Int. j. adv. multidisc. res. stud. 2024; 4(2):746-750

Received: 08-02-2024
Accepted: 18-03-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Pre-conditions for Zambia to Exit from Depending on Foreign Aid as a Tool for Development Financing

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Abstract
Zambia has been acquiring aid as additional resource to finance the growing development problems. Surprisingly, in 2015 and 2016, during the presentation of National Budgets Government of Zambia made public pronouncements that the Country would embark upon the process of exiting from depending on aid to finance development.
The study used exploratory research design with largely qualitative and some quantitative data. The study sampled a total of thirteen (13) respondents from various institutions ranging from government, civil society organizations to. Data for this research was collected using in depth interview guides and analysed using Qualitative Content Analysis method. In addition, secondary data was collected through literature review.
The finding of this study was that, Zambia can only exit from aid upon meeting the three specific pre conditions namely; Expansion and strengthening of domestic financial resource mobilization mechanisms, prudent use of mobilized financial resources and development and implementation of a comprehensive long term foreign aid exit strategy.
The recommendation of the research is that the Government of Zambia look at foreign aid exit in a comprehensive manner.

Keywords: Foreign Aid, Aid Exit

1. Introduction and Background

Zambia's economy was faced with the global financial crisis after the oil crisis of 1973. The world experienced a financial challenge when Arab countries of the Organisation of Petroleum Exporting Countries (OPEC) decided to enforce an oil embargo against the United States of America. This was in retaliation for that Country's military support to Israel during the 1973 Arab-Israeli War. During this period, oil prices rose sharply and in turn increased production costs for various countries' industries. This also dampened the price of exports on international markets, especially for raw materials such as minerals and agricultural products. Zambia's economic mainstay copper also saw its prices fall drastically to unsustainable low levels. The effects for the country's economy were devastating as Zambia had not diversified its economy. Copper still accounted for ninety per cent (90%) of the Country's export source of revenue (Noyoo, 2013:256).
By 1975, Zambia was faced with a sharp decline in Government revenue and a serious balance of payments problem. Budget deficits also set in as a result of inadequate foreign exchange earnings. Accelerating domestic inflation prevented the mining companies from reinvesting in order to sustain the output levels required. Despite these difficulties, public expenditure, financed through borrowing remained relatively high (Antoine de Kemp and Caspar Lob Brecht, 2016: 51) [2].
The undiversified economy combined with severe external shocks caused problems with the balance of payments. In order to cope with the problem of lack of revenue, Zambia entered into a number of financing agreements in the late 1970s. The UNIP Government borrowed heavily. By the early 1980s, the economy was under severe stress. Zambian Government turned to the donor community for additional financial support. The International Monetary Fund (IMF) and World Bank engaged the Government of Zambia into economic reform process using the SAP. This programme compelled the Government of Zambia to roll back on its interventionist policies and social spending (Siamwiza, *et al*., 1993:5) [3].
As the economic crisis worsened even after the introduction of SAP, ruling regime cancelled the IMF/World Bank SAP and blamed the Country's economic miseries on conditionalities attached to the SAP. Based on this, Zambia could no longer access any support from IMF and other bilateral donors, further worsening the financial situation of the Country (Antoine de Kemp and Caspar Lob Brecht, 2016) [2]. In May 1987, Kaunda announced a home-grown economic programme known as the New

Economic Recovery Programme (NERP) with the slogan ‘Growth from Our Own Resources’ (Sekwet, 2000:534) [4]. The major objectives of this programme were; to reintroduce price controls on basic consumer goods, to increase the use of domestic resources or products, reducing dependence on imports, increase use of local materials, limiting debt service to ten percent (10%) of net export earnings, impose limits to expatriate employment and the reintroduction of fixed exchange rate (ibid).

These economic blue-prints to exit aid could not work as they meant more socio-economic problems for ordinary Zambians and that the Country did not have the capacity to effectively implement the reforms. Due to financial and economic pressures, the Government of resumed aid negotiations with the IMF and World Bank by September 1989 (Bigsten and Kayizzi - Mugerwa, 2000:5) [5]. Accompanying these negotiations were further reforms in the civil service and the parastatal sector. After some initial progress that resulted from this programme, the programme almost collapsed in late 1991 prior to the general elections in that year. The Government began to backtrack on these reforms, as it switched to a short-term policy aimed at winning the support of important electoral groups. Consequently, most donors including the World Bank and again cut their financial support to the programme just before the general elections in 1991 (ibid).

In 2000, the Government of Zambia completed the privatization of the principal copper company, Zambia Consolidated Copper Mine (ZCCM) and Zambia was declared eligible for debt relief under the Highly Indebted Poor Countries (HIPC) Initiative (IEG, 2015) [6]. In March 2005, under the regime of President Mwanawasa, Zambia reached the HIPC completion point. And its total foreign debt was reduced from US$7.1 billion to US$4.5 billion. Under the Multilateral Debt Relief Initiative (MDRI), Zambia’s debt stock was further reduced from US$4.5 billion to around US$0.5 billion by the end of 2006 (Wohlgemuth and Saasa, 2008: 2) [7].

From that period, foreign aid relations have evolved substantially. For instance, after debt relief in 2005 and 2006, the share of foreign aid in the national budget dropped to 30% between 2006 and 2007, followed by further reductions to 28% in 2007 and 24% in 2008 (ibid). In 2009, the downward trend continued, reducing the share of foreign assistance in the Government budget to around 20% (Chigunta and Matshalaga, 2010: 8) [8]. The decline in aid dependency in these years could largely be explained by debt relief after the Country reached the HIPC completion point, rising copper prices and strong economic performance (ibid). In addition, Zambia’s GDP doubled between 2005 and 2008. Similarly, domestic financing of national annual budget increased and external financial assistance reduced. This relative stability in the Country’s economic performance saw the relevance of external donor funds to the national budget decreasing accordingly (Chigunta and Matshalaga, 2010: 8) [8]. For instance, between 2010 and 2017, ODA reduced to nine hundred and twenty-eight million US Dollars (US$ 928) presenting one point nine per cent (1.9%) of annual budget (OECD, 2017:7) [9].

Successive regimes in Zambia have highlighted a common challenge that receiving aid creates a problem of dependence (GRZ 2016) [10]. It is against this backdrop that Zambia saw it necessary to find ways of exiting foreign aid as a tool for development financing. In 2015, during the 2016 National Budget presentation, the Minister of Finance Hon. Alexander Chikwanda announced that ‘Government will further strengthen domestic revenue mobilisation so that an increasing proportion of our budget is financed from domestic resources’ (GRZ, 2014:14) [11]. Similarly, in 2016 National Budget, the Finance Minister made a pronouncement that ‘the treasury will act to consolidate the fiscal position so that Government expenditure is primarily financed from domestic revenues’ (GRZ, 2015:12) [12].

According to the Government, this would help the Country to not only reduce its dependence on donors but also devise effective ways of mobilising local resources and become self-reliant (Ibid). Notably, from the failed NERP in Kaunda regime to date Zambia has not exited from depending on foreign as a source of funds for development financing but key pronouncements have been made in this regard.

2. Statement of the Problem

Zambia had made public two decisive official announcements on its intention to exit from depending on foreign aid as a major tool for financing development (GRZ, 2014:14; 2015: 12) [11, 12]. However, it was not known whether the Country had the ability to achieve this outcome given the long history of the Country’s dependence on aid as a means of development financing (Antoine de Kemp and Caspar Lob Brecht, 2016) [2]. Furthermore, earlier attempts to undertake a similar measure did not succeed (Sekwat, 2000) [4]. It is on this basis that this study aimed at exploring preconditions for Zambia’s prospects to exit from using foreign aid as a tool for public financing was developed.

3. Research Objective

To explore Zambia’s preconditions to exit depending on foreign aid for development financing.

The study was guided by the following key question.

What interventions and outcomes has the Government in Zambia implemented to exit from depending on foreign aid as a tool for financing national development?

4. Research Methodology

4.1 Research type

This was a qualitative study because the subject of the research required to source information that was based on the respondents’ perceptions and opinions on the subject matter based on their experience, levels of knowledge and positions of work (Creswell, 2007) [13].

4.2 Research Design

The data for this research was collected using an exploratory research design. This design was the most appropriate for three reasons. First, not so many studies have been undertaken so far on this subject matter. This means that the subject is a new field of study. Thus, the research design provided the researcher with an opportunity to explore the subject matter. Second, the study aimed at obtaining a better and deeper understanding on the subject matter. In this regard, the exploratory research design enabled the researcher to probe and source for diverse perceptions, opinions and views from the various targeted respondents on the subject matter (Creswell, 2007; Creswell, 2009) [13, 14]. Third, this research design also allowed for flexibility in the sense that participants were allowed to raise issues which the researcher did not consider but proved to be necessary during collection of data (Reiter, 2017) [15].

4.3 Target Population

The study drew participants from relevant Government Ministries, Quasi - Government institution, academia and Civil Society Organisations, and as well as the Donor Community. Purposive sampling method was used to identify these sources of information. The target population was purposively selected based on the nature of their employment, positions, expertise on the subject of foreign aid and exit strategies.

4.4 Sample Size

The sample size was made up of thirteen (13) participants and distributed as follows: One(1) from Ministry of foreign affairs, one(1) from Ministry of finance - Economic Management Department, one (1) from Ministry of National Planning - Development co operations desk and one(1) from evaluation section, one (1) policy analyst from Economic Association of Zambia (EAZ), one (1) policy analyst from Zambia Institute for Policy Analysis and Research (ZIPAR) one (1) programmes manager from Action Aid-Zambia, one (1) policy analyst from Jesuit Centre for Theological Reflection (JCTR), one (1) policy governance advisor from UKAID to represent United Kingdom (UK) as one of largest donor to Zambia, one (1) programmes manager from Civil Society for Poverty Reduction (CSPR), one (1) programmes officer from Water Aid and (2) two Academicians, one from Development Studies department and another one from the Economics department at the University of Zambia. This sample size was adequate to provide sufficient primary data required for the research.

4.5 Scope of the Study

The scope of this study was limited to Lusaka and targeted offices for Government Ministries, and an agency (Ministry of Finance, Ministry of National Development Planning, Ministry of Foreign Affairs and Zambia Institute for Policy Analysis and Research), Civil Society Organisations (Jesuit Centre for Theological Reflection, Action Aid - Zambia, Civil Society for Poverty Reduction), Water Aid- Zambia, Economic Association of Zambia, the donor community (UKAID) to represent United Kingdom as one of the top donors to Zambia and Academicians from the University of Zambia that is Development Studies and Economics Departments.

4.6 Sampling Technique

The study used the purposive sampling primarily because of the nature of the topic required respondents who possessed reliable expertise, experience and knowledge on the subject of foreign aid matters. In addition, the snowball sampling technique was employed when necessary. In this case the snow ball sampling technique was used in two situations. One involved a referral situation where the targeted respondent advised the researcher to interview an additional participant from another institution who was not considered at the time of drawing up the list of participants but was identified as an important source of information for the study. In the other situation, the researcher was required to interview more than the originally one targeted respondent within the same institution.

4.7 Tools

The study used three separate In-depth- Interview Guides (IGs) for the selected respondents to collect information. One interview guide targeted respondents from Government Ministries and a Quasi-Governmental Institution. Another interview guide targeted representatives from Civil Society Organisations, while the third interview guide targeted an association and academicians. The justification for administering three separate in-depth interview guides was based on the reason that the targeted respondents had different professions, backgrounds and possessed different forms and levels of knowledge and expertise regarding the subject. The common areas of inquiry in the interview guide included; the effect of foreign aid acquisition on the financing of national development programmes, the effectiveness of the measures undertaken by Government with regard to exiting from depending on aid to finance national development and the social, economic and political implications of Zambia’s intentions to exit from depending on foreign aid as a tool to finance development.

4.8 Data Collection Procedure

Secondary data was collected in form of reviewing existing literature on the subject matter. For this type of data, the researcher reviewed books, articles, research reports and policy documents. The main aim of reviewing these materials was to obtain a better understanding of the already existing literature and analysis that has been undertaken on the subject matter. Primary data for this research was collected through the conduct of three separate in depth interviews and the following steps guided this process;

1. Development of the in-depth interview guide.
2. Identification of potential respondents, development of respondents’ list and contacts.
3. Contacting the identified targeted respondents and securing appointments for interviews.
4. Conducting interviews by holding of face-to-face interviews with the targeted respondents.
5. Recording and storing of the information collected during the interviews using the note taking and audio recording techniques.

4.9 Data Analysis method and procedure

The data collected under this research was analysed using both the electronic and manual methods. In terms of the manual analysis, the Qualitative Content Analysis (QCA) technique was used to make valid inferences in order to provide knowledge and new insights on the subject matter (Elos and Kyngash, 2008). The data that was subjected to QCA included secondary data collected during literature review and responses to the effect of foreign aid acquisition on the financing of national development programmes, the effectiveness of the measures undertaken by Government with regard to exiting from depending on aid to finance national development and the social, economic and political implications of Zambia’s intentions to exit from depending on foreign aid as a tool to finance development. This technique followed the following steps:

1. Building of a thematic coding frame based on the key research questions and objectives (Cole, 1988; Downe-Wamboldt, 1992; Dey, 1993) [16, 17, 18].
2. Selecting the relevant data from the collected materials (Cavanagh, 1997) [19].
3. Dividing the selected data into thematic units in readiness for Qualitative Content Analysis (Burnard, 1991; Downe-Wamboldt 1992; Dey, 1993) [20, 17, 18].

4. Interpreting and presenting the main findings (Dey, 1993) [18].

Through this procedure of analyzing data, the researcher was able to validate the data (confirmability and triangulation) (Creswell, 2009) [14]. In terms of the electronic technique used to analyse data, the researcher used excel 2013 package. This package was used to analyse the sets of data related to the understanding of distribution of ODA. The analysis of data in this format enabled the researcher to obtain clear understanding of the trends of aid acquisition for various development projects.

5. Research Findings and Discussion

5.1 Pre-Condition One: Expansion and Strengthening of Domestic Financial Resource Mobilization

This research argues that it is not feasible for Zambia to exit from depending on aid as a source of financing development as long as the Country is not able to mobilize adequate resources domestically for its development. The institution mandated with tax and revenue collection has proved to be inefficient and this problem is worsened by policy inconsistency on taxation. For instance, successive regimes have failed to come up with comprehensive and effective tax regimes for the mining sector which is the main contributor of domestic revenue since 1990s. One example in this regard relates to the attempt in 2008 by the MMD Government under the leadership of President Levy Mwanawasa's regime to change the taxation agreements (windfall tax) for the mining sector. But this attempt was never supported under the leadership of President Rupiah Banda who took over leadership after the demise of President Mwanawasa in 2008 and President Sata's regime opted not to support the change in 2011 after he assumed office (Rakner, 2017:7; Lundstol, and Isaksen, 2018) [21, 22].

5.2 Pre-Condition Two (2): Prudent Use of Mobilized Financial Resources

This research contends that it's not feasible for Zambia to exit from depending on aid as long as the Country's ability to use public financial resources prudently remains weak. For instance, successive regimes have failed to ensure that public financial resources are properly accounted for. This is evident in the persistence number of cases related to the misuse and unaccountability for public finances. The 2016 Auditor General's Report provides a case in point. The misapplication of funds rose from about 28 million Kwacha in 2015 to about 162 million Kwacha in 2016 (GRZ, 2017: vii). The weakness in public finance management has persisted even within the context of undertaking public finance management reforms such as Mid Term Expenditure Framework (MTEF), Integrated Financial Management System (IFMS) and Activity Based Budgets. For example, a report prepared by the World Bank on loan contraction in Zambia revealed that the Government had failed to develop the implementation plan to accompany the spending of the third Eurobond amounting to US$1,250 million (World Bank 2017:32) [23]. This made the expenditure of this loan prone to manipulation and abuse, with one outcome being excessive spending on road construction (Raballand and Whitworth, 2014) [24].

Prudent use of resources is a necessary condition to exit aid because it will enable the Country save and increase its national reserves required to finance national development in a consistent manner. For example, the annual years 2017 and 2018, Zambia 's gross international reserves barely covered two (2) months of import cover instead of the standard six (6) months national ceiling (KPMG, 2018:3) [25]. This means that Zambia has been failing to generate adequate resources for development financing and even make some savings for future expenditures. It is not feasible for the country in this situation to pursue an aid exit intention if it is not able to meet the standard requirement for its gross international reserves.

5.3 Pre-Condition Three (3): Strong and Sustained Political Will to Overcome Aid 'Dependency Syndrome'

This research also argues that it is not feasible for Zambia to exit from depending on aid for development financing in the absence of strong and sustained political will to overcome the aid 'dependency syndrome.' Political will in this context refers to a firm national political leadership and effective governance systems required to facilitate and manage the aid exit process by providing leadership at various levels, namely institutional, bureaucratic, political and economic, diplomatic as advanced by Tandon (Tandon, 2009) [26]. In the case of Zambia, some analysts have argued that there appears to be a link between the persistence of weak political will, symbolised through a strong informal political system of patronage and the heavy reliance on externally mobilised resources, especially aid (Rakner, 2012) [27].

6. Conclusion and Recommendation

Based on the findings of the study and the discussion that followed, it is possible to conclude that by universal global governance standards, Zambia is still classified as an aid recipient Country, and as such, it is expected to engage with some developed countries and international development institutions in order for the country to enhance the its institutional capacities, strong economic and taxation base, improve social and human development conditions, political will to exit from aid dependency, prudent use of mobilized resources and strong policy implementation capacities.

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