines the question of whether to develop an NPA program, to seek specific input from other USAID Missions that are currently implementing NPA programs' in the education sector especially.

Rationale: Many of the issues that face BESSIP have their origin outside the education sector. For example, the generic problem of funds flow from MFNP is not an issue on which the Ministry of Education alone is likely to have much influence. However, USAID, because of its perceived importance as a major cooperating partner with activities in a number of sectors in Zambia, may be able to use its influence on these types of broader issues. It would mean bringing to bear other Mission resources, such as the Mission Director, visiting USAID/Washington officials,[14] other offices that either share these same obstacles, or outside expertise to engage GRZ on a broad range of "cross-cutting" issues. There is also a general impression that successful implementation of NPA programs require fewer staff and fewer staff hours than do other modes of assistance delivery. The Mission may want to examine this issue carefully since the feedback we received from other donors involved in NPA-type programs in Zambia is that their programs are very staff-intensive. Moreover, attention may need to be given not only to considering the number of staff needed, but also whether skills or skills training are needed that are different from the project management expertise currently available to the SO2 Team.

- USAID should actively work to encourage GRZ to complete the reorganization of the Ministry of Education, to clarify the role of the Ministry of Education Planning Directorate with respect to BESSIP, and clarify the roles of BESSIP personnel vis-a-vis the Ministry of Education. USAID should consider developing one or more "triggers" under an NPA program as one way to do this, but senior management of USAID should also weigh in on this crucial issue.

  Rationale: We believe that a substantial element of USAID support to BESSIP, as we have recommended, makes sense as an NPA program, and that the kind of broad influence we expect through the NPA would not be possible through a different funding modality. By tying disbursements of funds under an NPA to specific milestones, USAID could bring the Ministry of Education and the Ministry of Finance and National Planning to work together toward achieving the same goal – a goal that has already been articulated within the government's own plans. Our objective is to use USAID funding to encourage different ministries to use their own systems to work together effectively, rather than to use funds to build, supplement or encourage "non-traditional", and probably non-sustainable systems.

- USAID/Zambia should continue to implement project assistance, along with a new NPA program for BESSIP. We do not believe USAID should abandon the "project" funding modality. We believe there are activities that can best be addressed used different funding modalities, and that certain projects that currently support BESSIP will have a positive long-term impact on the sector.

  Rationale: The EMIS program, for example, would not be an attractive candidate for implementation through an NPA, in our judgment. Nor would the current support for School Health and Nutrition, which requires very specific interventions. We believe USAID can contribute positively to MOE staff development by providing some of the TA that is needed through the modality of well-targeted project assistance.

[14] USAID Assistant Administrator Roger Winter was recently in Lusaka to discuss U.S. assistance to Zambia during the current food crisis. Visits like this could also be used to reinforce a Mission position on important issues such as funds flow between ministries or personnel issues that affect a number of USAID-supported efforts.

APPENDICES

Appendix A

Education Non-Project Assistance Feasibility Study
Statement of Work

1. Purpose

The Education Non-Project Assistance (NPA) Feasibility Study will examine the appropriateness of including NPA as a funding mechanism for USAID support to the Ministry of Education's (MOE) 2003-2007 follow-on Basic Education Sub-Sector Investment Program (BESSIP).

2. Scope of Work

The contractor will:

(1) review USAID policy on Non-Project Assistance (NPA), including recent developments in Agency inclination towards NPA;

(2) critically determine essential US Government conditions for NPA to be considered a feasible mechanism for a USAID country program;

(3) examine the country context of Zambia's education sector in general and BESSIP and its financing and management in particular to assess Zambia's suitability for NPA. In doing this, the contractor will relate the feasibility study to the macroeconomic analysis of the Context Study that USAID/Zambia is undertaking to inform the preparation of its CSP Concept Paper. The contractor will also review lessons learnt from other cooperating partners' experience with NPA to the education sector in Zambia.

(4) assess the suitability of USAID NPA to the education sector in Zambia and recommend the most appropriate approaches to NPA USAID may consider. The contractor will clearly articulate the constraints, opportunities, benefits and risks associated with USAID NPA to the education sector in Zambia and determine the implications that NPA might have on concurrent project assistance.

(5) determine the political and technical implications of USAID NPA financial tracking requirements in relation to their suitability and acceptability to MOE and the other cooperating partners.

(6) develop recommendations for how project support should be designed to function optimally within a sector investment environment in which the GRZ clearly prefers that its partners pool funding through sector or budget support.

3. Methodology

The contractor will collect, review and synthesize documents on USAID NPA policy and guidance, BESSIP, pool funding lessons learned, and public sector finance and management as it relates to the MOE.

The Contractor will consult and conduct interviews with USAID/Washington, USAID/Zambia staff, Zambian Government officials and other cooperating partners and stakeholders as may be necessary to successfully carry out the study.

4. Deliverables

The key findings of this study will be incorporated into the main body of the over-all Review and Analysis of the Education Sector Report. However, detailed findings of this NPA Feasibility Study will be a separate report to be attached as an appendix to the main report. Therefore, in addition to the deliverables described in general statement of work, the following will be required:

(1) Table of Contents for the Education NPA Feasibility Study Report, submitted at the same time as the table of contents for the over-all Education Sector Review and Analysis report

(2) Summary of findings and recommendations on NPA to be incorporated into the over-all Education Sector Review and Analysis report

(3) A more detailed, individual Education NPA Feasibility Study Report that will be appended to the over-all Education Sector Review and Analysis Report.

Appendix B

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Appendix C

List of Persons Consulted

USAID/Washington
Bradford Strickland (in Lusaka)
Joe Kitts
Megan Thomas
Joan Woods
Ash Hartwell
Mitch Kirby
Kay Freeman
Karen Tietjen (in Lusaka)

USAID/Zambia
Kent Noel, Education Advisor, SO2 Team Leader
Robert Clay, Health Advisor, SO3 Team Leader
Likando Mukumbuta, Program Economist

Government of Zambia
Ms. Mulyenkuku, Acting Planning Director, Ministry of Education
Ms. Briget Chitombo, Finance Manager, BESSIP, Ministry of Education
Mr. A.K. Banda, Ministry of Agriculture
Mr. Kaj Bjork, Ministry of Education, Financial Advisor, BESSIP

Other Stakeholders
Dr. Mushiba Nyamazana, Economist, Southern Africa Macroeconomics, The World Bank, Country Office (Lusaka)
Mr. Clement Siamatowe, Operations Officer (Education), The World Bank, Lusaka
Bink J.T. van Walsem, First Secretary (Rural Development), Royal Netherlands Embassy, Zambia
Kevin Kelly, Development Attache, Embassy of Ireland, Zambia
Katsuhiro Sasaki, Resident Representative, Japan International Cooperation Agency (JICA), Zambia Office
Hakushi Hamaoka, Assistant Resident Representative, Japan International Cooperation Agency (JICA), Zambia Office
Marianne Christensen, Chief Program Adviser, Danida, Lusaka
R. Drake Warrick, Chief of Party, EMIS, Lusaka
Talaat Moreau, Academy for Educational Development – USAID/AFR/SD/ED (in Lusaka)

Appendix D

NPA SUPPLEMENTARY GUIDANCE

(distributed by world-wide cable – State 014969 – dated January 1999)

Because of a concern about potential dependence on donors arising out of the use of program aid, the Africa Bureau is issuing supplementary guidance on the design of all non-project assistance (NPA) programs. Additional analysis will be required to justify the use of NPA, and programs will not be approved unless they adequately address the issue of potential donor dependency.

The donor community is moving towards broader provision of sector non-project assistance as an assistance tool. Recent meetings of the Special Program of Assistance for Africa (SPA) have emphasized the need to provide project and non-project assistance within a framework which (1) puts donor resources on budget; (2) harmonizes policy objectives with the resource requirements to achieve those objectives; (3) provides assistance (both project and non-project) within a medium-term (three to five year) perspective; and (4) provides a broader framework for improved donor coordination. USAID would like to see its programs moving in this direction.

MACROECONOMIC ASSESSMENT

For all Non-Project Assistance programs, USAID will prepare a comprehensive macroeconomic assessment. This will be included in various stages of the proposed program design. First, if proposing a new NPA program as part of a strategic plan, Missions will include a section (as described below) justifying the appropriateness of NPA as an instrumentality. Missions will not proceed with the proposed design unless NPA has been explicitly approved as part of the strategy. Second, as part of specific sector programs, Missions will prepare an updated analysis of the macroeconomic situation as it relates to the sector. This will be part of the R4 and/or authorization document. Key results will be reflected in the strategic objective agreement and in the Congressional Notification. Third, the results sections of R4s will annually report on the macroeconomic situation as it relates to the sector, and again, CNs will reflect key results. Currently on-going NPA programs will have to comply with this latter step. If concerns regarding the current macroeconomic picture exist, Missions may be asked to provide a comprehensive assessment.

The critical question, to be addressed in the strategic plan or updated macroeconomic analysis, concerns the way in which government responsibility for sectoral performance includes increasing government assumption of the financial burden in the sector. Pre-obligation documents (comprehensive assessment, R4 update) should answer the following questions:

What is the recent macroeconomic situation? There are three fundamental questions that need to be answered. First, is the macroeconomy showing increasing ability of the host government to take on more responsibility for its own development? Second, is the macroeconomy sufficiently stable that there are unlikely to be sudden shortfalls of government revenues for the sector? Third, what will be the impact of the sectoral reforms on the macro balances?

This would require tables describing trends in balance of payments and government consolidated balances, with particular emphases on sources and uses of foreign exchange in the first instance and sources and uses of government revenue in the second. The key question here is dependency.

How dependent is the partner country on outside grants and loans? How fast has its own mobilization of foreign exchange resources (through exports) increased? Are there expanding sources of private capital (including remissions from citizens abroad)? Is there capital flight? What is happening on the tax mobilization front? What is happening to both domestic and foreign debt service? What is the breakdown between investment and recurrent costs? Between salary and non-salary expenditures? Between development sectors (education, health, transport, agriculture, other infrastructure) and non-development sectors (defense, general administration, etc.)? Are there still major subsidies to public enterprises?

2) What are the prospects for the future? How are all the trends described above likely to play out over the medium term (say five years)? Are there reforms in place which are likely to increase government revenues? Reduce subsidies? Shift allocations of budget resources? Reduce debt service? Etc.

3) How do these macroeconomic trends influence the proposed sector strategy? In particular, over what time frame is government going to be able to assume a greater share of the burden for financing needed public expenditures and investments in the sector? What is the gap between current resources and expenditures and the resources and expenditures required if the sector were to provide a reasonable level of public services (reasonable defined in terms of current per capita income)? What roles are other donors assuming in financing this minimal package of services? What are the roles of the private and local government sectors? Is the central government engaging in effective partnerships with these other sources of finance?

FINANCIAL ACCOUNTABILITY

Disbursement of USAID grant dollars will continue to be made into separate accounts, in accordance with the requirements of the provision which is included annually in the foreign assistance appropriations legislation.

With respect to host government resources, a central idea to the new form of NPA that we are developing is that the budgetary resources which are generated by our assistance be included as part of the overall fiscal plan of the host government. All these host government resources must be on-budget. However, before U.S. grant dollars can be released, USAID must have determined, based on detailed assessments, that the host government has the fiscal management capacity to ensure that the host government funds generated by U.S. grant dollars are accurately tracked and used as agreed upon. Local currencies generated by U.S. assistance will be tracked up to the point where they enter the budget for an agreed upon use. Where governments lack that capacity, USAID, along with other donors, must engage in building the capacity to acceptable standards before any disbursement of non-project funds.

Not all NPA programs will generate local currencies (for example, when dollars are used to pay debt service no local currencies are generated). However, the sectoral programs we support do include the use of budgetary resources, whether generated by our dollars or the resources provided by the assisted government. Therefore, these programs support the financial management of all the budgetary resources going to the sector. Regardless of whether the NPA program requires local currency generation, currency set aside or a host country matching contribution, the same rigorous financial management assessment should be undertaken, since achievement of sector program goals and objectives will depend upon the capacity of the host government to manage all resources devoted to the sector.

DISBURSEMENTS

As we move to greater African ownership and true partnership, resource disbursements will no longer be tied to "conditions precedent" or "conditionality" as previously articulated. Instead, disbursements will be triggered by prescheduled assessments conducted jointly by the sector partnership and which conclude that performance toward program objectives is on track. This is a subtle change which preserves the principle of ensuring that NPA is only disbursed when tangible progress towards achievement of agreed program objectives is being made, while at the same time making the determination of the policy situation a joint one.

Missions will only engage in an NPA activity where there is mutual agreement on the medium term objectives for sector development and where the host country (government, private sector and civil society actors) is truly committed to achieving these objectives. This type of framework may not exist for currently ongoing NPA programs. Where this is the case, Missions will consult with Washington about the viability of continuing the NPA as designed. Washington will provide technical assistance so that NPA can be used to facilitate the development of this framework. Missions will determine in close collaboration with host country and other sector partners performance criteria and milestones that contribute to the achievement of the sector objectives. These performance criteria and milestones will be stated in the NPA grant agreement with the host government. All partners will also participate in determining whether performance is on track or milestones have been achieved.

NPA programs may have more than one performance area with multiple milestones or benchmarks, i.e. host country financing of services, host country delivery of services (people-level impact), and financial reporting and accountability. Trances can be associated with overall performance areas or individual milestones. In either case, delays in one area will not necessarily preclude disbursement provided that the overall assessment of progress towards agreed program objectives as described in the grant agreement is satisfactory. The prescheduled periodic reviews may be timed to coincide with the host country's fiscal calendar and/or budget cycle. This will allow the host country to account and program expenditure resources more efficiently.

NPA programs will not be pursued in countries which are not good partners, i.e., which do not have good macroeconomic and sectoral policies and are not committed to reforms. Disbursements will be suspended when there is a clear pattern of failing to meet performance benchmarks. Where this pattern persists long enough to cast serious doubt about a country's commitment to reform, USAID will de-obligate its NPA programs and try to use its project portfolio to build the capacity to implement reforms in the future.