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policy briefing

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## Undervaluing teachers IMF policies squeeze Zambia's education system

Zambia is a country on the brink. One in 5 people are infected with HIV, life expectancy has dropped to 33 years and young people aged 20-25 actually have less education than their parents' generation. Therefore, the achievement of Zambia's new government in getting more children into school holds out a critical glimmer of hope. Yet in order to qualify for long-delayed debt relief, Zambia been forced to stop hiring the teachers and health workers it desperately needs – placing its education success story in jeopardy, and threatening to plunge the country into political crisis. At their meetings in Washington this week, the governors of the International Monetary Fund (IMF) and World Bank can end this charade by announcing full cancellation of outstanding debt, ensuring macroeconomic targets don't contradict poverty reduction needs, and urging rich countries to replace stop/start engagement with the predictable, long-term commitments needed to hire the teachers and health workers that countries like Zambia so desperately need to achieve the Millennium Development Goals (MDGs).

**September 27, 2004**



# Undervaluing teachers

## IMF policies squeeze Zambia's education system

*"One wonders: how do you reduce poverty when you have a nation that is uneducated?"*  
- Alick Lungu, Catholic Commission for Justice, Development and Peace

### Executive Summary

As Zambia struggles against crushing poverty and a rampant HIV/AIDS epidemic, its success in getting more children into school holds out a glimmer of hope. On most of the Millennium Development Goal targets, Zambia is moving backwards. However, since the new government removed tuition fees two years ago, the number of out-of-school children has been halved, and completion rates are rising. This achievement is especially important because schools are the frontline in Zambia's battle to slow the spread of AIDS. In a country where some 40% of rural women are illiterate, improving education outcomes is crucial to keep the next generation from infection.

But thanks in part to the success of Free Basic Education, Zambia's schools have been left short of some 9000 teachers. The vacancies have not been filled – because the IMF says that the government cannot afford to hire the teachers it has trained. Ludicrously, between 8000 and 9000 newly qualified teachers have been sitting unemployed.<sup>1</sup> Far from increasing to keep pace with the growing demand for free primary education, teacher numbers actually fell between 2002 and 2003. Even the IMF's sister institution, the World Bank, acknowledges that teachers are "underpaid and too few in number."<sup>2</sup> The teacher crisis, together with other issues related to lack of resources, could derail Zambia's EFA progress; according to the latest IMF staff report from July 2004, Zambia will fail to achieve universal completion of primary school by 2015 along with almost all the other MDGs.<sup>3</sup>

Zambia's new government recently demonstrated its commitment to accountability by becoming one of the first to sign itself up for peer review through the NEPAD mechanism. It is pushing hard to liberalise its economy, improve service delivery and strengthen public sector efficiency. Yet the international financial institutions (IFIs) and donors have denied Zambia access to full debt relief, refused to provide budget support to help sustain the overloaded health and education systems, and forced it to impose and sustain a wage and hiring freeze that has led to politically damaging strikes and drained public support for the government's reform programme.

Last year, the Fund froze lending to Zambia after a higher budgetary deficit than anticipated, and told the government to reduce its public sector wage bill to no more than 8% of GDP. In order to achieve this, the Ministry of Finance not only had to withdraw long overdue wage increases, it also had to ban any new hiring of teachers or health workers.

Zambia's predicament, unfortunately, is not unique. In Honduras, disputes with the IMF over teachers' salary increases have cost Honduras nearly US \$500 million in delayed debt relief and donor aid cuts. Ironically, this is more than the entire incremental cost of Honduras' EFA initiative between now and 2015.<sup>4</sup> Across the border from Zambia, a similar ceiling on public sector wages (7% of GDP) in Malawi's latest IMF Staff Monitored Programme may well cause similar problems. Malawi, too, faces a severe AIDS crisis, and has only 2200 nurses for a population of 12 million. A caveat is included for donor-funded health workers, but the Letter of Intent gives no assessment of needs in terms of recruitment and wages of public sector workers or any analysis of different scenarios.<sup>5</sup> Meanwhile the Finance Minister has announced across the board pay increases in his recent budget speech.<sup>6</sup>

This year, Zambia will hand over a whopping US\$377m – or 7.3% of its GDP - in debt repayments. Of this a staggering \$247 million will go straight back to the IMF. This means in 2004 the Zambian government will be paying the IMF alone \$25 million *more* than it is spending on education.<sup>7</sup> Even if Zambia finally reaches HIPC Completion Point in 2005 they will still pay \$100 million in debt service that year, which if cancelled would enable them to increase the education budget by almost 50%. In 2002 and 2003 Honduras spent US\$ 247.9 million on servicing its debt even after debt relief – a third of its 2002 budget for all social services including education, health, and social welfare.<sup>8</sup>

The impact on poor people is immediate and severe. Due to lack of teachers, Zambian schools face a choice between turning students away illegally, or trying to function with as many as 100 pupils to a class. Some schools in the Western Province thought they might not be able to reopen after the holidays due to unmanageable teacher shortages. In Honduras, the one-third of pupils who drop out before completing primary school have been denied support that might have helped them to finish their education.

The political costs are also very real, and very high. Following massive strikes by teachers and health workers last autumn, the wage issue continues to simmer in Honduras. Teachers downed tools 10 times between February and June alone.<sup>9</sup> Civil society organisations warn that the government will come under increasingly intense pressure to abandon fiscal discipline, unless the IMF allows greater flexibility in setting wage and deficit targets. In Zambia, the Dutch government recently had to step in to help avert a looming teachers' strike which would have caused enormous damage to the government's foundering IMF reform programme.<sup>10</sup>

Reaching the MDGs in Zambia and Honduras, as in any poor country, will require an appropriately sized and financed public sector; this is especially urgent in the context of AIDS, as the health and education services so vitally necessary to fight the epidemic start to break down under its strain.

But thanks to the IMF, Zambia and Honduras are trapped in an irrational vicious circle. They cannot hire and pay teachers because they are struggling to meet unrealistic expenditure targets in order to access debt relief, yet accessing debt relief would enable them to pay the teachers *and* meet the targets. Breaking the logjam requires immediate and full debt cancellation, predictable and long-term budget support from donors, and an end to IMF fiscal conditions that prevent governments from spending enough to achieve the MDG targets.

## Recommendations

The Annual Meetings provide the opportunity to take the first steps towards ending the debt and austerity predicament that is stopping committed countries like Zambia and Honduras from achieving the MDGs. During their meeting in Washington this week, the IMFC and Development Committee should:

1. Announce that 100% of the multilateral debt of the poorest countries will be cancelled, to be funded through contributions by rich countries and a revaluation of IMF gold stocks.
2. Request a fully independent review of the impact of economic policy conditionality, including inflation targets and payroll ceilings, as countries move into the second round of Poverty Reduction Strategy Papers. Demand due diligence of the IMF in ensuring all macroeconomic frameworks are the product of national discussion of different scenarios based on independent Poverty and Social Impact Analysis (PSIA) linked to MDG needs. Request a review of progress on PSIA and macroeconomic scenarios at the Spring Meetings 2005.

3. Urge developed countries immediately to guarantee the US \$50bn increase in development financing per year needed to meet the MDGs, including the additional US\$5.6bn needed to achieve universal basic education. Reiterate the need for developed countries that have not yet done so to provide a time-bound framework for reaching the target of 0.7% of GNP as ODA by 2010 at the latest, in order to meet the MDGs.
4. Be explicit in their communiqués that adequate numbers of trained teachers and health workers are vital to achieving the MDGs and resources must be found to pay them a living wage.
5. Delink funding for basic education and other poverty eradication priorities from the IMF's lending programme, and request a paper for the 2005 Spring Meetings on options for moving away from the stop/start effects of current IMF signaling to a more gradual process based on progress in implementing poverty reduction strategies.
6. Welcome the report on financing modalities and encourage rich countries to expand their commitment to direct budget support, pooled sector funding and predictable long-term financing through mechanisms such as the EFA Fast Track Initiative and the proposed International Financing Facility (IFF).

For their part developing country governments must

1. Make poverty reduction and the attainment of the MDGs an explicit objective of macroeconomic policy with transparent, quantifiable and monitorable indicators in the annual budget, and maximise expenditure on poverty reduction, including education and health.
2. Encourage national debate on the formulation of key macroeconomic objectives.

# 1 The MDG predicament: Teachers today or debt relief tomorrow?

The IMF has presented some of the world's poorest countries with a curious choice: they can qualify for debt relief in future, or they can hire the teachers and health workers they desperately need right now -- but not both.

Zambia, where more than 70% of the population live in poverty and 1 in 5 adults are infected with HIV/AIDS, is one such country. On most of the Millennium Development Goal targets, Zambia is moving backwards. Its recent success in getting more children into school, however, holds out a crucial glimmer of hope. Since the new government removed tuition fees in 2002, the number of out-of-school children has been halved, and completion rates are rising. In line with the plan approved by donors, 2000 additional classrooms have been built, more teachers have been trained, monitoring and planning has been strengthened, and HIV/AIDS prevention efforts in the classroom have been stepped up.

But Zambia's education achievement is being undermined by a severe shortage of teachers. Something like 9000 vacancies remain unfilled, while almost exactly the same number of recently qualified teachers sit unemployed -- because the IMF says the government can't afford to hire them.<sup>11</sup> Far from increasing to keep pace with the growing demand for free primary education, teacher numbers actually fell between 2002 and 2003.<sup>12</sup>

Zambia's MDG predicament, unfortunately, is not unique. In Honduras, disputes with the IMF over teachers' salary increases have cost Honduras nearly US \$500 million in delayed debt relief and donor aid cuts. Ironically, this is more than the entire incremental cost of Honduras' EFA initiative between now and 2015.<sup>13</sup> Across the border from Zambia, a similar ceiling on public sector wages (7% of GDP) in Malawi's latest IMF Staff Monitored Programme may well cause similar problems. Malawi faces a severe AIDS crisis and has only 2200 nurses for a population of 12 million, VSO reports. A caveat is included for donor-funded health workers, but the Letter of Intent gives no assessment of needs in terms of recruitment and wages of public sector workers or any analysis of different scenarios.<sup>14</sup> Meanwhile the Finance Minister has announced across the board pay increases in his recent budget speech.<sup>15</sup> In Mozambique, ActionAid reports, former US President Bill Clinton's foundation had to intervene directly with the IMF to ease restrictions on the hiring of health workers, so that the government could go ahead with a planned national treatment programme funded by the foundation.<sup>16</sup>

Last year, the Fund froze lending to Zambia and delayed debt relief after the implementation of long-overdue increases in teacher remuneration pushed the budget deficit 1% higher than the IMF wanted. The IMF told the government to reduce its public sector wage bill to no more than 8% of GDP. In order to achieve this, the Ministry of Finance not only had to force the Ministry of Education to renege on the wage deal, it also had to ban any new hiring of teachers or health workers.

This year, Zambia will hand over a whopping US\$377m -- or 7.3% of its GDP - in debt repayments. Of this a staggering \$247 million will go straight back to the IMF. This means in 2004 the Zambian government will be paying the IMF alone \$25 million *more* than it is spending on education<sup>17</sup>; the same IMF that has categorically said the Zambian government cannot afford to pay teachers a living wage or recruit the extra teachers it has trained in order to deliver on its UPE goals.

The impact on the poor is immediate and severe. Due to lack of teachers, many rural schools in Zambia face a choice between turning students away illegally, or trying to function with as many as 100 pupils to a class. The Ministry of Education has issued

guidance to schools that up to 80 students in a class is “acceptable”. Even the IMF’s sister institution, the World Bank, acknowledges that teachers are “underpaid and too few in number.”<sup>18</sup>

At its most extreme, the teacher shortage raises the prospect of system breakdown. The Zambia National Union of Teachers (ZNUT) say that ‘some pupils in rural areas have not seen a single teacher for the whole year of 2004.’ It is also reported that some schools in the Western Province are not going to open after the holidays due to severe teacher shortages.

The political costs are also very real, and very high. In Zambia, the Dutch government recently had to step in to mitigate the crisis that the IMF has created. They have given the Zambian government US\$11.3m to settle outstanding arrears owed to 7700 retired and retrenched teachers, enabling the Ministry to fill the same number of vacancies next year.<sup>19</sup> The World Bank and IMF have welcomed the Dutch intervention – and unsurprisingly so, as it has probably averted a looming teachers’ strike which would have caused enormous damage to the government’s fragile reform programme.<sup>20</sup>

However, no one is clear how Zambia will be able to finance an expanded teaching force in future. The grant from the Netherlands amounts to less than one-quarter of one percent of GDP and is one-off, whereas the Ministry of Finance calculates that filling ongoing teacher vacancies would add an extra 1% of GDP to the wage bill. At the IMF’s urging, the 8% ceiling on public sector payrolls has been carried over into the 2004 budget and the IMF has identified “progress on the wage bill” as a key issue for the first review of the PRGF in December 2004 – and hence for Zambia to progress to HIPC completion point in 2005.

**Box 1                      Zambia – one of the world’s most indebted countries**

In the late 1960s, Zambia was an industrialised and increasingly prosperous country. But in the mid-1970s, the price of copper, Zambia’s main export, went into freefall. Zambia turned to foreign and international lenders for relief; but as copper prices remained depressed, servicing the growing debt became increasingly difficult. By 2000, Zambia’s external debt was twice its GDP, and incomes per capita had fallen to one-half their level at independence.

Today, despite the entrenchment of multi-party democracy, a modest revival of the now-privatised copper industry and some success in developing agriculture and tourism, Zambia’s 10 million people remain among the poorest in world. More than 70% of people live on less than \$1 a day and per capita income average less than US\$395 a year.

Although worldwide copper prices are hard to control, Zambia’s future prospects largely depend on two factors that we can do something about: AIDS and debt. One in five adults are HIV positive. Under pressure from the HIV/AIDS epidemic, life expectancy has fallen to 33 years. Almost half of children under 5 are stunted due to malnutrition, and 16% of children die before reaching their 5<sup>th</sup> birthday. HIV/AIDS related issues (i.e., rising medical costs, decline in worker productivity) place an enormous strain on government resources.

Meanwhile, debt repayments continue to crowd out much needed spending on health, education and poverty reduction. Zambia’s debt exceeded US\$6bn when it qualified for HIPC four years ago. The largest share of this is owed to the IMF. Since reaching decision point in December 2000 it has been receiving emergency ‘interim’ relief to cover its debt service. This was designed to last until 2003 when Zambia was expected to reach completion point.

All interim debt relief from the IMF has now been exhausted, and this year Zambia’s repayments have shot up to US\$377m – or 7.3% of GDP, more than what Zambia spends on health and education combined.

*Sources: World Bank, Oxfam, USAID, Jubilee Plus.*

The IMF’s resident representative faults bilateral donors for refusing to provide budget support to finance teachers’ salaries. “If you’re putting money into education but not

providing teachers it won't work," he observes. Apart from occasional top-ups such as the Dutch grant, neither bilateral donors nor the World Bank have been willing to provide flexible long-term support that would help the government to underwrite the recurring costs of expanding the teaching corps and cope with the effects of AIDS.

"Donors feel remuneration is the government's obligation and by footing the wages bill the government is able to demonstrate its ownership of a programme," said a senior donor agency representative in Lusaka.

Yet "ownership" will remain a mirage as long as Zambia remains trapped in the crisis-ridden cycle of debt repayments, austerity budgets, and on-again off-again financial flows. A sustainable solution requires full debt cancellation, predictable and long-term budget support from donors, and an end to IMF fiscal conditions that prevent governments from spending enough to achieve the MDG targets.

## 1.2 Zambia: Mounting concerns at the chalkface

Silas Silewu, the head teacher of Maano Basic School, in the countryside west of Lusaka, is not an easily discouraged man. He is not discouraged by the fact that his school, like many in Zambia, has no electricity, little equipment and inadequate supplies of textbooks and learning materials (according to a 2000 estimate, over a quarter of the country's schools need urgent rehabilitation). He is not discouraged by the fact that his paycheck has been shrinking steadily in real terms for several years, or that his staff now earn less than the cost of a minimum monthly basket of food staples. He got into teaching for love of it, and says he enjoys solving his staff's frustrations.

Mr Silewu is not even discouraged by the fact that he has only 3 trained teachers to cope with 526 students. On the contrary, he takes heart from the way student numbers have grown since fees were removed – hoping that this will reverse the disastrous trends of the 1990s, which produced a generation of 20 to 25 year olds who actually have *less* education than their parents.<sup>21</sup>

What does worry Mr Silewu is that the teacher shortage is already starting to undermine free primary education. 'If teachers are not deployed children do not get education. We keep enrolling more children. We try to teach them, but if the children are too many you cannot work properly,' he says.

Paul Mutaloange, the head teacher of Chisakila Basic School, concurs. "This year numbers have fallen. Parents have lost interest due to the lack of teachers," he says. He has 2 teachers, plus himself, to teach 250 pupils from grades 1 to 7.

Rather than increasing teacher numbers to cope with the rising enrolments, the Ministry of Education says they are, at best, merely able to replace some of the 1000 teachers who die of AIDS every year. However, despite having the foresight to train many more teachers in order to keep up with AIDS deaths, the hiring freeze stops the Ministry of Education from making use of them. Stanley Chileshe, headmaster of Chimwenwe Basic School in Lusaka, reports that none of the 20 teachers he has lost since 2001 – mainly due to deaths – have been replaced. According to ZNUT, this is a national trend and the MoE is largely losing the battle with AIDS. The overall drop in teacher numbers between 2002 and 2003 suggests that ZNUT is right.

As one Zambian youth put it when discussing the impact of AIDS, "We are losing the people who are educating us. What are we going to do?"<sup>22</sup>

Although each teacher in grades 1 to 4 already teaches two groups of students a day, some schools have had to add a third shift.<sup>23</sup> Students spend as little as 2 hours a day in class, and on average, Zambian children receive only 630 hours of instruction per year. Only a part of the curriculum can be covered. In these circumstances, the "child-centred"

approach to teaching (which donors have spent millions promoting) evaporates into little more than a fond memory from training college, says Ruth Brewer, a VSO volunteer working at Zambia's College of Education.

Standardised achievement tests bear out these concerns. Despite small improvements in recent years, nearly two-thirds of Grade 5 pupils fail to attain minimum competence levels in English and mathematics. Unless schools are able to improve quality outcomes, warns Joe Makano of the Zambia National Education Coalition, the investment that Zambia is making in free primary education could be wasted, as graduates will not acquire sustainable skills. Obviously, as long as pupil-teacher ratios remain untenable and teachers' real wages continue to decline, no further improvement in quality can be expected, and a reversal might even be predicted.

Yet mindful of current fiscal constraints and donor reluctance to support recurring costs, the Ministry of Education is planning for the next three years on the basis of a pupil-teacher ratio of 64:1 – well over the World Bank's proposed 40:1 benchmark for FTI countries.

Zambia's progress towards UPE is also threatened by the lack of enough supplementary resources to replace lost income from tuition fees and to support the poorest and most vulnerable, including AIDS orphans, to stay in school. Although schools now qualify for a grant based on student numbers, the cash they receive has not kept pace with the challenges that schools face. "Heads are having to choose between buying learning materials or burying teachers who have died of AIDS," says Alick Lungu of the Catholic Commission for Justice, Development and Peace.

The upshot is that although Parent-Teacher Association contributions were supposedly abolished when Free Basic Education was introduced, extra payments in cash or in kind are being reintroduced by the back door in many districts. The PTA at Chimwemwe School, for example, wanted to charge parents K10,000 each (about the same as the old tuition fee) to employ volunteer teachers on a casual basis. He and Other head-teachers find this regrettable, but feel it may be preferable to having no teachers at all. PTA levies are even needed for schools to purchase necessities such as chalk and exercise books, NORAD notes.<sup>24</sup> Such charges can easily exceed the amount that tuition used to cost parents. A nationwide survey in 2001, just before tuition fees were removed, showed that combined household spending on books and materials, PTA contributions, sports fees, and school maintenance charges was two to three times as much as the tuition fee in government schools.<sup>25</sup>

Since monetary costs are the most frequently cited reason that Zambian children drop out or never attend school, this trend may push the poorest and most vulnerable children, especially girls and AIDS orphans, right back out of the classrooms that they have only so recently been able to enter.<sup>26</sup>

### **1.3 Honduras: Choose your crisis**

On the other side of the world, a new government in Honduras is also finding its Education For All (EFA) efforts sabotaged by denial of promised debt relief, stop/start donor funding and the political fallout of a wage freeze that the IMF has insisted on.

A third of Honduran children do not complete primary school, and 25% of women are illiterate. Because of this Honduras has made education a priority, and on the strength of its strategic plan to achieve universal primary completion and its ability to absorb more resources, it was chosen as one of the first 7 countries to access the Education For All Fast Track Initiative (EFA-FTI). The FTI is a new compact by key donors to mobilise extra resources to achieve Education for All. The cost for the first three years for EFA in Honduras is \$80 million. To date only half of the money needed to implement the

government's plan has been received, and none of this will cover recurrent costs -- even though the plan clearly requires the recruitment of additional teachers.

The IMF suspended its lending programme with Honduras in 2002. Because being "on track" with the IMF acts as a green light for donor aid as well as being a requirement for HIPC debt relief, the suspension has cost Honduras \$400 million dollars in interim debt relief and budget support – equivalent to the entire cost of Honduras' EFA initiative until 2015. But the major reason Honduras went off track was not high inflation or macro-stability; Honduras is relatively stable. Instead it was because the IMF believed too much money had been spent increasing teacher's salaries.

The new government which took power in 2002 had already negotiated reductions in increases in teachers' salaries agreed by the previous government. By pushing for further dramatic scaling back of increases in the salaries of teachers and health workers, and extremely tight limits on budget deficits, the IMF was essentially asking the government to commit political suicide. In order to get the new IMF lending programme approved, the National Congress had to approve a salaries bill "*to achieve the targeted decline of the government wage bill*".<sup>27</sup> This provoked massive strikes in October 2003, putting the government under intense pressure to depart from the strict fiscal discipline which the IMF has imposed on the country.

Honduran civil society organisations warn that "the risk ...is that the government is going to give up because the targets seem impossible to reach and [it may then] fall into the historical cycle of overspending [as witnessed] in [previous] years."<sup>28</sup> The new IMF programme obliges Honduras to cut its fiscal deficit to 3 percent of GDP this year. Next year – an election year - this has to be further reduced to 2.5 percent of GDP and in 2006 it is envisioned that the new administration will preside over a deficit of 1.75 percent of GDP. In the education sector, the government will have to expand its payroll in order to deliver on its EFA commitments, but the resulting budgetary pressures are likely to set the government on another collision course – with the need to recruit more teachers coming into conflict with the need to maintain stringent wage limits.

Instead of debt relief and increased aid for EFA, what Honduras has got is a plan for fiscal adjustment that few democratic governments in the world would be able to comply with, says Honduran network FOSDEH:

*The government has the choice between either a socio/political or an economic crisis. On the one hand the Government can ... try complying with the IMF's requirements for reaching completion point ... However this will require a fiscal adjustment that will almost surely lead to social unrest particularly among the groups needed to reach the MDGs. On the other hand the government can choose to give in to the social pressure which would mean not reaching completion point and falling even deeper into the vicious circle of fiscal deficits and macroeconomic instability.*<sup>29</sup>

## 2 Education for All = Teaching for All

The predicament facing Zambia and Honduras is also the predicament confronting the international community and the international financial institutions in the effort to achieve the MDGs.

Countries like Zambia and Honduras are making a serious and significant effort to improve their health and education outcomes, after years of neglect and under-resourcing. Yet, due to a variety of constraints beyond their immediate control, both countries are struggling to do the one thing they must do in order to make Education For All a meaningful reality: employ more teachers.

The experience of Zambia and Honduras signals the urgent need for donors and IFIs to take a radical new approach to achieving the MDGs. They must abandon their 'business as usual' approach to dealing with struggling countries, and enable long-term support to poverty reducing expenditure, through predictable long-term aid and full debt cancellation. Funding a fully-staffed, adequately paid and properly trained public service is a crucial part of this.

The Dakar Framework for Action, the UN Millennium Declaration and the resolutions of the Monterrey Conference on Financing for Development have all asserted the joint responsibilities of rich countries and poor countries to reduce poverty in the 21<sup>st</sup> Century. A bold new vision has been articulated; one in which poor country governments and donors are committed to work through new development partnerships, based on *mutual* accountability for achieving the MDGs.

One lesson learned during the first Education for All decade – 1990-2000 – was that investments in the quality of education must be made alongside making schooling free and accessible for all children. As demand for education increases due to the lifting of school fees or the building of more classrooms, so must the supply of teachers. Without this, there can be a disastrous downturn in the quality of education, with soaring pupil-teacher ratios and unmanageable class sizes. Education International, the global federation of teacher unions, estimates that in order to achieve universal primary completion in Africa, an additional 5 million teachers will need to be recruited.

Donors and international financial institutions appear reluctant to absorb the true implication: that the major cost of achieving the education MDGs will be the cost of paying teachers. As a result, clashes of interests arise over the teacher salary budget within education expenditure. Typically this makes up 70-90% of the total education budget, and teachers' remuneration can be a political flashpoint for governments. Donors and IFIs have also debated the issue of teachers' salaries, questioning the relationship between teacher pay and educational outcomes. More often than not, donors have shied away from financing recurrent costs as part of their programmes, and the EFA Fast Track Initiative initially proposed a rigid formula for calculating the optimal level for teachers' pay.

Dramatic increases in economic growth notwithstanding, the implication behind the numerous global commitments to achieve the MDGs is that some way must be found to fund an expanded public sector wage bill in developing countries.

### 2.2 Why Zambia must increase the public sector wage bill

Zambia exemplifies the dilemma facing indebted countries that have the political will to achieve the MDGs, but not the resources. To achieve the education MDGs the government needs to both increase the number of children in school and to improve the quality of the education they receive. As highlighted above, it has made significant progress over a relatively short time period; but future prospects remain uncertain in the

current aid and debt climate. According to the latest IMF staff report from July 2004, Zambia will fail to reach the Universal Primary Education MDG along with almost all the others.

Zambia's own lack of resources to fund social sector spending is, of course, the starting point for any analysis of the problem. Last year, Zambia allocated 4.5% of its GDP to education – about the same as the UK, Spain and Germany did in 2000. But this impressive allocation gave Zambia only about \$20 per person to spend on the educational needs of every man, woman, girl and boy in the country; while the UK it yielded a budget of over \$1000 per person (and more than \$3000 per primary school pupil).

Zambia's education budget has been and continues to be significantly supplemented by external aid. It is anticipated that roughly 30% of the education budget for 2003-2007 will be from external resources (based on pledges already made). But as mentioned above, donors have historically been unwilling to finance the teacher salary budget either through direct budget support or through a Sector Wide Approach.

Zambia's ability to increase expenditure on education is also hampered by its dependent relationship with the international financial institutions. This has been characterised by stop/start engagement as Zambia has endeavoured to implement market-oriented reforms recommended by the International Monetary Fund and the IMF. Despite gradual improvement in the macroeconomic situation and progress on fighting corruption over the last number of years, the IMF finds that Zambia still has a large 'unresolved reform agenda'.

Zambia desperately needs maintain an equitable relationship with the IMF because of the enormous debt burden it is carrying. Currently, Zambia's citizens are counting on the government to achieve further debt relief through the Heavily Indebted Poor Countries (HIPC) initiative. With interim debt relief exhausted, Zambia will still spend \$377 million servicing its debt in 2004, or 58% more than it will spend on education (see box 2). However, assuming Zambia reaches Completion Point in 2005 it will still pay \$100 million in debt service that year, which if cancelled would enable it to increase the education budget by almost 50%.

All these factors threaten to paralyse Zambian efforts to achieve the Millennium Development Goals in education. In order to find a way out of a maze of short-term fixes and policy prescriptions, fundamental changes are required in the international community's approach to supporting Zambia's poverty reduction prospects.

The Netherlands intervention provides one short-term solution to the immediate political issue of how to provide employment to the unemployed newly-qualified teachers. However, it does not tackle underlying structural issues of funding the teacher salary budget. The Ministry of Education's own estimates<sup>30</sup> state that after the outstanding 9000 vacancies are filled, there will be a need to take on between 3000 and 4000 teachers each year due to attrition.

Even the estimate of 3000-4000 new hires per year is predicated on the assumption that a further increase in pupil-teacher ratios can be accommodated in order to meet the increases in enrolment rates – up to 64:1 by 2007, with 43% of classes double-shifting. The World Bank's own benchmarks for efficiency and quality in primary education estimate that pupil:teacher ratios should be at around 40:1.<sup>31</sup> It can therefore be seen that to achieve EFA and assure quality learning outcomes, Zambia requires a much larger teacher workforce over the coming years.

## Box 2 Zambia and the FTI: Side-tracked?

Both donors and civil society organisations have welcomed Zambia's newly developed 'Strategic Plan 2003-7' as setting appropriate and realistic priorities, including a strong focus on reaching HIV/AIDS orphans and other out-of-school children, improving quality, decentralising decision-making and increasing gender equity. The plan would also introduce Early Childhood Care and Education, and develop adult literacy programmes – key to increase parental support to education, especially in the context of 40% literacy among rural women.

However, the Ministry of Education is still short of some US\$167 million to implement even these modest plans over the next three years – despite the fact that education now receives some 20% of government's discretionary spending. Without more resources through debt cancellation and increased aid, the MoE is powerless to tackle what the plan terms "serious challenges remaining". Yet Zambia's proposal for additional support through the Education for All Fast Track Initiative has been shelved. According to a senior donor agency representative in Lusaka, in-country donors consider that Zambia "already has a good number of donor partners, effective donor co-ordination measures and sufficient donor funding."

Clearly, however, donors have failed to help Zambia explore policy and financing options to attain even the relatively modest benchmarks that they themselves agreed were vital to EFA success, and wrote into the Fast Track Initiative indicative framework – such as bringing pupil-teacher ratios down to 40:1. In fact, despite the acknowledged need for a 'sufficient, skilled and motivated human resource for the education system,' the plan actually projects an *increase* in pupil-teacher ratios – to a staggering 64:1 – and on this basis, average hours of instruction are unlikely to rise substantially above the current 630 hours per year. Given current budgetary constraints, no increases in average teacher salaries are planned despite the fact that these currently barely provide a living wage.

Ensuring that the 'Free Basic Education' policy can achieve its aim of enabling every Zambian child to complete school is another challenge that would demand a significantly expanded donor response. In 2003 NORAD observed that financial obstacles to enrolment and retention of poor children had not been totally removed and that parental contributions, through PTA levies, were being used to top up inadequate state funding. But such charges will remain a feature of Zambia's education provision unless donors are willing to provide additional financing through aid and debt cancellation. And the experience of other countries, such as Malawi, suggests that in the context of AIDS, just making education free may not be enough; additional support and incentives, such as school meals or cash transfers, may be needed to enable girls and the poorest children to stay in school.

The Ministry of Education is reported to be re-examining its FTI proposal soon and there are signs that at least some donor agencies in country now recognise the need for significant increases in both the coordination and the level of external financing. As one donor representative told us, 'if [FTI] could ensure improved predictability and a reduction in pupil-teacher ratios, that would be welcome.'

Source: Zambia Ministry of Education Strategic Plan 2003-7

## 2.3 The teacher salary issue

The problems facing education quality are further compounded by the government's inability to increase wages further for the existing teacher workforce. The government has refused to honour part of the 12 month 2002-03 collective agreement which came into effect in April 2003 for one year. This agreement, made between the three teachers unions and the government, included both a wage increase and an increase in the housing allowance; the latter has not been honoured by the government. Then, in February this year - before a new wage and allowances agreement could be negotiated for 2004 – the government imposed a wage freeze on the teachers. With inflation currently hovering around 20% this effectively means that the real value of salaries is declining the longer the wage freeze is imposed.

### **Box 3 Public sector workers: special challenges facing Africa**

Zambia is one of a number of impoverished African countries that face especially severe challenges in recruiting and retaining enough education and health workers in the coming years. These factors need to be taken into account when developing policies on public sector wages and hiring. On the one hand, AIDS is claiming many lives; on the other hands, years of eroding pay and deteriorating working conditions are enticing growing numbers to leave for better-paid jobs in countries that can afford to pay them more, such as South Africa, Botswana and the UK.

HIV/AIDS deaths alone claim some 1600 Zambian teachers a year, according to Ministry of Education figures. As if the devastating rate of teacher deaths was not enough, AIDS puts other strains on wage and recruitment policies. The bill for sickness and death benefits increases substantially, potentially crowding out recruitment of new posts if the overall size of the wage bill is too tightly constrained. Sickness absence means that on any given day a school is likely to have fewer teachers in the classroom than the number it officially employs, a situation that makes high pupil-teacher ratios even harder to manage without compromising quality and teacher morale. Finally, HIV-positive teachers, like anyone else with a chronic and fatal disease, want to be based in towns in order to be close to medical facilities, making it very hard to solve rural staffing shortages through redeployment alone.

Systematic recruitment by rich countries of teachers, doctors and nurses from poor countries has become a large enough issue that Commonwealth ministers have recently negotiated protocols to try to mitigate its impact. Although rich countries may always be able to offer larger pay packages, it is a reasonable bet that many Zambian teachers would think twice about leaving permanently if they felt they could earn a living wage at home.

Yet this increase took average teachers' net salaries up only to K400,000 per month for the lowest paid primary teacher, K500,000 per month for a secondary teacher, and about K600,000 per month for a degree holder.<sup>32</sup> In US dollar terms the lowest paid teacher is getting about US\$1450 per annum, which is about US\$121 per month or US\$4 per day.<sup>33</sup> This compares badly to the monthly food basket which according to government estimates is about K1,040,000 per month or a minimum of US\$170 per month.<sup>34</sup> This cost of the basic food basket is now thought to have risen to K1,600,000 per month due to inflation rates that are currently around 20%.<sup>35</sup> Clearly then, it can be seen that even with a recent increase in teacher salaries, much more is needed before Zambian teachers can be said to be earning a living wage.

Pay issues are intensified in Zambia by the outflow of teachers to richer countries that can afford to pay them better, such as South Africa, Botswana and the UK (see box 3). Those who stay are usually compelled find alternative means of supplementing their incomes. In rural districts this often means taking time off to grow food or to run a small shop. In both rural and urban areas it often involves offering additional teaching services after school for a fee; in 2001, parents of primary school children attending government schools paid out more than K50,000 per year for private lessons, more than four times the official tuition fee and amounting to a highly inequitable tax on parents' hopes for their children.<sup>36</sup> It is observed that those teachers who teach both in government schools and for private fees are likely to put little effort into their government-paid jobs in order to save their energy to put into teaching their private teaching.

In its most recent Country Assistance Strategy for Zambia, the World Bank recognises that poverty reduction will require an effective, qualified and motivated public service, particularly at frontline levels -- in the classrooms, clinics and police stations. "Low pay has reduced the incentives for motivation and efficiency in civil service, and has made it difficult to retain qualified staff (who leave civil service for alternative jobs)," the World Bank admits.<sup>37</sup> Yet the wage freeze that Zambia's finance ministry was forced to introduce in 2003 – in a desperate effort to obtain HIPC resources – has worked entirely contrary to this logic.

Wages in Honduras have fallen even lower than in Zambia as a proportion of per capita GDP. A primary school teacher makes around US\$ 250 per month, less than a third of

per capita income and only slightly more than the cost of a standard basket of basic foodstuffs. Sonia Figuera is a single mother working as a teacher at one of Honduras' biggest primary schools. "After 15 years of service at this school her salary is 330 dollars per month. She does not understand why the IMF and the World Bank are of the opinion that she and her colleagues are being paid too much. She is having a hard time making ends meet with the salary she is being paid and like many of her colleagues she would like to be paid better for her efforts."<sup>38</sup>

Like Honduras before it, Zambia is locked into a vicious circle. Both governments have a limited amount of budgetary resources to devote to health, education and other poverty reducing expenditures, but even these resources have been drastically eroded by debt repayments. In order to access further loans and aid, they have to agree with the IMF to a tight budget deficit. However, the IMF's budget targets are extremely unrealistic given the spending that the government needs to undertake to reach poverty reduction goals. In the next section we discuss how the IMF and donors can work together to transform this strange merry-go-round into a virtuous circle of debt relief and poverty reduction.

### 3 Budgeting with eyes shut: The vicious circle

“What we are doing right now probably is the easy part. When we reach completion point, the post-HIPC phase, we may even demand more sacrifices from people because this insistence on good economic management will not stop - otherwise the country will back track and lose donor confidence.”

-- Ministry of Finance official<sup>39</sup>

The Honduran and Zambian governments are forced to consistently and knowingly under-estimate their spending needs in order to be able to reach an agreement with the IMF – a syndrome that one researcher characterises as “budgeting with eyes shut”.<sup>40</sup> When the government over-spends its budget the IMF declares the government off-track, which signals to donors to withdraw their programme support. This means the government has even fewer resources with which to implement its budget, and importantly, it makes donors cautious about providing further programme and budget support, particularly over the long-term. And so the cycle continues.

Effectively, it appears that the need to reach HIPC completion point has been put before the need to achieve poverty reduction. This may reflect the fact that resolving the outstanding debt problems of Zambia and Honduras is of primary importance to the IFIs, particularly the IMF. Both governments owe considerable sums to the IMF and a large proportion of the repayments to the IMF are now falling due. Staying on track with HIPC means the IMF is ensured of getting repaid.

Many people in Zambia believe that once the HIPC completion point is reached then things will change for the better. As CCJP’s Alick Lungu puts it, “many Zambians believe that once we reach the HIPC completion point mana will fall from heaven.”

However, the reality is likely to be far different. According to the Finance Ministry, nothing fundamental will change once completion point has been reached. “There will be no going back to the old ways. If anything adjustment is likely to get tougher. What we are doing right now is probably the easy part. When we reach completion point, the post-HIPC phase we may even demand more sacrifices from people because this insistence on good economic management will not stop otherwise the country will back track and lose donor confidence.”<sup>41</sup>

In its most recent report on Zambia, the IMF congratulates the Government for taking a strong stand and “limiting the wage bill to 8% and providing more room for ....priority spending”. It states that “the initial results of fiscal policy implementation were positive.”<sup>42</sup>

Absurdly, this suggests that paying primary school teachers is not ‘priority spending’ and that 9000 teachers unemployed could be considered a ‘positive’ result of fiscal policy implementation; yet this would contradict the IMF’s resident representative’s statement, quoted earlier in this report, that “if you’re putting money into education but not providing teachers it won’t work.” It appears that the IMF has got itself into a muddle; despite being increasingly committed to Education for All and the other MDGs, it continues to perceive wages and salaries as ‘wasteful’ expenditure. Unless it reverses this prejudice and shows greater fiscal flexibility, its commitment to poverty reduction is clearly discredited.

According to the IMF the only constraint that it is advising the government to adhere to is to limit its expenditure and within this to stick to an agreed overall limit for spending on wages of 8% of GDP. How the government chooses to allocate its salary budget is up to it, thus, say IMF spokespersons, there is no constraint on teacher salaries per se.

There are a number of responses to this position.

On the reallocation of the salary budget, the first point to see is that teachers are by far the largest single group of public sector workers. There is therefore a clear link between the overall wage bill and teachers in Zambia; it would be very difficult to keep the wage bill down without limiting or freezing wage increases for teachers.

This is not to say that reallocation is not possible. There is no doubt that the Zambian government could do more to prioritise education, to ensure that resources reach schools, and to reduce waste and expenditures on non-poverty reducing activities.

The government's poor prioritisation is reflected in the large gratuities that have recently been awarded to members of parliament at a time when many are being asked to be 'patriotic' by accepting further hardships. An MP's average monthly wage is approximately K1.5 million. A minister earns K3 million per month excluding generous allowances, in addition to drawing an MP's salary. The housing allowance received by ministers alone is K700,000-800,000 per month. On top of this, Ministers and MPs are legally entitled to a mid-term gratuity of between K200-500 million each. In total there are 150 MPs and 20 Ministers. The unions and civil society groups are incensed that the government is demanding "patriotism" of others but is not prepared to lead by example.

The teachers unions and other civil society groups do not disagree with the IMF that the government could better prioritise its spending. ZNUT claims that the education sector is being mismanaged by the government and that education is being afforded a relatively low priority: "it should be [priority] number one but it's only number 10... As long as government does not have proper priorities and they lack the skills of prioritising, this crisis is going to continue."<sup>43</sup>

Civil society is actively involved in monitoring public expenditure and trying to make a constructive contribution towards the implementation of policies and budgets that will actually reduce poverty (see box 4). In fact, as USAID recently pointed out, "at this juncture, Zambia is somewhat unique in Africa, where civil society and the incumbent President share the same agenda to fight corruption and hold leaders accountable."<sup>44</sup>

Zambia's new government recently demonstrated its commitment to accountability by becoming one of the first to sign itself up for peer review through the NEPAD mechanism. It is pushing hard to liberalise its economy, improve service delivery and root out corruptions. It has already completed a project with the World Bank to eliminate ghost and retired workers from the public sector payroll and is introducing an Integrated Financial Information Monitoring System (IFIMIS) to facilitate budget monitoring and public accountability.

Yet by denying Zambia access to full debt relief, withholding budget support which would help sustain the overloaded health and education systems, and forcing the government to impose and sustain a wage and hiring freeze, the IFIs and donors are placing in dire jeopardy the very reform efforts that they say are needed to reduce wasteful spending and strengthen prioritisation.

#### **Box 4 Ensuring a poverty focus in national spending: a greater role for civil society?**

During the course of this research the Zambian government's failure to allocate enough of its own resources to poverty-reducing expenditures such as basic health and basic education was a recurring theme. This paper demonstrates that even with improved prioritisation, Zambia's education budget would still be structurally under-funded. Yet it should also be acknowledged that there is a need for greater transparency and accountability so that civil society can play an effective part in budget monitoring. Without this, it is impossible to assess who is to be held accountable for government macro-economic policies.

According to a recent policy research report: 'The relationship between the IMF and the Zambian government is characterised by a near-absolute lack of transparency, which prohibits non-governmental stakeholders from monitoring this relationship'. Working groups established during the PRSP process, including a macroeconomic working group, were closed down after the finalisation of the PRSP in 2002. The government has not responded to requests from civil society for consultation on the new IMF lending programme. According to the same researcher, PRGF negotiations are taking place in an atmosphere of 'near-total opacity.'

In the current climate, this is critical. Institutional arrangements must be established to enable participation both in macroeconomic discussions and education planning. The IMF should also play its part. IMF staff have responded to requests for information from civil society organisations by suggesting that they check their website. However, in Zambia even this unsatisfactory means of monitoring the relationship is lacking because the Government and the IMF have failed to publish the documents. If the IMF wants to improve national ownership of poverty reduction strategies it must do better than this.

Source: Soren Jensen, Independent Policy Analysis , 'Zambia and the PRGF: Come Hell or High Water?', 2004

**And, while there is almost certainly more the Government could do to prioritise education within existing expenditure, it will never be enough. Delivering on the MDGs will require more resources from debt relief and donor budget support. To give an example, 1% of GDP or \$50 million more is required to honour the wage increases of teachers and recruit those who have been trained. If all MPs were sacked tomorrow, hardly a step in a democratic direction, then this would raise \$500,000 dollars or barely 10 % of what is needed.**

**Ironically, the best way to fill the resource gap on salaries is debt relief. Across Africa, countries are using HIPC debt relief to pay teachers' salaries, because unlike donor aid it is long-term sustainable finance that is guaranteed. Zambia and Honduras have been denied access to debt relief because they cannot meet the targets on expenditure, yet accessing debt relief would enable it to meet the targets *and* pay the teachers.**

## 4 Conclusion: Turning a vicious circle virtuous

To turn the vicious circle into a virtuous one four things are needed:

- 1) the IMF needs to be more flexible in setting budget deficit targets and to help governments to proactively advocate to donors to provide long-term development assistance;
- 2) the donors need to commit to providing long-term budget support;
- 3) the government needs to demonstrate that it can draw up a realistic, poverty-focussed budget and execute it efficiently;
- 4) rich countries need to finance full debt cancellation.

Civil society is right to blame the IMF for being too short-sighted and technocratic when laying down its budget conditions. Alick Lungu of the CCJDP argues that, “What matters most [to the IMF] is not whether Zambian people have education or not but does the economy have macroeconomic stability or not. But by so doing you tend to lose out on the human face. This is one of the main contradictions of the IFIs’ programmes.”<sup>45</sup>

In fact, civil society groups argue, the IMF lending programmes in Zambia and Honduras have never been aligned with their Poverty Reduction Strategy Papers, and are based on unrealistic fiscal deficit projections. This, they claim, demonstrates the IMF’s failure to meet its responsibility to assist in increasing the level of finance available for countries to reach the Millennium Development Goals.<sup>46</sup>

*“It is alarming that the IMF has now returned to a strict fiscal austerity line, which has yielded little results in the past, has not been consulted upon with a broader group of stakeholders and remains largely unrealistic.”<sup>47</sup>*

Rather than working with a government to help it formulate a realistic poverty-focussed budget and to lobby the donor community to finance it, the IMF tends to work narrowly within the given financial envelope to constrain government. The macro-economy is put before poverty reduction. The IMF needs to reverse this tendency and to put the goals of the MDGs first. It needs to find ways to work with the government and donors to loosen the macroeconomic constraints as much as is possible. Thus rather than poverty reduction goals being constrained by the macroeconomic situation, the IMF needs to help a government to demonstrate to the donor community where the opportunities lie for making poverty reducing expenditures if more finance is made available.

The first step is for the IMF to work with others including the World Bank to accurately forecast how many frontline public sector workers are needed to reach the MDGs, and how much it would cost to pay them a living wage. This would be the case for teachers, nurses and other crucial public sector employees. This would form a key part of a broader costing exercise to see how much would be required to reach the MDGs in Zambia and Honduras. Such costing exercises are already beginning and are being carried out by the UN in some countries and the World Bank in others.

With this forecast, the World Bank and IMF should then calculate how much debt Zambia and Honduras can afford to pay back each year given these financing needs for the MDGs. It is almost certain that for these countries the answer is nothing at all. Every dollar spent on paying back debt in Zambia and Honduras is a dollar that is desperately needed for poverty reduction. This would mean the WB and IMF should then work with donors to cancel 100% of Zambian and Honduran debt repayments. This would free up hundreds of millions of dollars to be spent on poverty reduction. Debt cancellation should be paid for by extra contributions from donors and a revaluation of IMF gold stocks.

The IMF is currently has the third largest stock of gold in the world, and it is currently undervalued by \$32 billion dollars. It would take only 0.04% of this to pay 100% of Zambia's debt service from now until 2015, releasing \$1,603 million dollars over the next ten years to be spent on poverty reduction.<sup>48</sup>

However, even with full debt cancellation, the Zambians would still be left with a financing gap if they are to reach the MDGs. This will have to be filled by donor aid, and preferably direct budget support as this is the most efficient form of finance. Having identified the figure required of donors, the World Bank and IMF should work with the Government of Zambia to lobby donors to find as many resources as possible. This should include full utilisation of new funding mechanisms such as the Education for all Fast Track Initiative.

Only after this debt calculation and lobbying donors for the maximum commitments they can should the IMF work together with the government to formulate the macroeconomic framework. This should be done through a process of consultation and should use Poverty and Social Impact Analysis to outline keep trade offs and policy choices. It should also calculate a number of different scenarios to allow for shocks such as falling commodity prices or drought.

A needs-based approach to macroeconomic forecasting and planning, together with flexible long-term budget support from donors, is the only way that countries like Zambia and Honduras are going to reach the MDGs.

Not only is the IMF forcing governments to "budget with their eyes shut," without planning realistically for the teachers and nurses they actually need, it also appears to be approaching the MDGs with its own eyes closed to the need for a strong public sector and to predictable long-term support to help finance public services. A step change in domestic and external policies is needed to achieve the education MDGs. The Global Campaign for Education believes that it can be achieved through a combination of debt cancellation and donor action on the basis of the FTI plan.

Without a change of course, 100 million out-of-school children will have to wait until the raft of conditions and policy benchmarks are in place for increases in aid and debt relief. This will be too long. It is critical that the IMF leads the way to signify a departure from business as usual. At the moment the opposite is true.

## **Recommendations**

The Annual Meetings provide the opportunity to take the first steps towards ending the debt and austerity predicament that is stopping committed countries like Zambia and Honduras from achieving the MDGs. During their meeting in Washington this week, the IMFC and Development Committee should:

1. Announce that 100% of the multilateral debt of the poorest countries will be cancelled, to be funded through contributions by rich countries and a revaluation of IMF gold stocks.
2. Request a fully independent review of the impact of economic policy conditionality, including inflation targets and payroll ceilings, as countries move into the second round of Poverty Reduction Strategy Papers. Demand due diligence of the IMF in ensuring all macroeconomic frameworks are the product of national discussion of different scenarios based on independent Poverty and Social Impact Analysis (PSIA) linked to MDG needs. Request a review of progress on PSIA and macroeconomic scenarios at the Spring Meetings 2005.
3. Urge developed countries immediately to guarantee the US \$50bn increase in development financing per year needed to meet the MDGs, including the additional US\$5.6bn needed to achieve universal basic education. Reiterate the

need for developed countries that have not yet done so to provide a time-bound framework for reaching the target of 0.7% of GNP as ODA by 2010 at the latest, in order to meet the MDGs.

4. Be explicit in their communiqués that adequate numbers of trained teachers and health workers are vital to achieving the MDGs and resources must be found to pay them a living wage.
5. Delink funding for basic education and other poverty eradication priorities from the IMF's lending programme, and request a paper for the 2005 Spring Meetings on options for moving away from the stop/start effects of current IMF signaling to a more gradual process based on progress in implementing poverty reduction strategies.
6. Welcome the report on financing modalities and encourage rich countries to expand their commitment to direct budget support, pooled sector funding and predictable long-term financing through mechanisms such as the EFA Fast Track Initiative and the proposed International Financing Facility.

For their part developing country governments must

1. Make poverty reduction and the attainment of the MDGs an explicit objective of macroeconomic policy with transparent, quantifiable and monitorable indicators in the annual budget, and maximise expenditure on poverty reduction, including education and health.
2. Encourage national debate on the formulation of key macroeconomic objectives.

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## End Notes

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- <sup>41</sup> Benny Chundu, Director, Economic and Technical Cooperation Department, Ministry of Finance, September 2004.
- <sup>42</sup> IMF PRGF Arrangement and Staff Report, July 2004.
- <sup>43</sup> Interview with Roy Mwaba, General Secretary, Zambia National Teachers Union, September 2004.
- <sup>44</sup> USAID Zambia, "Country Strategic Plan FY2004-2010". Available [http://216.239.59.104/search?q=cache:IsycM1QP0IAJ:www.usaid.gov/zm/Docs/csp\\_vol1.pdf](http://216.239.59.104/search?q=cache:IsycM1QP0IAJ:www.usaid.gov/zm/Docs/csp_vol1.pdf)
- <sup>45</sup> Interview with Alick Lungu, Catholic Commission for Justice, Development and Peace, September 2004.
- <sup>46</sup> Jensen, "Zambia and the PRSP – Come hell or high water?" 2004

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<sup>47</sup> *Ibid.*

<sup>48</sup> Total debt service 2004-2015 \$1,603 million dollars, figures from Decision Point Document December 2000.