IEG
Independent Evaluation Group
WORLD BANK GROUP
World Bank • IFC • MIGA

PROJECT PERFORMANCE ASSESSMENT REPORT

WHAT WORKS

ZAMBIA

Public Sector Management Program Support Project

Report No. 106280
JUNE 28, 2016

© 2016 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

Report No.: 106280

PROJECT PERFORMANCE ASSESSMENT REPORT

ZAMBIA

PUBLIC SECTOR MANAGEMENT PROGRAM SUPPORT PROJECT (P082452, IDA - 41400)

June 28, 2016

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = ZMK

FY06	US$1.00	ZMK3.6
FY07	US$1.00	ZMK4.0
FY08	US$1.00	ZMK3.7
FY09	US$1.00	ZMK5.0
FY10	US$1.00	ZMK4.8
FY11	US$1.00	ZMK4.9
FY12	US$1.00	ZMK5.1
FY13	US$1.00	ZMK5.4
FY14	US$1.00	ZMK6.2

Abbreviations and Acronyms

ABB	Activity-based budgeting
APL	Adaptable Program Loan (Lending)
CAS	Country assistance strategy
COTS	Commercial off-the-shelf
DANIDA	Danish International Development Agency
DFID	Department for International Development
ERP	Enterprise resource planning
ESCAP	Economic and Social Commission for Asia and the Pacific
FINNIDA	Finish International Development Agency
FMIS	Financial management information system
FMS	Financial management system
GDP	Gross domestic product
GOZ	Government of Zambia
HRMIS	Human resource management information system
ICB	International competitive bidding
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
ISR	Implementation Status and Results Report
M&E	Monitoring and evaluation
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MPSA	Ministries, provinces, and spending agencies
MTEF	Medium-Term Expenditure Framework
MTPRS	Medium-term Pay Reform Strategy
NDP	National Development Plan
NORAD	Norwegian Agency for International Development
OAG	Office of the Auditor General
PAD	Project Appraisal Document
PDO	Project Development objective
PEFA	Public Expenditure and Financial Accountability
PEM	Public expenditure management
PEMFA	Public expenditure management and financial accountability
PEMFAR	Public Expenditure and Financial Accountability Review

PEMFA-SC	PEMFA Steering Committee
PFM	Public finance management
PFMRP	Public Financial Management Reform Program
PMEC	Payroll Management and Establishment Control
PPAR	Project Performance Assessment Report
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Sector Capacity Building Project
PSM	Public service management
PSMD	Public Service Management Division
PSMP	Public Sector Management Project
PSMP-SP	Public Sector Management Project Support Project
PSRP	Public Service Reform Program
PSU	Procurement and Supplies Unit
RBZ	Reserve Bank of Zambia
SDIF	Service Delivery Improvement Facility
SIDA	Swedish International Development Agency
SWAP	Sector-wide approach
TSA	Treasury Single Account
WAN	Wide area network
ZNTB	Zambia National Tender Board
ZRA	Zambia Revenue Authority

Fiscal Year

Government: July 1 – June 30

Director-General, Independent Evaluation	:	Ms. Caroline Heider
Director, Human Development and Economic Management	:	Mr. Nicholas York
Manager, Country Program and Economic Management	:	Mr. Mark Sundberg
Task Manager	:	Mr. Moritz Piatti

Contents

This report was prepared by Moritz Piatti. Ali Hashim authored the IFMIS appendixes, which were drawn on extensively. The team visited Lusaka during June 20–28, 2015. The report was peer reviewed by Michael Stevens and panel reviewed by Iradj Alikhani. Yezena Yimer provided administrative support.

Boxes

Tables

Figures

Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Moderately unsatisfactory	Moderately unsatisfactory	Moderately unsatisfactory
Risk to Development Outcome	Moderate	Moderate	Significant
Bank Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Moderately unsatisfactory	Moderately unsatisfactory	Moderately unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Project	Task Manager/Leader	Division Chief/ Sector Director	Country Director
Appraisal	Patricia Palale	Helga W. Muller	Hartwig Schafer
Completion	Deryck R. Brown	John Panzer	Kundhavi Kadiresan

IEG Mission: Improving World Bank Group development results through excellence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This Project Performance Assessment Report (PPAR) evaluates the Public Sector Management Program Support Project to Zambia, which was approved by the Board on May 1, 2006, for US$100 million, with a closing date of December 31, 2010. The project was financed through a US$30 million International Development Association (IDA) credit and US$70 million co-financing from various other development partners. In December 2010 the closing date was extended to June 30, 2012.

The program's objective was to "make public service delivery institutions and processes more effective and efficient by enhancing the efficiency and accountability of the management of public expenditures and the public service in line with the GRZ strategies to support poverty reduction and promote economic growth." In keeping with the results framework, the objective relating to phase II of the program is "to improve the quality of public expenditure management and public service effectiveness in Zambia." The lending instrument used was an Adaptable Program Loan (APL), and the operation was the second in a series of three. The series was subsequently terminated.

This report presents findings based on a review of the project appraisal documents, the Implementation Completion and Results Reports, Implementation Completion and Results Review, aide-memoires, IMF and World Bank reports, and other relevant materials, including a number of publically available studies by various donors. An Independent Evaluation Group (IEG) mission visited Lusaka during June 20–28, 2015, to interview government officials, the staff of the World Bank, staff of the IMF, and other development partners and stakeholders. Bank staff members, donor representatives, and other information providers were also interviewed at the Washington, DC, headquarters and by telephone (see appendix H for the complete list of persons interviewed).

The assessment aims to review whether and how the operation achieved its intended objectives. The report provides additional evidence and analysis of relevant and comparative data for a more complete picture of the outcomes and the factors that influenced them. By covering the period between 2013 and 2016, it offers an opportunity for broader lessons and a longer time perspective, as well as reflection on the sustainability of policy reforms and long-term factors that facilitated outcomes.

This assessment is part of a larger body of public sector/governance evaluations in Africa and East Asia that will feed into a synthesis report to draw lessons on cross-country experience. The reports provide a dedicated appendix on the design, implementation, and utilization of Financial Management Information Systems, which have been at the core of the reform programs.

Following standard IEG procedures, a copy of the draft report was circulated in parallel to the relevant government officials and agencies for their review and feedback. No comments were received.

Summary

This PPAR evaluates the World Bank's Public Sector Management Program Support Project (PSMP-SP) for the second phase of the public service reform program in Zambia. The project was approved on May 1, 2006, and closed on June 30, 2012, 18 months behind schedule. The World Bank, through the International Development Association (IDA), provided a credit of US$30 million. Additional parallel financing of US$70 million was provided for the program via a sector wide approach from a number of other development partners.

Zambia is a landlocked country that is generously endowed with natural resources and has benefitted from rapid economic growth since the early 2000s. Benefits of growth were however narrowly distributed with poverty remaining widespread and many service delivery indicators lagging behind expectations, in part due to ineffective government intervention. With the economic position deteriorating in more recent years following the collapse of the copper price (which halved between 2011 and 2016), the government's fiscal space narrowed making the effective use of public resources all the more important. In this environment, the project's overarching objective of making public service delivery institutions and processes more effective and efficient was critical. To that end, the project supported two government programs: (1) the Public Financial Management and Accountability Program (PFMAP) aimed at strengthening the mobilization and utilization of public finances; and (2) the Public Service Management Program (PSM) supporting various dimensions of civil service reform. The strategic relevance of the project was substantial, even if objectives were too ambitious. The program disbursement figures and respective IDA contributions are outlined in table I.

Table S.1. Program and IDA Disbursements (US$ millions)

Component	Program	IDA	IDA/Total
PEMFA	85.1	5.2	6.1%
PSM	25.7	12.3	47.9%
Retrenchments	9.4	9.4	100.0%

Source: Project Exit Reports.

Project design was however not conducive for effective implementation. The project attempted to address an excessively wide range of system ailments with insufficient regard to prioritization or client capacity. Sub-components ranged from macro-fiscal modelling, budget management and execution, to beekeeping and mushroom farm harvesting pilots. Support to a treasury single account was however not within scope, despite its critical importance. The APL as an instrument of choice was adequate, but would have allowed for a more phased approach than was de facto taken. Design is rated modest.

The project contributed to some important outputs with regards to the objective of improved public expenditure management, which was considered substantial. A macro-fiscal forecasting and debt management system was set up and successfully implemented.

An Integrated Financial Management Information System (IFMIS) was rolled out across government providing much needed checks and balances, and increasing the speed of transactions. Investments in budgeting and planning have institutionalized a Medium Term Expenditure Framework (MTEF), and helped the implementation of activity based budgeting. Perhaps most notably, the effectiveness of oversight institutions has improved with comprehensive audits now being conducted routinely, and published within a reasonable time lag. However, these achievements have only translated into better outcomes at the margins. Despite better macro-fiscal forecasting, fiscal discipline has suffered from political volatility leading to large deviations in budget performance and a fiscal deficit exceeding targets. The IFMIS was implemented but at the point of service delivery, the legacy Financial Management System (FMS) prevails, which undermines the effectiveness of the IFMIS as it does not have any ex-ante control mechanisms in place. Further, large amounts of idle balances outside the purview of the treasury and IFMIS are an efficiency concern and undermine the systems functionality as a comprehensive expenditure management tool. Arrears also remain a concern, partly driven by the rapid depreciation of the kwacha, and partly by disregard to commitment control systems in place. Finally, the legal framework for public financial management remains fragmented and mostly outdated, despite considerable technical assistance.

Similarly, the effectiveness of the public service has benefited from investments in upstream systems leading to improved payment and establishment control, which contributed to strengthening the transparency and accountability of payroll management. Further an important pay policy was developed and approved. Efforts to introduce performance-based pay have however not been fruitful, and Permanent Secretaries continue to be political appointees, rather than being selected on merit. There remains evidence of poor staff qualification, staff shortages, and moonlighting in critical service delivery sectors, as well as positions remaining unfilled. Further, an unsustainable increase in wages put stress on an already fragile fiscal situation without clear evidence of how this would act as an impetus to improved civil servants' motivation or performance. Consequently, the objective of improved public service effectiveness was rated modest.

With regards to the overarching project and program objective, the project failed to plausibly link investments in key upstream reform areas (as discussed above) to improved efficiency and effectiveness of public service delivery institutions. There is a general lack of evidence on how, and to what extent, service delivery institutions benefited from these interventions and were able to deliver services more effectively and efficiently as a result. There was some progress in pilots pertaining to the service delivery fund, but these were isolated efforts, with no provisions for scaling up. Improvements in services delivery across the country have been modest, and it is unlikely that this is attributable to project interventions.

The project contributed to some positive returns, most notably through setting up systems. However, there were a number of concerns about the efficient use of project resources. Complex project design and donor coordination mechanisms led to disbursement delays and inefficient implementation and supervision arrangements. The project included subcomponents with questionable relevance to this project, such as beekeeping and mushroom farming pilots. Further, there were a number of inefficiencies with regards to IFMIS implementation, including legal disputes, extensive parameterization, and frequent turnover of staff. Finally, undocumented and illegible expenditures constitutes an inefficient use of project funds. On balance, efficiency was rated modest.

The overall project outcome was rated moderately unsatisfactory, which is a composite rating of substantial relevance of objectives and modest relevance of design, mixed efficacy with major reservations, and modest efficiency.

Despite an effort to sustain and deepen some of the activities through the support of a follow up operation (PFMRP Phase I) there remain significant risks with regards to project achievements:

- The continued use of the legacy Financial Management System (FMS), which does not have ex ante transaction control (or even basic budget or cash control), undermines budget management and jeopardizes the integrity of budget execution reports. Donors continue to push for the continued use of the FMS to support sector specific interventions. This cannot yield results and instead props up a system that should be abandoned.

- There remain important gaps with core IFMIS functionality and coverage, which are insufficiently addressed in the current reform program. Instead ongoing investments are centered on items of lower priority including technical aspects and non-core IFMIS functionality.

- There remain risks with regards to mainstreaming IFMIS project staff back into government operations. Further, there is a growing interest for sector specific information systems, which would fragment the systems architecture and dilute capacity.

- Progress with regards to the treasury single account has been slow, and the current reform approach is based only linked accounts. It does not require balances to be swept into the central bank unconditionally, nor does it require that accounts operate on a zero balance basis. While linking accounts means that balances would be known, the central bank will not be able to draw on them for investment (or fund requests from other spending units), nor do they extend its overdraft limit. Further adherence to the annual budget law cannot be strictly enforced for these balances under such an arrangement.

- The premature roll out of advanced budgeting techniques has become a risk to budget management and execution, causing a proliferation of transactions that has become unmanageable.

Overall bank and borrower performance was rated unsatisfactory and moderately unsatisfactory respectively. Bank performance suffered from poor quality at entry, especially due to excessive complexity that made the project difficult to implement and manage. Analytical underpinnings were adequate, although the Bank did not draw sufficient lessons from the first phase of the APL or IFMIS implementation experience from other countries. Borrower performance was rated moderately unsatisfactory reflecting poor government ownership of various reforms, but compensated by implementing agencies' commitment to critical components.

The project offers a number of important lessons, some specific to Zambia and others that are broader and generalizable. These are summarized below:

- Good analytical work is an important underpinning for program design, but it is not sufficient. Program design must be strategic, practical, prioritized, and take into account the implementation and absorptive capacity of the borrower.

- Project design based on a complex institutional reform agenda and its implementation would benefit from explicitly recognizing the iterative nature of the reform process. There should be provisions for frequent, in-depth supervision to inform periodically on critical intervention areas that may need to be adjusted and prioritized.

- Donor coordination modalities should be carefully considered prior to project inception and should be designed to reduce transaction costs to the government without making implementation arrangements excessively complex.

- Financing retrenchment of government employees can be deeply unpopular and carries a significant reputational risk for the Bank. Unless retrenchment reforms are accompanied with complementary reforms and progress is closely monitored to avoid reentry of civil servants the intervention is unlikely to be effective. The Bank has a rich history in retrenchment reforms and design of interventions should carefully draw on previous experience.

- Merit based recruitment of senior civil servants is a critical aspect to performance management. Performance contracts are of limited value if senior civil servants are politically appointed and can be dismissed arbitrarily as was the case in Zambia.

- Consolidating fragmented bank accounts takes significant political will and may be given low priority during a time of economic growth and fiscal expansion. Idle balances should be of particular concern to countries prone to external shocks, as the lack of a treasury single account means that these funds cannot be drawn on to cushion against unanticipated financing gaps. Linking accounts (such that balances are known) may be politically more feasible, but does not address the main problem that these funds are not within the purview of the treasury. Budget support operations may provide leverage for accelerating such reforms.

- A contractual and implementation arrangement for IFMIS that assumes that a comprehensive off-the-shelf enterprise resource planning package would correspond to actual government and user requirements is not realistic. Significant configuration and parametrization will still be necessary. If this is not understood at the outset this can lead to repeated configuration exercises, and additional costs in the form of variation orders to the contract as was the case in Zambia.

- The Zambia case shows that the simultaneous implementation of all IFMIS modules is difficult and rarely feasible. Instead a sequenced roll-out approach, prioritizing core treasury reforms, can reap important low-hanging fruit and ensure that client capacity is not overburdened.

- The Bank may consider an approach where it supports training and technical support, leaving the financing of system implementation to the client. This may bring in realism, strengthen commitment, and avoid undue engagement in non-core modules. Comparing the PMEC and IFMIS experience makes for such a case. Government financed essential incremental improvements in PMEC. In contrast, the donor financed IFMIS included many non-core modules that were not necessary and diluted implementation capacity.

- When an implementation strategy involves an interim basic custom system, it is important that it is based on ex ante control of transactions. In Zambia the FMS cannot be used to implement commitment or even basic budget or cash control. Combining FMS data—which has no controls, and therefore cannot guarantee completeness or authenticity—with IFMIS data—which does have ex ante transaction control—jeopardizes the integrity of the IFMIS data and the resulting combined budget execution reports.

- The introduction of advanced budgeting techniques, such as program / activity based budgeting, should be introduced only after a fully functioning IFMIS is in place.

Nick York
Director
Human Development and Economic Management
Independent Evaluation Group

1. Background and Context

1.1 This Project Performance Assessment Report (PPAR) reviews the World Bank's Public Sector Management Program Support Project for the second phase of the public service reform program in Zambia. The project was approved on May 1, 2006, and closed on June 30, 2012, 18 months behind schedule. The World Bank, through the International Development Association (IDA), provided a credit of US$30 million, and additional parallel financing of US$70 million was provided for the program by the African Development Bank, the Danish International Development Agency (DANIDA), the Swedish International Development Cooperation Agency (SIDA), Irish Aid, the European Commission, the Norwegian Agency for Development Cooperation (NORAD), the U.K.'s Department for International Development (DFID), and the Finnish International Development Agency (FINNIDA).

1.2 Zambia has been a peaceful and politically stable country for most of its post-independence history, as evidenced in the peaceful transfer of power in the 2011 presidential election and subsequent transition in 2014 following the President's death. It is generously endowed with natural resources, but relies most heavily on copper, which exposes the country to fluctuations in global demand, and being landlocked it faces long supply chains. The economic and fiscal outlook in the 2000s has been generally positive, driven by high copper prices and underpinned by a stable macroeconomic environment. In the mid-2000s, Zambia benefitted considerably from debt relief initiatives[1] amounting to the clearance of about US$6.5 billion in debt service obligations, which improved the country's external position, allowed the build-up of much-needed foreign exchange reserves, and created additional fiscal space. Zambia's revenue performance has been around 20 percent of GDP and above regional peers, also driven by the favorable external position. As a result of stable growth and sufficient revenue performance, the nominal fiscal space has grown by an average of 20 percent since 2004 (IMF 2015; World Bank 2016).

1.3 Copper prices have however halved since 2011[2] contributing to a current account deficit and decline in mining related investments. Expenditure adjustments have not been commensurate with reduction in revenue, and the fiscal balance deteriorated from a 1.8 percent deficit in 2010 to 7.7 percent in 2015[3], and GDP growth fell to 3 percent. The expansionary budget was insufficiently investment oriented and driven by subsidy overruns and wage increases. It did not stimulate the economy as was hoped. At the same time, there has been a steady reduction in foreign aid, including both budget support and project grants, especially since the country is classified as a lower-middle-income country[4] and started issuing Eurobonds.

---

[1] The Highly Indebted Poor Country Initiative and the Multilateral Debt Relief Initiative.

[2] See copper price developments here.

[3] See IMF Press Release 2016 here.

[4] GDP per capita estimated at US$1,722 in 2014 (World Bank, World Development Indicators 2016).

1.4 The deficit was financed by an increased issuance of treasury bills and by using part of the 2012 Eurobond proceeds (US$750 million) that had not yet been spent, but were intended for investments of state-owned enterprises. Eurobonds totaling US$1 billion were issued again in April 2014 to offset the current account deficit. While debt risk is considered moderate, debt to GDP doubled between 2010 and 2014, and the increased debt service ratio (driven largely by non-concessional debt) has increased debt vulnerability (IMF 2015). Select economic indicators are provided in table 1.1.

Table 1.1. Zambia Select Economic Indicators

Outturns	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***
Real GDP Growth	6.2	6.2	5.7	6.4	10.8	6.3	6.7	6.7	6.0
Inflation (end year)	9.0	10.7	12.4	13.4	8.5	6.4	6.6	7.0	7.8
Revenue (% of GDP)	21.3	22.4	22	18.7	19.8	20.9	21.1	19.2	18.2
Fiscal Balance	-1.1	-0.2	-3.2	-2.6	-1.8	-3.6	-4.8	-6.5	-5.2
Gross Intl Reserves (months of imports)	2.2	2.5	2.1	5.1	3.0	2.8	2.8	2.4	3.5

Source: GoZ Annual Economic Reports (2006-2014).

1.5 Corruption remains a serious issue and Zambia was ranked 83 out of 177 countries in the 2013 Transparency International Corruption Perception Index. According to the World Bank's governance indicators, Zambia scores high on political stability, but only fair on voice and accountability, regulatory quality, and rule of law. Regarding control of corruption and government effectiveness, Zambia scored very low and below peers such as Malawi, Rwanda, South African, Tanzania, and Uganda. The Zambian Auditor General's reports have indicated misuse and misappropriation of public resources.

1.6 Despite rapid economic growth, the benefits of growth were narrowly distributed and poverty remains widespread. According to the latest (albeit dated) Living Conditions Monitoring Survey (GoZ 2010a), the national poverty rate was about 60 percent, and had thus not improved significantly from the 62.8 percent estimated in 2006. Extreme poverty was estimated at 42 percent of the population, with insufficient consumption of calories to meet daily minimum food requirements. Further, there is growing rural-urban divide. With a majority of the rural population dependent on subsistence agriculture, rural poverty remains at 78 percent -- similar to the 80 percent recorded in 2006. Some service delivery indicators improved, though levels attained were not commensurate with the economic performance of the country, and Human Development Indicators remain well below low- and middle-income country averages. As a proxy, the under-five mortality rate of 64.0 per 1,000 is considerably higher than the low- and middle-income average of 47.3 in 2015.[5] Zambia was ranked 163 out of 187 countries on the Human Development Indicators. Rapid population growth of

[5] For comparison other countries indicators can be accessed here.

about 3 percent further strains the limited capacity of institutions. Appendix G provides an overview of economic and social data between 2006 and 2014.

1.7 Against this background, the project aimed to contribute to making public service delivery institutions more effective and efficient through strengthening public financial management and reforming the civil service. The operation was designed to address shortcomings in the public finance environment as identified in the 2003 Country Financial Accountability Assessment (World Bank 2003b). In particular, it noted that there were considerable weaknesses in the areas of budget management, financial reporting and audit, internal control, human resource management, and procurement, and that many public finance laws and regulations were insufficiently enforced. This led to a breakdown of administrative systems and procedures for the control of expenditure. Audit systems that were in place to detect instances of poor financial governance were ineffective due to the lack of follow-up and enforcement of the auditor general's recommendations. Lack of sanctions may only have served to embolden those who have been engaged in improper activities (World Bank 2003b). The project was implemented in parallel with a series of Poverty Reduction Support Credits, which included a number of public finance management (PFM)-related policy actions in an effort to leverage upstream policy dialogue. These are detailed in appendix B.

1.8 Project implementation coincided with the time of the fifth and sixth National Development Plan, which made explicit reference to the importance of public sector reform as an impetus to promoting growth in labour intensive sectors and make service delivery more effective. The present government recognized the need to continue with PFM reform and has developed a three-year (2013–2015) PFM reform strategy focusing on improving efficiency, effectiveness, accountability and transparency in the use of public resources.

2. Objectives, Design, and Relevance

2.1 This operation was the second phase of a three-tiered APL program, with an overall program objective of making "*public service delivery processes more effective and efficient in order to facilitate economic growth and reduce poverty" (World Bank 2000, p.* 3*).* The objective of the first phase (the Public Sector Capacity Building Project, or PSCAP) was "*to design and begin to implement the critical system-wide reforms that will support improved service delivery in the sectors."* The first phase would put in place the basic financial management, accountability, transparency, and personnel systems and begin to reform wages to attract and retain staff. Performance rating are provided in appendix B. Phase 2—the project to which this PPAR pertains—was intended to roll out the systems developed and piloted under phase 1 throughout the public service, and the third phase would then be a consolidation phase, during which the benefits of the two previous phases would be monitored and evaluated, and appropriate adjustments made to make them more effective. Triggers and progress against triggers are outlined in appendix B.

Objectives

2.2 The project development objective (PDO) of this operation (the second phase, according to the project appraisal document [PAD]) was similar to that of the overall program: *"to make public service delivery institutions and processes more effective and efficient by enhancing the efficiency and accountability of the management of public expenditures and the public service in line with the GRZ [Government of the Republic of Zambia] strategies to support poverty reduction and promote economic growth"* (World Bank 2005b, p. 2). The PDO, in accordance with the financing agreement, schedule 1, was: *"to improve the efficiency and effectiveness of its [the Recipient's] public service delivery institutions, through enhanced accountability of the management of public expenditure and public service in line with its [the Recipient's] strategies for poverty reduction and promotion of its [the Recipient's] economic growth"* (World Bank 2006, p. 5).

2.3 The results framework in the PAD, annex 3, however, used a somewhat different PDO: *"to improve the quality of public expenditure management and public service effectiveness in Zambia as a means to achieve: (1) economic growth and poverty reduction; (2) a more efficient public service; and (3) the adoption of direct budgetary support as the principal mechanism for development aid in Zambia*" (World Bank 2005b, p. 32).

2.4 This assessment uses the results framework in the PAD because it best reflects the intent of the operation.[6] To that end, there is a separate discussion of (1) improved quality of public expenditure management and (2) improved public service effectiveness. Efficacy as per PDO in the financing agreement is discussed as a higher level objective.[7]

Design

2.5 The Public Sector Management Program Support Project was a World Bank project in support of the broader governmental Public Sector Management Program, which had three components: (i) public expenditure management and financial accountability (PEMFA); (ii) public service management (PSM); and (iii) supporting retrenchments. The World Bank committed US$30.0 million as part of a sector-wide approach (SWAP) arrangement; other donors pledged US$78.8 million in parallel financing. Because individual contributions are indistinguishable from one another, this evaluation assesses the program as a whole, considering the World Bank as an important contributing agency.

2.6 **Component 1: Public Expenditure Management and Financial Accountability** (budget, US$72.6 million; actual, US$85.1 million). This component was intended to strengthen the legal, accounting, and administrative frameworks for public expenditure management through 13 interrelated subcomponents. Subcomponents included strengthening the commitment control system through support of the financial management system (FMS) and developing, piloting, and rolling out an integrated financial management information system (IFMIS), where the bulk of project resources were allocated (about 39 percent). Other subcomponents encompassed strengthening fiscal policy and economic planning through the development of a macroeconomic budget model, strengthening activity-based budgeting (ABB), and improving budget presentation. Further, there were subcomponents relating to a

[6] As per IEG procedures, this redefinition of PDO was approved in writing by its management.

[7] It should be noted that the second parts of the PDO statements starting with "in line with..," "through…" or "as a means to achieve…" should be considered as expected contributions to higher level objectives.

better cash-release system, improvement of the debt management strategy and systems, strengthening of internal and external audit functions and oversight of parliamentary committees, and reform of the public procurement system.

2.7 **Component 2: Public Service Management** (budget, US$25.0 million; actual, US$25.7 million). This component aimed at strengthening the effectiveness of public service management. Activities included rightsizing the public service—focusing mainly on provincial and district administration—to more sustainable and efficient levels. This also included the development and financing of a social protection strategy, given the likely adverse consequences. Second, it included a comprehensive pay reform, from developing a comprehensive pay policy, to designing a salary scheme including a performance-related pay structure, to an action plan for the Medium-Term Pay Reform Strategy (MTPRS). The third element was closely related and supported performance management, and finally to establishing effective payroll and establishment controls.

2.8 **Component 3: Supporting Retrenchments** (budget, US$9.7 million; actual, US$9.4 million). This component provided resources to pay separation packages, implement a comprehensive social safety net program to cushion the impact of unemployment on those retrenched as a consequence of the rightsizing efforts, implementation of the Payroll Management and Establishment Control (PMEC) system, and the operationalization of restructured ministries.

2.9 An overview of planned and actual expenditures by component is provided in table 2.1. The PEMFA budged was exceeded significantly, in part due to greater than expected government contributions stemming from increased investment costs pertaining to the IFMIS. The IDA contribution was a relatively small share of expenditures under this component. Expenditures closely matched IDA allocations in the case of PSM and retrenchment components, the latter of which was funded entirely from IDA resources.

Table 2.1. Planned and Actual Expenditures for Each Program and Specific to IDA (in US$ millions)

Component	*Program budget*	*Program actual*	*Program actual/budget*	*IDA budget*	**IDA actual**	*IDA actual/budget*
1. PEMFA	72.6	85.1	117%	7.8	5.2	67%
2. PSM	25.0	25.7	103%	11.1	12.3	111%
3. Retrenchments	9.7	9.4	97%	9.7	9.4	97%
Other	1.5	0.4	27%	1.5	0.4	27%
Total	108.8	120.6	111%	30.0	27.3	91%

Sources: PEMFA program budget and actuals are from the 2013 PEMFA exit report. IDA budget for PSM is from the IDA financing agreement, and IDA actuals are from World Bank disbursement data. PSM program budgeting and actuals data are from the PSM team in the Cabinet Office, less the retrenchment component. IDA budget is from the IDA financing agreement, and actuals are from World Bank financing data. “Other” includes reimbursement for preparation and unallocated funds at appraisal.

Implementation

2.10 As outlined above, the program was designed as a SWAP arrangement, with an IDA contribution of US$30.0 million. The breakdown of other partners' contributions to the various components is provided in table 2.2. The project was approved by the Board on January 5, 2006, and became effective on May 10, 2006. The project was designed to be completed within 5 years, but was restructured on December 30, 2010, to extend the closing date for 18 months, from December 31, 2010, to June 30, 2012, to allow the completion of a number of activities, including work on the IFMIS, the procurement reform, and implementation of the revised pay policy.

Table 2.2. Program Disbursement by Source (US$ millions)

Financing source	*PEMFA*	*PSA*	*Retrenchment*
GoZ	11.8	..	..
IDA	5.2	12.3	9.4
DFID	20.9	5	
DANIDA	4.8	..	..
Netherlands/Ireland	4.5	..	..
FINNIDA	2.1	3.1	..
SIDA	3.9	5.6	..
NORAD	11.3	..	..
EC	20.9	..	..
Total	**85.4**	**26**	**9.4**

Sources: 2013 PEMFA exit report; PSM team in Cabinet Office; IDA disbursement data.

2.11 Project implementation and supervision arrangements were subject to a Memorandum of Understanding (MOU) signed by all contributing partners and the government for the PEMFA and PSA components of the program (GoZ 2004). While this largely governed the execution of the various subcomponents, these were not legally binding contracts, and bilateral agreements between the various partners and the government took precedence in case of disputes.

2.12 The principal MOU guiding the PEMFA component was signed in December 2004 (17 months prior to project effectiveness). It outlines the various project components and stresses that partners would "strive for the highest degree of alignment with the budgetary and accountability system" (GoZ 2004, p. 2). It provides details on implementation arrangements and makes provisions for a number of steering committees, working groups, and secretariats that would oversee the process (see GoZ 2004, p. 5). The PEMFA program underwent a number of important changes during implementation, outside regular Bank procedures (that is, restructuring papers). These were captured by a follow-up MOU on July 11, 2008, which extended the program until December 31, 2010 (the original closing date of the Bank's project), and streamlined the number of components: (i) IFMIS; (ii) budget preparation and execution; (iii) debt management; (iv) internal audit and control; (v) legal and regulatory framework; (vi) accounting, training, and regulation; and (vii) public procurement reforms. The MOU was amended for a second time on June 30, 2011, to extend the program until December 31, 2012, and to further streamline activities to: (i) IFMIS; (ii) internal audit and control; and (iii) procurement reforms. Revenue administration was added as a subcomponent that was previously not included in the program. (see ICR, World Bank 2014)

2.13 Similarly, the PSM program was supported by an MOU signed in November 2005, which outlined the roles and responsibilities of the various contributing partners. It contains details on the various implementing arrangements, and also makes provisions for oversight, advisory, and coordination bodies. This MOU covers the subcomponents of (i) rightsizing; (ii) pay reform; (iii) service delivery improvement; and (iv) payroll management and establishment control. Following recommendations from the mid-term review, an addendum to the MOU was issued on January 16, 2009, changing the "rightsizing" component to "institutional appraisal and organizational development," and "payroll management and establishment control" and "payroll reform" were streamlined into "payroll and human resource management." Despite these efforts, however, the activities remained much the same. No subsequent amendments or additions were issued. Retrenchment was handled directly by IDA and was not subject to the agreement.

2.14 The MOUs dealing with donor coordination described a complicated decision and coordination structure in which overall oversight and policy guidance for both components were to be provided by a Public Service Reform Program (PSRP) Steering Committee, chaired by the secretary to the cabinet, and assisted by a secretariat. The PEMFA Steering Committee and the Office of the Deputy Secretary to the Cabinet, Finance and Economic Development were responsible for monitoring project implementation, control of financing, and provision of policy guidelines. The PSM Steering Committee provided high-level oversight and back-stopping, and was intended to work closely with the permanent secretaries in the Management Development Division and the Public Service Management Division (PSMD), both in the Cabinet Office. Both steering committees reported to the PSRP Steering Committee to ensure compliance with PSMP program and policy guidelines, each assisted by a project secretariat staffed by a director and appropriate specialists (for example, finance, procurement, and monitoring and evaluation). There were separate joint technical working groups where donors and government officials met to take stock of progress and discuss the technical aspects of program implementation, and committees where cooperating partners alone met to review progress. A lead donor was identified for each subcomponent of the project, based on interest and competitive advantage. A diagram showing key implementation arrangements can be found in the PAD, p.52 (World Bank 2006).

2.15 However, some dissatisfaction with the SWAP pooled funding arrangements was voiced by several donors, in particular pertaining to the coordination of the release of funds. Timely releases were difficult to coordinate across multiple donors, which slowed down implementation and led to frustration in implementing agencies and government. The European Commission was unable to pool funds, despite being a signatory to the MOU, and instead provided notional budget support.

2.16 Implementation in the early years was slow, in part due to frequent staff changes in government as well as the complex implementation arrangements of the SWAP, which delayed decision making and created difficulty in coordinating disbursements across partners. A mid-term review was undertaken in August 2008 rating the project moderately unsatisfactory and providing a number of recommendations to streamline implementation procedures,[8] after which progress improved somewhat, especially with regard to the IFMIS.

IFMIS Implementation Experience

2.17 IFMIS implementation started in the early years of PEMFA, and a contract for systems implementation was awarded to an international firm, Soluziona S.A. of Spain, after an international competitive bidding (ICB) of approximately US$23.5 million in November 2006. The contract called for the implementation of an off-the-shelf package to address financial management and budget execution issues in Zambia. The firm offered SAP as its application software choice in its bid.

2.18 It was agreed between the Ministry of Finance (MOF) and the contractor that the system would be implemented at eight pilot sites, including the MOF, and in two provinces. The objective of the pilot was to confirm the proof of concept. The sites had been selected so that they represented the whole cross-section of functional requirements and types of transactions that are generated across government. The piloting in eight sites was supposed to commence in April 2008. However, implementation soon ran into trouble for the following reasons:

- Frequent changes in the team of officers responsible for the program, which also indicated a lack of senior management ownership of the IFMIS program.

- The contractor's firm was bought out by another firm, INDIRA. This required that government clarify the legal status of the contract in order to conduct due diligence before proceeding with implementation. It took seven months for the Ministry of Legal affairs to give clearance to proceed, causing a delay in the schedule.

- Loss of confidence by the government in the IFMIS management team required that they be replaced.

2.19 In order to address the above concerns, government management, including the secretary to the treasury; the secretary to the cabinet; the permanent secretary of planning, and the permanent secretary of budget, decided to focus on the challenges facing IFMIS implementation and initiated a review of the system. It was decided that the piloting of the IFMIS would be restricted to the Ministry of Finance and National Planning (MOF), which should be able to have a technical "go live" date in November 2008. After this, there could be a more realistic and well-coordinated rollout of the IFMIS. A new IFMIS management team made up of senior public servants from the accountant general's office was put in place.

---

[8] After MTR "Rightsizing" was mapped to "Institutional Appraisal and Organizational Development," and "Payroll Management and Establishment Control", and "Pay Reform" was combined into one component called "Payroll and Human Resources Management," to complete the pay policy reform and manage the payroll.

The government staff seconded to the IFMIS project was to be reassessed and retained on merit. A team that included legal experts was put in place to carry out due diligence of the IFMIS solution provider and sort out issues related to the contract.

2.20 The implementation arrangements—in which multiple donors were able to voice requirements and there was no single, direct line of communication and control with the contractor—affected the ability of the government to manage the contractor. In response to the changes proposed by government, the contractor put forward a payment request of US$6.0 million[9] and convinced the government to pay for these and similar modifications, without consulting donors. This matter only came to the attention of the Bank when the government asked for a reimbursement of the amount from the pooled funds, which was denied, because procurement staff and advisers found that these items were not eligible under the original contract. After additional requests from the contractor for further payments were denied by the government, there was a breakdown of relations. As a result government was left with one pilot site only partially implemented, and the contractor refused to do more work without further payments.

2.21 This situation brought out the weaknesses in the donor supervision arrangements for this component. In theory, DFID was the lead donor for this subcomponent, but it did not have the necessary capacity on the ground to carry out the task. The Bank was in a better position to oversee IFMIS implementation but was not directly responsible according to division of labor in the MOU signed by all donors before the start of the project. Nevertheless, the Bank started taking a more proactive role after the rejection of payments halted progress in order to help put implementation on track. It helped prevent further financial costs and strengthened the government's position with the contractor.

2.22 In the meantime, the government requested that the International Monetary Fund (IMF) review the pilot implementation and advice on the future course of action. The IMF adopted a cautious approach and various options for the way forward. The IMF mission in September 2010 noted that the selection of SAP as the platform for implementation might not have been the most suitable choice for the GoZ, and simpler and more contextually appropriate application software arrangements would have been better. It was also recommended that all activities related to rollout be stopped until a formal review of the existing pilot was carried out and the project rescoped (Klimavics and Murphy 2010).

2.23 The Bank also fielded a mission to review the implementation status at about the same time and noted that at the MOF pilot site, the system had been made operational, and the transaction-processing layer for budget execution had been implemented. All departments in the MOF were using the system. Budget preparation was still on activity-based budgeting (ABB), and approved budget appropriations were loaded into the new system by the Budget Department, which also carried out budget releases on the new system. The MOF used the system for processing all expenditure transactions. Procurement requests, purchase orders (PO), goods received notes (GRN), and invoices were processed and checks printed through the system. There was also a working interface with the payroll system. Altogether, there were about 50 users at the MOF and there was no evidence that a parallel second set of books

[9] Charges for a new set of servers and a charge for delaying the pilot implementation at all sites.

was maintained on another system. Thus, the Bank mission recommended—contrary to the IMF recommendations—that the IFMIS setup could be used for further rollouts without significant risks (with some clean-up for more efficient processing). Recommendations made at the time are outlined in appendix D.

2.24 The Bank was of the view that while the government should address the core issues related to the technology infrastructure to ensure that the system can operate, it need not wait for a fully functional system at one pilot site that is complete in all its aspects before proceeding further with the other pilot sites. The Bank also noted that the government was willing to proceed with rolling out to other sites on its own with the SAP expertise it had acquired. This political support was critical to making progress with the IFMIS and that a hiatus at that point could lead to a waning of this support. Further, the government had already acquired 1,500 licenses through an ICB process and built internal capacity, and starting the process afresh would be costly and delay implementation further.

2.25 Once the government decided to follow Bank advice, the Bank took a more active role in monitoring the process and placed a lead financial management specialist in-country. The implementation process improved significantly, and the team was indeed able to deliver on the promised additional pilot sites. Parallel to the rollout, reviews of the system configuration were done and issues related to configurations corrected. Steady progress continued on this component, and the 28 sites were delivered at the close of the project. The quality of supervision and borrower performance both improved significantly after 2010, and this continued to the end of the project.

2.26 Overall, the Bank intervention was critical in keeping work on the IFMIS on track. Continuation of the rollout and embarking on a parallel effort to correct the configuration and resolve other problems retained momentum, which was crucial to advancement of system implementation. This was confirmed to the present assessment mission by the government team. The Bank continues to support IFMIS implementation through a follow-up operation, which has also corrected some of the design deficiencies of the earlier interventions. A total of 43 out of 50 ministries, provinces, and spending agencies (MPSAs) have now been implemented. A much more detailed review of IFMIS design, implementation, and utilization is provided in appendix D.

Fiduciary Issues and Safeguards

2.27 A number of fiduciary issues were correctly identified in the ICR. These are reiterated and elaborated as follows:

- *Reporting:* While the annual audited financial statements were submitted on time, the unaudited interim financial reports were generally submitted late. Although these reports included statements of expenditure comparing actual expenditure against the budget line item, there were no explanations of variances, rendering the analysis inadequate, as most of these variances were substantial. The project typically exceeded operating costs, while underspending or failing to use funds budgeted for core activities, such as consultancies and equipment.

- *Internal controls:* In internal control, weaknesses appeared during external audits by the Office of the Auditor General. These included ineligible expenditures, the manual accounting system not interfacing with FMS, weak internal audit control checks, and failure to follow up retirement of imprest.

- *Contract management:* Under the IFMIS subcomponent, change orders were signed with the contractor, INDRA, and payments made before seeking Bank non-objection. When the non-objection was eventually sought, the changes were found to be unjustified, and the Bank declined to give the non-objection and asked that the funds be repaid into the pool. Though this did not affect solely IDA funds, IDA funds were included in the pooled funds. The government had to make provisions to repay the funds into the common pool.

- *Disbursements:* Funds disbursed slowly during the project's life. The project was not proactive in submitting withdrawal applications for either replenishment of the designated account or documentation of expenditure. When the PSM component of the project closed in June 2012, it had used only 91 percent of the credit.

- *Undocumented/ineligible expenditure:* Nearly US$800,000 remained undocumented at project close. Ineligible expenses amounting to about US$100,000 were subsequently reimbursed proportionally to the respective donors by the government.

- *Safeguards:* The project made provisions for minor civil works and triggered an environmental assessment (OP/BP/GP 4.01). No expected negative impacts were expected as only renovations of existing structures were planned. During implementation, the project funded the construction of procurement office buildings. No updated environmental assessment was shared with IEG, and it remains unclear whether it was conducted. The PAD also states (para 68) that a social impact assessment would be conducted prior to effectiveness in response to the retrenchment component, which was also not shared with the team. This was however not included as a formal effectiveness condition.

Relevance of Objectives

2.28 Improvement of the efficiency and effectiveness of public service delivery institutions was substantially relevant at the time of the design and implementation, and it remained critical at project closure, and remains so today. With the substantial increase in discretionary financing, increased access to private markets, and debt relief, the cost of ineffective use of resources was—and remains—particularly high, and interventions aimed at strengthening the underlying public finance system that facilitate the delivery of services are critically important.

2.29 **Public expenditure management.** At the time of project approval, public expenditure management was beset by (i) an inadequate PFM legal system that was also insufficiently enforced; (ii) budgets that were neither comprehensive nor credible; (iii) a proliferation of supplementary budget appropriations used to reallocate as well as increase expenditure allocations; (iv) a lack of transparency in budget management caused in part by weak financial reporting; (v) a weak internal control environment; (vi) an accumulation of significant expenditure arrears (estimated at the time at 12 percent of total expenditure, or 3.7 percent of GDP); and (vii) insufficient capacity, independence, and credibility of the oversight institutions (World Bank 2004). Strengthening public expenditure management with regard to all of the above was an important though ambitious objective.

2.30 **Public service effectiveness.** In addition to sound financial management, the effective delivery of services also hinges on effective public services. At the time, low pay undermined recruitment, retention, motivation, and productivity of staff. Added to this was a poorly constructed internal grading structure and an incremental system based on length of service, not performance, thus stifling initiative. Further, the fragmentation of job grades and the dependence on allowances to enhance compensation meant at times conflicting incentives and ran contrary to good practice and had conflicting

2.31 **Relevance to country strategy.** The project was originally designed to support the Zambia Poverty Reduction Strategy Paper on improving public service management capacity in the leadership and management of Poverty Reduction Strategy programs. The reform program is especially important for Zambia in light of its need to manage resource revenues, and it is closely aligned with Zambia's long-term development strategy, Vision 2030, as well as the fifth and sixth National Development Plans (NDPs). The sixth NDP notes that "good governance remains the cornerstone for prudent management of public affairs and ensuring that development outcomes benefit the people of Zambia" (GoZ 2011c, p. 24). Further, the program continues to be closely aligned with the government's 2013–15 PFM reform strategy, which maintains critical reform components, including planning and budgeting, IFMIS and cash management, internal controls, public procurement reform, and domestic revenues.

2.32 **Relevance to World Bank strategy.** The main focus of Bank Group country strategies in Zambia during the past decade has been to align lending and non-lending activities with Zambia's transition from a low-income to a lower-middle-income country[10]. The heavy debt burden, weak institutional capacity, ineffective spending, and the HIV/AIDS epidemics were among the main challenges identified in the country assistance strategy (CAS) for fiscal years 2004-07. Public expenditure management and public service management remained high priorities in the Bank's CAS at closing (FY08-FY11[11]), with an associated outcome of "strengthened public financial management, procurement and oversight capacity," which incorporated project elements, including the IFMIS, procurement reform, strengthening of the audit capacity, and improved public service management. The CAS and government also emphasized the importance of harmonizing donor financing flows, which underpinned project design. Further importance of PFM is reflected in the fact it was a PRSC pillar.

2.33 However, while these objectives were important and aligned with government and Bank strategy, public service institutions remained undefined, making the objective statement

[10] Zambia attained lower-middle income country status in 2012.

[11] CAS was extended to 2012.

vague. Further, objectives were excessively ambitious, covering the entirety of the public sector, which was not commensurate with government reform implementation capacity. An objective statement based on a sequenced reform agenda (such as under Adaptable Program Loan 1) would have been more suitable, and political capital could have been more focused and utilized more effectively. On balance, relevance of objectives is rated **substantial.**

Relevance of Design

2.34 The chain of logic for improved quality of public expenditure management was uneven. The project addressed an exhaustive list of interventions (12 interrelated technical subcomponents) as identified by analytical work done prior to project preparation, including the design, procurement, and rollout of an IFMIS, development of a macroeconomic budget model, improvement of budget presentation, a better cash-release system, improvement of the debt management strategy and systems, strengthening of internal and external audit functions and oversight of parliamentary committees, and reform of the public procurement system. However, there were far too many subcomponents and the project was excessively complex. Conversely, the project did not address issues pertaining to the Treasury Single Account (TSA), which is a critical enabling condition for the functioning of the IFMIS, even though an attempt to introduce the TSA had been unsuccessfully a few years earlier under the 2000 Fiscal Sustainability Adjustment Credit. Another issue is whether the project should have also focused more explicitly on public expenditure allocation policy. Public service management was credibly supported by rightsizing the civil service, retrenchment, pay reform, and payroll management and establishment control. It is unclear why retrenchment was viewed as a stand-alone component rather than subsumed in the overall public service management effort (as also presented in interim performance reports).

2.35 Further, there is a conceptual gap between supporting expenditure management and the civil service, and the overarching objective of improved efficiency and effectiveness of public service delivery institutions. While upstream expenditure management reforms are important for the financial management processes at the service-delivery level, this linkage should have been made more explicit. Similarly, the results framework for civil service reform (as discussed in more depth in chapter 9) lacked legitimate outcome indicators. There was only one peripheral subcomponent that explicitly addressed service delivery improvement, which financed various service delivery pilots,[12] but did not establish the link to efficiency and effectiveness of service delivery institutions. Further, these pilots were unrelated to the upstream interventions. While these may have been important in their own right, integrating them in this project unnecessarily complicated an already excessively complex project design and made supervision difficult. For instance, the same task team leader who supervised IFMIS implementation would also be responsible for monitoring progress in, for example, the beekeeping pilot.

2.36 Objectives lacked clear metrics and observable outcome targets to show the levels of ambition and the desired progress being sought. The causal chains linking the activities

[12] These include a community-based beekeeping project, a mushroom spawn production pilot, a smallholder milk-processing extension project, and the establishment of a mobile local court system pilot.

supported by the project to the intermediate and final outcomes were reasonably clear in principle, but without specific and attributable outcome targets, it was not possible to monitor progress adequately or to ascertain whether the outcomes were achievable within the resource envelope of this operation. For example, the indicator referring to the ratio of the total public wage bill to the public service head count is unclear and provides no meaningful information regarding the effectiveness of the civil service; indicators regarding public expenditure management are process-oriented and are insufficient for measuring the strategic allocation of resources, operational efficiency, or effectiveness of oversight institutions. None of them are an adequate reflection of the effectiveness of public service delivery institutions.

2.37 While project design was based on sound analytical underpinnings, the project was made excessively complex by attempting to address too many system ailments without regard to prioritization or client capacity. With regard to expenditure management, reforms encompassed the entirety of the budget cycle, involving a large range of departments and agencies with interrelated functions. The project may have benefited from focusing instead on budget execution, which in and of itself is sufficiently complex. Similarly, comprehensive civil service reform may have been overly ambitious and complex, and the project may have been more effective in focusing only on payroll management and establishment control. Complexity together with complicated coordination mechanisms turned out to be a critical implementation constraint. Project components were subsequently streamlined during two amendments to the original MOU (in 2008 and in 2011), after which the project focused more explicitly on support to the IFMIS, internal audit, procurement, and revenue administration (see subsection on implementation above).

2.38 Notwithstanding the above, a three-tiered APL was likely to have been the appropriate choice of instrument. Reflecting on progress from the APL 1, and given that most reforms in the program were first-generation reforms, the APL, an instrument that allows a more phased approach, was not utilized to its full potential by ignoring lessons learnt during the first phase, instead overburdening country capacity with excessive complexity.

2.39 Reflecting the above, relevance of design is rated **modest**.

3. Achievement of the Objectives

3.1 The operation under review is a hybrid—it falls between a traditional project in terms of how the financing is provided, and a SWAP from the standpoint of supporting a coherent program owned by government and supported in parallel by development partners. This review treats the operation as a SWAP, because individual contributions to the various components are indistinguishable from one another, and the Bank project contributed to the entire program.

3.2 This chapter evaluates progress against the two objectives as per PAD results framework, which are (1) improved quality of public expenditure management; and (2) improved public service effectiveness. The overarching program objective of “improving the efficiency and effectiveness of public service delivery institutions” is discussed at the end of the chapter.

Improved Quality of Public Expenditure Management

3.3 The overall intervention logic used for assessing improved quality of public expenditure management is summarized in figure 3.1. Project inputs are reflected in contributing factors that affect respective stages in the budget cycle. PFM outcomes considered are fiscal discipline, strategic allocation of resources, and operational efficiency, though these are not directly reflected in the project's outcome indicators which were centered on the MTEF.

Figure 3.1. PFM Intervention Logic

Source: IEG based on Andrews (2010).

3.4 An overview of progress in the budget cycle according to PEFA indicators is provided in table 3.1 and a detailed breakdown in appendix C, which clusters dimensions by (i) strategic budgeting; (ii) budget preparation; (iii) resource management; (iv) internal control and management; (v) accounting and reporting; and (vi) external evaluation (following Andrews 2010). Numerals are used to allow averaging out across dimensions.[13] There is some overlap across dimensions, because some dimensions contribute across clusters. The table shows that progress has been achieved in most dimensions since 2005, but has become stagnant since 2008. 2012 PEFA data are largely based on 2009-2011 data and thus don't fully reflect progress at project closure, which was in 2012. As IFMIS was only fully implemented at the later stage of the project benefits from the system would not be adequately captured in the 2012 assessment.

[13] Numerical scores are applied to allow for averaging. The PEFA score "A" is given the highest value of "4," and the PEFA score "D" is given the lowest value of "1."

Table 3.1. Progress in PEFA Dimensions by Budget Cycle

	Pre-project (2005)	Baseline (2008)	Post mid-term (2012)	Change (2008-12)
Strategic budgeting	2.5	3.0	3.0	=
Budget preparation	2.3	2.7	3.0	↑
Resource management	1.8	2.3	2.4	↑
Internal control, audit	1.9	2.4	2.3	↓
Accounting and reporting	2.6	2.5	2.5	=
External accountability	2.5	2.8	2.7	↓

Sources: GoZ 2005, 2008a, 2013a; IEG Calculations.
Note: The 2005 PEAF draws data from 2002-2004; the 2008 PEFA draws data from 2005-2007; the 2012 PEFA draws data from 2009-2011.

3.5 Public financial management was perceived as a major bottleneck for the effective delivery of services. It was also seen as carrying significant fiduciary risks. The 2003 Public Expenditure and Financial Accountability Review (PEMFAR) (World Bank 2004) noted a number of major shortcomings, including the strength of existing regulations; compliance with regulations; poor budgetary allocations, including an insufficient link between policy, planning, and budget; poor budget execution and reporting; and insufficient internal controls and audits. This cumulated in poor allocative and operational efficiency, as evidenced by the PEFA indicators at the time. The dimensions concerning control over spending; control over taxes, accounting, and reporting; and internal as well as external control procedures were seen as important shortcomings, with the majority of indicators scoring C or below.

3.6 The intervention logic conceptualized for assessing efficacy stipulates that numerous inputs (including support to the legislative, human, and organizational capacity and the IFMIS) contribute to the various stages in the budget cycle, which subsequently impacts fiscal discipline, strategic allocation of resources, and operational efficiency. Progress in the budget cycle and final outcomes are measured in keeping with project indicators or other sources, including PEFA indicators. The latter are clustered around the various stages of the budget cycle, in accordance with Schiavo-Campo and Tommasi (1999) and Andrews (2010), and are enumerated to allow for averaging across dimensions (summarized in appendix C). This section first summarizes the World Bank and development partners' contribution to the PFM reform program, gives an overview of various outputs that support has contributed to, and infers potential impact on the more medium/long-term PFM outcomes.

Project Inputs to the PFM Reform Program

3.7 The operation made provisions through 12 interrelated technical sub-components (see "Design," chapter 2) intended to strengthen and increase efficiencies in legal, accounting, and administrative frameworks for public expenditure management, primarily through the rollout of an IFMIS, the development of a macroeconomic budget model, improvement of budget presentation, a better cash-release system, improvement of the debt management strategy and systems, strengthening of internal and external audit functions and oversight of parliamentary committees, and reform of the public procurement system. The details of project contributions are discussed below. The key message that emerges from the analysis is that various instruments have been developed but most are not utilized effectively.

Project Contribution

3.8 **Legal framework.** PFM-related laws and regulations (Public Finance Act 2004, Public Procurement Act 2008, and National Payment Systems Act 2007, Public Audit Act 1980) were updated in minor ways in 2009. This brought forward the timing of the budget cycle and made provisions for budgeting and planning legislation. The current Finance Act does not, however, provide sufficient guidance on planning issues and on integrating planning and budgeting activities, as the follow-up project (Public Financial Reform Program [PFMRP] Phase I) acknowledges. The IMF (2015b) notes that "Zambia's legal framework for Public Finance Management is fragmented, and much of it is outdated."[14] Because progress was insufficient, the PFMRP makes a renewed effort at strengthening the legal framework. In this light, the indicator of "consistent modernized and harmonized legal framework for public expenditure management" cannot be considered as met.

3.9 **Macro management, debt forecasting, and external finance coordination.** The project invested in macroeconomic management, debt modeling, and donor coordination. In 2008 a macroeconomic database and model called ZAMMOD was developed, and has since been used for analysis of the economy, forecasts for the budget, and scenario-building such as how to realize growth and exchange rate scenarios given variations in the variables. A government report (GoZ 2013b) notes that improved data analysis and planning has led to improved quality of macroeconomic and fiscal frameworks used in the preparation of the annual budgets and medium-term planning documents (see box 1.1). However, in practice the growing and unsustainable deficit suggests that the macro model is either ignored or does not provide a sufficiently robust instrument – evidence, say from the political decision to rapidly increase wages suggests the former, while the latter may be reflected in inadequate consideration of declining commodity prices. Progress with regard to debt management and external finance, however, was less obvious. Engagement in debt management has delivered few results, and important legislative gaps remain, such as a law on state-owned enterprises; However, a debt management policy was developed and approved and is used for planning tools. A database is being maintained for foreign debt and a spreadsheet is used for domestic debt. (GoZ 2010; AFRODAD 2011; World Bank 2014) Despite this, the country has exceeded repeatedly deficit targets by large margins, and taken-on commercial debt, increasing the debt service to pre-HIPC/MDRI levels. With regard to enhanced coordination of external finance, some tools and processes were set up, but accurate information on total donor inflows was reported to remain weak. This undermines the comprehensiveness of the budget and the ability of the government to carry out an adequate stewardship function and improve its allocative efficiency of expenditures (GoZ 2010). The two indicators of

[14] The report makes 29 recommendations, which is indicative for slow progress under the project and for how much remains to be done.

development and implementation of a domestic debt management policy and a multi-year planning framework and macroeconomic model are in place, but not utilized properly. The intended results can be considered as partially met.

Box 3.1. The Introduction of a Macroeconomic Database and Forecasting Model

ZAMMOD provides an example of a macroeconomic database and forecasting model that was well delivered. This was due to a department in the MOF that was highly committed to develop and deliver the product as well as partake in capacity building for final recipients. Further, an international team of experts was recruited to facilitate the collation of data, construct the model, and facilitate the relevant coaching and training. The recruitment process was led by the MOF and in itself was reported to have produced a committed team that was also subsequently actively engaged in the process.

There was also a great deal of emphasis on inclusion of a wide group of stakeholders, with participation of the central statistical office and the Bank of Zambia, as well as staff from the MOF.

The preparation of a student version of the model for a local university has generated continued interest and facilitated long term capacity building.
However, the growing and unsustainable deficit suggests that the macro model is either ignored or does not provide a sufficiently robust instrument – evidence, say from the political decision to rapidly increase wages suggests the former, while the latter may be reflected in inadequate consideration of declining commodity prices.

Source: IEG.

3.10 **Budgeting and planning.** The project invested in advanced budgeting and planning methods. The MTEF is now fully institutionalized and adapted in all ministries, departments, and parastatals, and the associated indicator is considered as met in terms of process. However, the effectiveness of the MTEF as a realistic budgeting tool was questioned by stakeholders, who cited significant variations between budgets, releases, and actuals. This implies that the MTEF has not resulted in significant improvements in PFM.

3.11 ABB was piloted and implemented in 9 provinces, 20 districts, and 5 large spending agencies. Without sufficient ex ante internal controls (as is not the case for transactions utilizing the FMS), improvements in budgeting and planning can, at best, be of limited benefit, since there would be no mechanism in place to control expenditures by program/activity and to report on actuals against these programs and activities. The FMS, which was essentially the system of record in Zambia during 2000–12, only recorded transactions after they occurred and could not be relied upon as an accurate record of actuals, and it has no way of doing ex ante budget control.

3.12 Further, ABB as done in Zambia has however led to a proliferation of transactions that has become unmanageable and a risk to budget management and execution. This is so because of a breakdown of programs and sub-programs into a very large number of activities and budgetary controls have been placed at the activity level (rather than sub-program level), meaning that budgetary allocations and spending have to be made at this level. This is unmanageable, even with a functioning IFMIS.

3.13 There were a number of related outcome indicators including (i) public expenditure management framework characterized by full MTEF structure adopted in all ministries, departments and institutions and major parastatals;(ii) MTEF based on central government-wide IFMIS; and Iii) Strategic planning, business planning and performance planning, hierarchy and processes aligned with and linked to the MTEF process. In the light of the discussion above, these can be considered as partially met.

3.14 **FMS and IFMIS.** The project supported an advanced IFMIS, to be piloted and implemented at the central level, and FMS at the district level is considered an interim step toward the eventual implementation of a fully functioning IFMIS (see chapter 2 under implementation). Starting off with this interim, basic, custom-developed system seems practical and reasonable, and follows the example of other Bank public expenditure management projects, such as those in the Russian Federation and Kazakhstan. The FMS was successfully implemented and rolled out in Zambia. The FMS and the commitment control system, however, are both based on an ex post recording of expenditure transactions after they have been paid. Under this mode of operation, the system cannot be used to implement commitment or even basic budget or cash control. A system based on ex post recording of transactions does not have the capacity to enforce/implement budget, cash, or commitment control, and its implementation only gives the illusion that such control is being practiced. The FMS would just be providing information on the budget and commitment ceilings, but not enforcing them. Thus, while the system has been rolled out, it is of limited benefit.

3.15 The implementation of the IFMIS was intended to be limited to the Central and Provincial levels of Government. The FMS was supposed to continue to be used at the district levels even after the IFMIS becomes available. Data from FMS was subsequently supposed to be uploaded into IFMIS to produce Government wide budget execution reports**.** Combining FMS data with IFMIS' therefore cannot guarantee completeness and jeopardizes the integrity of the IFMIS data and the accuracy of the resulting combined Budget Execution Reports.[15]

3.16 Progress in implementing the IFMIS was substantial, especially after the Bank intervened in 2010 (see chapter 2, "Implementation" and appendix D for more detail). At project end, the IFMIS was fully implemented in five key ministries and piloted in two district agencies. At the time of the mission (June 2015), 43 of 50 MPSAs had been implemented and all 10 provincial headquarters had been connected to IFMIS for their expenditure processing. A back-up and disaster recovery site with a duplicate platform has

[15] Other countries with separate systems at district level are making significant inroads at rolling out the central systems to districts, including Ghana and Malawi. If there is insistence that a simpler system is needed and only such a system can be implemented, then at least it must be assured that this system encompasses the core functional processes of budget execution and practices ex-ante control of transactions. A good example is the use of the Serenic Navigator system used at the district level in Malawi.

been completed, and is connected and operational at a separate location. MPSAs in Lusaka have been connected via a WAN. The budget is prepared by the legacy ABB system and is loaded into the IFMIS at the start of the year by the budget department. All in-year changes to the budget are entered directly into the system. Cash releases are also recorded by the MOF in the system. System implementation at the line ministry level covers the complete P2P cycle (Procure to Purchase) with all stages of the transactions recorded directly in the system. This includes the request for procurement. The purchase order (LPO) is produced directly by the system and commits funds at the time it is raised by the system. The goods received note (GRN) and invoice are recorded on receipt and the payment order is produced directly by the system against the line ministry bank account at the commercial bank. Some concerns remain with regards to inadequate MOF engagement, unresolved functionality issues, and insufficient operational support. Further IFMIS could better be supported through audit trails of any interventions to over-ride the commitment controls.

3.17 The line ministry departments at the provincial headquarters operate through a central accounting unit that is connected directly to the system. However, the Ministries of Health, Education, and Agriculture have their own accounting units at the provincial level, and these units are not connected, nor are the spending units such as hospitals that are subordinate to these ministries. These units use the FMS system for recording their transactions on an ex post basis, as do the offices at the district levels. These are posted back into the IFMIS periodically.

3.18 The review mission met with the chief accountant of the Ministry of Health and was informed that all transactions at the HQ of the line ministry are processed through the system, and no transaction is processed outside the system. The chief accountant was in a position to produce a report at any point that gave the budgeted amounts, the revised budget, the funds released, the commitments, and the expenditures to date by line item for cost centers reporting to her. She showed the mission the report for June 24, 2015, the day of the visit. The chief accountant informed the mission that such a report was possible for every ministry where IFMIS has been implemented. A summary report by line ministry was also produced by the staff of the Office of the Accountant General for three line ministries as a sample to verify this statement. It is noted from these reports that between 75 and 90 percent of the expenditure at the line ministries is processed through the system.[16]

3.19 However, there is a need to complete the coverage to large spending units of key ministries in Lusaka—such as hospitals—and provincial-level deconcentrated ministry offices—for education, health, agriculture, home affairs, and community development—and donor-funded projects and the district-level spending units, even though the expenditure as a percentage of the total budget for the line ministry is not very high, since this will enable the active use of the system for the actual management of work programs.

3.20 The 2012 PEFA report for Zambia (GoZ 2012) was done when only 28 MPSAs were connected. It states that "Expenditure commitment controls (PI-20, dimension (i)) have strengthened through the advent of IFMIS, which blocks any proposed commitment not

[16] Much of donor financing is still managed outside the system, which BERs partial. This is especially a problem for the health sectors, which receives support from a multitude of sources.

supported by the approved budget and the quarterly allocation ceilings." The PEFA report also states "Under the cash-based commitment control system, arrears to suppliers tend to be paid off eventually during the year, though this is more the case for those MPSAs on IFMIS" (GoZ 2012, pp. 73–75) With the extension of the system to the additional MPSAs and all provinces, this situation will have improved further in terms of the coverage of the control functionality provided by the IFMIS.

3.21 The two indicators of (1) IFMIS fully implemented in 5 key ministries and piloted in 2 district agencies; and (2) full implementation of FMS with Activity based Budgeting (ABB) in all districts and 10 spending offices can be considered as fully achieved, though the continued use of FMS undermines the effectiveness of the IFMIS.

3.22 **Internal audit and control.** A number of activities were undertaken to strengthen internal audits, including an institutional and functional review of the Internal Audit Department, audit committees were established, and training requirements were identified. Trainings for specialized audits (such as forensic audits, risk-based audits, and performance audits) were completed. The indicator of internal audit capacity developed can be considered as achieved. The effectiveness of the internal audit at project-end, however, remained constrained by limited follow-up by the permanent secretaries (who are designated as controlling officers of the MPSAs), which is another example of apparent success but with limited impact on outcomes.

3.23 **Procurement.** Under the project, standard bidding documents were developed, the web-presence was strengthened, capacity was built, an office building was constructed, and procurement entities established a monitoring system. Under the project, the public procurement act was enacted through a statutory instrument in December 2008, and the Zambia Public Procurement Authority (ZPPA) was established. Further, the indicator "transformation of the ZNTB [Zambia National Tender Board] oversight body for government procurement" can be considered as met. However, the above have do not appear to have translated into improved procurement practices. While no data on price differentials compared to private sector procurement were available (and this was not measured under the project) informants suggested that there remains a sizable gap.[17] Over the project lifecycle, PEFA indicators deteriorated scoring a D in the 2012 assessment, in part due to insufficient use of competitive procurement methods (GoZ 2012). Further, civil society raised concerns regarding the capacity, integrity, and enforcement of regulations in the procurement system. In the health sector they cite political interference in procurement practices, and a compromised oversight function of the ZPPA and the Office of the Auditor General (OAG). In the education sector they point to inadequate procurement record management. (CSPRZ 2012) Such claims were partially confirmed by annual audit reports by the OAG that point to lack of compliance, and failure to obtain value for money in procurements.[18] Speaking at the state house in 2015, the president pointed to unethical practices such as corruption and

---

[17] Another measure is percentage of procurement not tendered competitively, as was used in Cambodia.

[18] Annual reports from the Office of the Auditor General until 2014 can be accessed here.

bribery in the public procurement system.[19] Recognizing major shortcomings[20], the follow-up operation dedicated (again) a component to strengthen procurement systems, which suggests the target was not met in substance.

3.24 **Oversight institutions.** Oversight institutions, including the OAG and the legislature were supported through capacity building. Further, five provincial audit offices were constructed and staffed with at least one qualified auditor. Audits are routinely conducted and published on the OAG website. They include annual general audits, parastatal audits, special audits, and administrative audits. Audits cover about 80 percent of total expenditures, and follow high risk items as per recommendations from the internal audit office. Nearly all INTOSAI standards are complied with. Value for money audits are increasingly conducted, as confirmed by the 2012 PEFA assessment and also evidenced by the annual audit reports that report on wasteful expenditures and overpayments (see table 3.2). The OAG concludes that “these issues, among others, arise as a result of the failure to adhere to regulations, poor financial management and weaknesses in the implementation of internal control systems” (GOZ 2015, p.iv). Further, recommendations are consolidated and contained in a treasury minute provided to parliament by the MOF. The legislative scrutiny of the annual budget law is considered similarly strong. Overall good progress has been made since 2006 and the indicator of “Development of the capacity of OAG to substantially execute the accountability role required of Supreme Audit Institution” can be considered as substantially met.

Table 3.2. Select Issues as Highlighted by the OAG (in kwacha)

Issue	***2012***	***2013***	***2014***
Misapplication of Funds	38,738,763	65,158,686	73,637,561
Failure to follow procurement procedures	121,438,503	8,406,729	2,720,434
Wasteful expenditures	1,195,270	354,939	8,354,290
Overpayments	206,914	360,684	1,578,571
Misappropriation of funds	463,632	44,500	4,767

Source: GOZ (2015).

3.25 Further, the timeliness of submission of financial statements to the OAG and then to Parliament was within what is considered good practice, and the 2012 PEFA scores both dimensions B for timeliness (see table 3.3 for dates). While the 2012 PEFA raises the

[19] See Lusaka Times article here.

[20] The appraisal document (p.14) refers to the following issues: (i) records of procurements are not collated systematically and the ZPPA appears not to have firm assurance that competitive tendering procedures are always followed; (ii) procurement audits show lack of compliance of procurement rules and procedures; and (iii) there appears inadequate institutional capacity of ZIPS to regulate the procurement profession and deliver training. Reference documents for PFMRP Phase I can be accessed here.

completeness of financial statements as an area of concern, this has improved since the rollout of the IFMIS.

Table 3.3. Dates of Submission of Financial Statements to OAG and Parliament, Fiscal Years 2009–11

Financial year	Submission to OAG	Submission of audited financial statement to Parliament
2009	30th April, 2010	30th September, 2010
2010	30th April, 2011	30th September, 2011
2011	30th October, 2012	30th December, 2012

Source: GoZ (2012).

Outcomes

3.26 **Fiscal discipline.** The last three years of the project saw aggregate actual expenditure significantly higher than the approved budget. While revenues were also above target, this is an indication of poor macro management, budget implementation, and forecasting. The budget deficit and actual deviation from the planned deficit gives an indication of overall fiscal discipline. The deficit as a share of GDP has been growing steadily since 2010, and was persistently (and significantly) higher than the planned deficit. This is a reflection on one hand of the macro-fiscal environment, but also of the program's inability to translate outputs into improved fiscal discipline. Growing debt and a deficit of close to 8 percent have put the country at considerable distress in recent years also crowding-out much needed pro-poor expenditures at a time per-capita growth hovers around zero. Figure 4.1 and 4.2 summarize recent deficit developments.

3.27 Total interest payments on both domestic and external debt at K3.71 billion were above the target of K3.04 billion by 22.0 percent. This outturn was largely on account of higher interest payments on Government Securities.

Figure 3.2. Planned and Actual Deficit

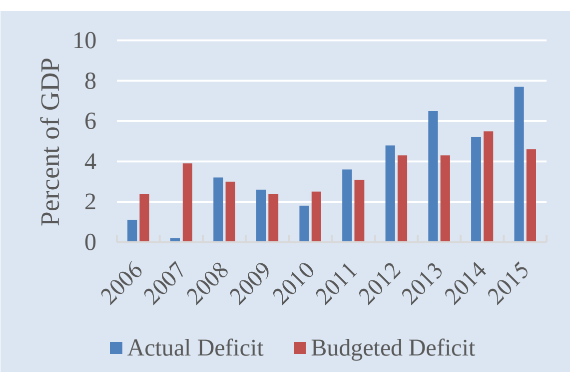
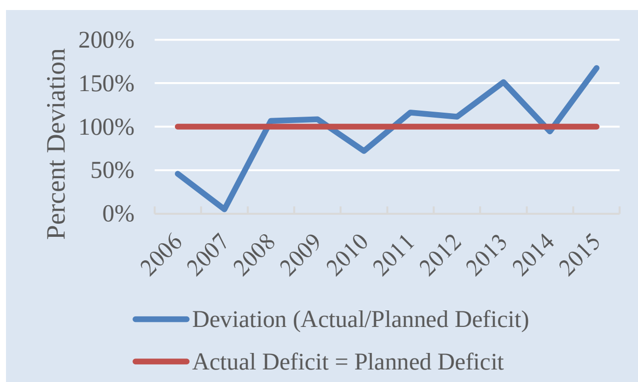


Figure 3.3. Deviation of Deficit



Source: GoZ Annual Economic Reports; GoZ Budget Speeches; IMF 2015; IEG Calculations.

3.28 **Strategic allocation of resources.** Integrated policy, planning, and budgeting is fundamentally about having expenditure programs that are driven by policy priorities and disciplined by budget realities. An indication of whether resources are allocated strategically is whether budgets according to the annual budget law are reflected in actual outturns. At the time of the PEFA (2009-2011) the composition variance was considerate ranging from 10 percent to 30 percent. While this evaluation could not replicate this assessment for 2012-2015, budget execution rates have continued to be poor at the vote level. Table 3.4 lists a select number of votes sorted by budget performance in 2014. While the total expenditure performance was moderately below budgeted amounts (92 percent), within vote variation was quite considerable ranging from the Office of the President (224.8 percent) to the Ministry of Lands and Natural Resources (37.8 percent). Budgets for large ministries have been relatively protected (for example Education, Health, and Agriculture), which has been so in part due to their larger share of non-discretionary financing.

Table 3.4. Deviation of Actual Expenditures over 2014 Budget by Vote

MPSA (Kwacha millions)	*Budget*	*Actual*	*Actual / Budget*
Office of the President	44.6	100.3	224.8%
Ministry of Finance	1,815.0	2,420.1	133.3%
Ministry of Agriculture	3,034.3	3,378.6	111.3%
Office of the Auditor General	86.2	95.1	110.3%
Ministry of Health	2,646.4	2,505.3	94.7%
Ministry of Education	8,599.2	8,060.7	93.7%
Ministry of Community Development, Mother, and Child Health	1,890.3	1,323.0	70.0%
Ministry of Gender and Child Development	35.3	18.4	52.1%
Ministry of Lands and Natural Resources	324.0	122.5	37.8%
Total	**42,684.3**	**39,503.1**	**92.5%**

Source: GOZ 2014 Expenditure by Head Estimates; IEG Calculations.

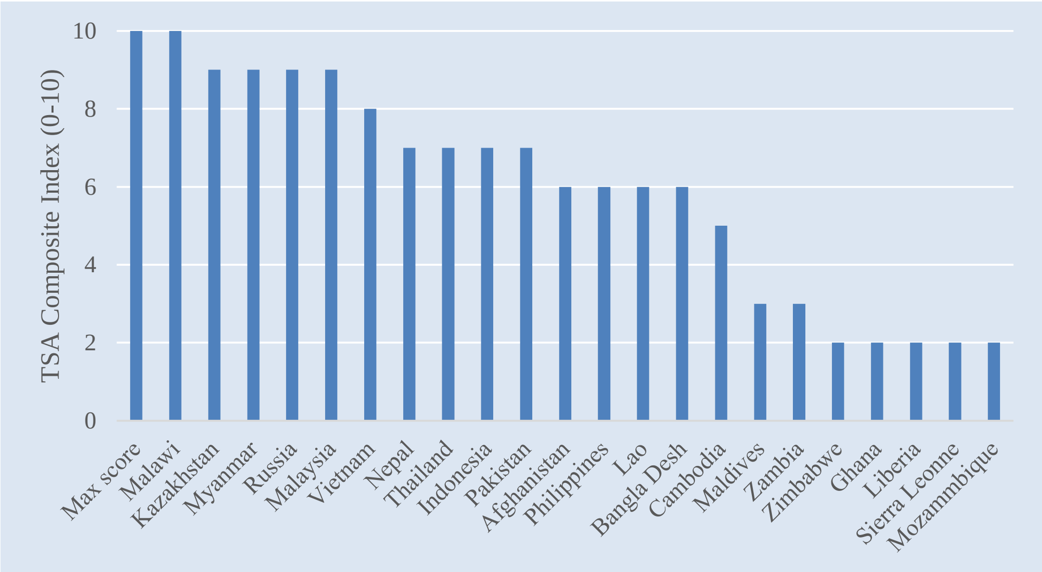
3.29 Under the program, considerable investments in policy, planning, and budgeting have been made, and ABB is widely applied today. However, undermining the entire process is the continued use of the FMS, which does not have sufficient expenditure control. The accurate information from IFMIS is being distorted with information from the FMS, making overall reporting unreliable (see discussion above). If the use of a simpler system at the district level is needed because of capacity constraints, it is necessary to select a system with adequate controls. A 2016 IMF technical note makes this especially clear in the opening remarks, noting that "fiscal rules, medium-term budget plans, and annual budgets are meaningless if expenditure cannot be controlled during execution" (Pattanayak 2016, p. 1).[21]

[21] More information on the role of expenditure controls can be found at this link.

3.30 Another issue is that the budget is not sufficiently comprehensive. In particular, there are large extra budgetary funds, internally generated funds, and donor funds that do not pass through regular budget mechanisms, which compromises the governments' stewardship function and ability to allocate funds strategically.[22] Precise figures were not made available to the evaluation team.

3.31 **Operational efficiency.** The major concern regarding operational efficiency pertains to an ineffective TSA. Comparing Zambia to other countries (figure 4.3), shows that Zambia's TSA is considerably less developed than that of comparator countries, which tend to implement the TSA in parallel with or prior to the IFMIS.

Figure 3.4. Comparison of TSA Coverage across Countries



Source: IEG. The TSA index (as developed by IEG) scores countries on a scale from 0-10. Any given country with a TSA was given a base score of 10, and marks were subsequently deducted if large projects and program advances, extra-budgetary funds, internally generated funds, and donor funds were banked outside the system.

3.32 Following the decentralization of the banking arrangements without adhering to the basic prerequisites of Treasury management, there was a proliferation of commercial bank accounts. In 2015 there were over 10,000 bank accounts in commercial banks, which were not under the control of the Treasury. Significant idle balances have built up in these accounts. Donors contributed to the inefficient management of cash when they required deposit of aid in a commercial bank account. The IMF (2012) has reported significant balances in these accounts in 2009 and 2010. Short-term domestic borrowing for the government at the time was around US$2.0 billion, meaning that about 25 percent could have been cut had balances been swept into a TSA and made available to government for cash management purposes. The cost of borrowing was about 15 percent, meaning that this came at a cost to government of about US$300 million for those two years alone.

[22] While donor funds are not part of the TSA, a substantial amount are however channeled through the IFMIS.

3.33 This problem has been recognized, and the follow-up Bank operation now addresses some of these issues. There is also high-level government support, as evidenced by the 2015 budget speech. A TSA has been piloted in the MOF, and the entire MOF currently routes its finances through it. While a rollout to line ministries is planned, none has been connected thus far. And concerns remain about the implementation modality (linking accounts), as discussed in more detail in chapter 5, under “Risks.” The status of bank accounts by 2015 is shown in table 3.5. An in-depth discussion of the TSA is provided in appendix D.

Table 3.5. Status of Bank Accounts, 2015

Bank	Number of bank accounts	Bank accounts closed	Bank accounts still open
Bank of Zambia	262	54	208
Commercial bank accounts	11,065	105	10,960
Total	11,327	159	11,168

Source: World Bank (2015).

3.34 Secondly, there has been a considerable accumulation of arrears, which drive up average prices of government purchases, are a source for operational inefficiencies, and generally reflect poor fiscal management. Expenditure payment arrears in Zambia are defined by convention as payments more than 30 days overdue.

3.35 The stock of expenditure payment arrears as a percentage of actual total expenditures in 2011 was 4.3 percent (about 1% of GDP). The data show that this represented an increase in the share over the previous two years. The main reasons for the arrears were under-budgeting for personnel and utilities; underfunding due to insufficient cash availability relative to the approved budget; MPSAs entering into expenditure commitments not covered by approved budgets; and in-year budgetary shortages leading MPSAs to prioritize other categories of spending over utilities (GoZ 2012). Since then, arrears have continued to be a problem. The government accumulated domestic arrears equal to 2.5 percent of GDP in 2014 (an increase from about 0.8 percentage point in from 2013), including arrears to the public pension system, contractors for road projects, and obligations associated with agricultural subsidies (IMF 2015). Additionally, the depreciating exchange rate vis-à-vis the dollar led to arrears, especially in the health sector where the government was committed to procuring US dollar denominated drugs.

3.36 A well-functioning procurement system should ensure that money is used effectively for achieving efficiency in acquiring inputs and value for money in delivery of programs and services by the government. However, as discussed above and recently confirmed by the Zambian President, procurement continues to be insufficiently competitive.

3.37 This objective is rated **substantial** as the project contributed to some important milestones that lay the foundation for better public expenditure management in the future. However, this assessment maintains major reservations, as considerable risks remain and outputs have thus far only translated into better outcomes at the margins.

Improved Public Service Effectiveness

3.38 The intervention logic pertaining to part of the project is that the public service would have been strengthened through rightsizing the civil service, including offering severance packages to retrenched public servants; drafting, designing, and implementing a pay policy; and setting up a payroll management and establishment control system. In parallel with this operation, a number of development policies supported this function. Relevant policy actions are outlined in appendix B, table B.2.

3.39 However, clearly improved service delivery has many other dimensions not covered by the operation, including defining service standards, better prioritization of expenditures towards the poor, decentralization, reorganization of institutional setups etc. Project activities therefore would at best have made partial contributions to any improvements in service delivery. It is beyond the scope of this report to assess whether public services have improved and by how much, even though reasonable proxies such as poverty rates and MDGs suggest that achievement levels remain below that of most middle-income countries.

Project Contribution

3.40 **Rightsizing the civil service**. All government ministries and institutions are expected to have staffing complements that are appropriate to their agreed mandates and are affordable in relation to their respective budget ceilings. Organizational structures were developed, central government ministries and institutions had their strategic plans revised, and considerable retrenchment packages were paid (830 employees in the water sector, and 400 employees in the road sector). An institutional assessment and organizational development approach for restructuring the public service was piloted in the Ministries of Education, Mines, Energy, and Water Development, and Labor and Social Security. Retrenchments had become unpopular at the time, and this was perceived as dis-incentivizing performance. During a sensitization meeting, the deputy minister of Labor and Social Security said "I assure all public workers that this new approach to enhance performance in the public service does not mean that the infamous retrenchments are back" (UNPAN 2011). Further, under this component, work was done toward a gender framework and HIV/AIDS strategy for the public service, which was developed and adopted.

3.41 **Payroll management and establishment control.** The development and implementation of PMEC was supported originally by DFID, and later by the Bank. It was designed to put in place an effective service-wide system to improve and rationalize administration of the payroll and establishment control. At the start of the government PSM program, all payrolls managed by the Ministry of Finance and Cabinet Office were migrated to PMEC, which established a firm foundation on which future payroll and establishment control interventions could be built.

3.42 The system entails an effective service-wide payroll management and establishment control system. The system now covers the entire Zambian civil service and produces the payroll of all government employees (numbering about 179,000), ensuring that they occupy duly authorized positons and that payments are made to their bank accounts in the commercial banks. The offices in the provincial headquarters enter the payroll transactions for staff under their purview, and transactions related to adjoining districts are brought to the provincial HQ for entry. The mission was informed that six districts have also been directly connected to the system to enable transaction entry. The PSMD staff ensures that payroll costs are within the authorized budget limits, even though the system has not yet been integrated with the IFMIS, where these authorizations are maintained. The functionality of the system is restricted to an establishment register and a payroll module. Other modules of the Human Resource Management Information System (HRMIS) software suite have not been implemented.

3.43 The 2012 PEFA assessment (GoZ 2012) noted that "the payroll control system appears to be operating reasonably well. A major improvement has been the decentralization of PMEC, which has significantly shortened the time between changes to personnel records/personnel data base and changes to the payroll. The payroll audit function has been strengthened and the chances of "ghost" workers appear to have fallen as a result." Further, evidence of functionality of the system is that the speed of transactions (such as staff introductions, promotions, and separations) has improved from about three months to one month, the PSMD reported that it has resulted into the reduction of personnel expenditure arrears (though volume could not be verified by the mission), data integrity benefits from regular payroll audits (96 percent in 2012), and ghost workers were reported to be less than 1 percent of the workforce. A more detailed discussion on PMEC and integration into the IFMIS can be found in appendix D.

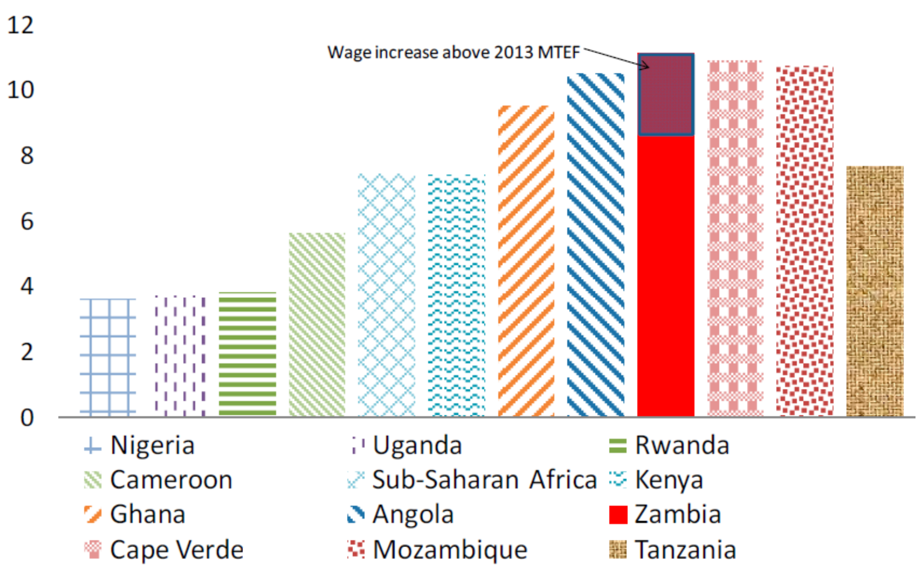
3.44 **Pay policy.** With support from the program, a pay policy was designed. This was approved by the cabinet in 2009, but implementation did not start until 2011 because of political sensitivities. Underpinning the pay policy were a number of technical papers, including topics such as attrition, employee perception, and comparative remuneration. An implementation plan was developed with the help of the project and subsequently updated and currently being executed. Further, an interim secretariat to implement the pay policy was appointed, and a job evaluation exercise commissioned and recommendations presented.

Outcomes

3.45 Significant inroads were made with regard to PMEC, and it is consequently plausible that the civil service is more effective and efficient than it was at project inception in 2006. It was noted that staff are employed against authorized positions, making it unlikely that the retrenched positions (severance packages have been paid and staff have retired) would reenter the system. In that sense, these components were complementary. Physical audits are reportedly conducted quarterly, though these were not made available to the mission. It remains unclear to what extent redundant and idle staff remain in the system. It is also unclear what the ideal civil service size would be, and costing scenarios have not been undertaken. Remuneration remains based on years of experience and grade, with no performance elements in place, despite some efforts and the introduction of tools. This assessment recognizes that this may have been desirable, though it is likely to be more relevant for the medium-to-long-term reform agenda. Further, performance elements of senior civil servants are undermined as appointments tend to be politically motivated rather than merit based.

3.46 In 2013 the government awarded public service workers salary increases that led to an 18 percent increase in the 2013 budgeted public sector wage bill, and an increase of 46 percent over the actual 2012 wage bill. While this may serve to better attract and retain staff, it was not consistent with the pay policy, which has at its core principles of an affordable resource envelope. The increase was, on average, 45 percent, with some civil servants receiving increases of up to 200 percent. As a result, the estimated wage bill for 2014 was 11 percent of GDP, making up 36 percent of government expenditures and consuming 53 percent of domestically generated revenue. Figure 3.2 compares Zambia to peer countries, and visualizes the effect of the pay increase above the 2013 MTEF. An attempt to reduce the fiscal pressures was made, and a temporary wage freeze was instituted from September 2013 for two years.[23] Further, fiscal constraints have led to a compression of grades, especially at the lower end of the pay scale, making it more difficult to implement the recommendations of a job evaluation and regrading exercise. It is important to note that this is a consequence of a political decision and does not reflect on the quality of the HR system design, which controls establishment well. It does however mean that budgetary control (rather than establishment control) in IFMIS was not facilitated and was only possible because the systems are only partially integrated. IFMIS facilitates payments, but does not do an automated budget check for wages.

Figure 3.5. Wages in Percentage of GDP: a Comparison of Countries



Source: IMF 2014.

3.47 While analytical work underpinning the design of the project identified a number of well-sequenced intervention areas, the project insufficiently prioritized the reform agenda. In particular, it was noted that short-term measures should include completing the payroll data cleaning and retrenchment packages to offset the cost of the 2003 salary increases. Medium-term actions include restructuring and rightsizing the public sector to control the size of the wage bill, and its structure and composition. This would then need to be complemented by further decompression and consolidation of allowances and emoluments within the feasible

[23] The wage freeze was de facto for less than two years as wage increases are given in the beginning of the year and by September civil servants had already received their raise.

budget envelope to attract and keep skilled and qualified personnel. While this seemed sensible, the project attempted to do all of the above almost simultaneously in too short a time, which led to some progress in key reform areas, but disappointing results in others.

3.48 Interventions were a logical step removed from the overarching project objective of 'improved efficiency and effectiveness of service delivery institutions', and attribution is limited. This evaluation does not excessively dwell on these issues, but has to make note that there remain critical shortcomings in the effectiveness of the public service in service delivery sectors. Leiderer and others (2012) for example assess the health sector noting that 69 percent of health posts are unfilled. In the education sector, Beyani (2013) noted that only 14.5 percent of all government employed teachers had the minimum academic qualifications required to teach at that level.[24]

3.49 Significant achievements were made with regards to the implementation and maintenance of PMEC. On the downside there were mixed results with regards to retrenchment and performance management, and an unsustainably pay policy was implemented bypassing necessary budgetary controls. On balance, this objective is rated **modest**.

Overarching Objective: To Improve the Efficiency and Effectiveness of Public Service Delivery Institutions

3.50 In contrast with some countries, relatively high GDP per capita growth (4% or more) has not resulted in commensurate shared prosperity and delivery of improved services. In part this is because growth has largely come from enclaved activities without prominent linkages to the rest of the economy, even though there is contribution through fiscal revenue. In view of this, sound public expenditure management, and effective government programs and their delivery are key to poverty alleviation. The project however failed to better link these upstream reforms to public service delivery institutions and any attribution of the project to service delivery outcomes is difficult to make (see chapter 2 on design). There was some evidence of progress in pilots pertaining to the service delivery fund. But these were isolated efforts, with no provisions for scaling up (see appendix H).

4. Efficiency

4.1 The project contributed to some important positive returns, most notably through setting up an IFMIS and a functioning HRMIS with adequate establishment controls. However, there were a number of concerns about the efficient use of project resources:

- Complex donor coordination mechanisms and financing arrangements led to disbursement delays, because timely releases were difficult to coordinate across multiple donors, which slowed down project implementation and led to frustration in implementing agencies.

[24] Other issues such as filling health posts, actual health outcomes, teacher participation and learning outcomes are not discussed.

- Excessive project complexity led to lack of focus and reform fatigue, meaning that more could have been achieved with the resources available. The project included subcomponents with questionable relevance to this project. In particular, downstream service delivery pilots such as beekeeping and support to mushroom farming may be important in their own right, but they are too far removed from upstream PFM reform and would have better been handled through other projects.

- Lack of clarity and a plethora of technical working groups, steering committees, and secretariats, as well as unclear lines of reporting and responsibilities, contributed to inefficient implementation and supervision.[25] These arrangements were also partially responsible for ineffective management of the IFMIS contractor, which cost the government about US$6.0 million. Inadequate handling of the contractor also meant that IFMIS implementation progress was suspended, eventually requiring the project to extend the closing date by 18 months.

- The IFMIS contractor's firm was bought out by another firm, requiring that government clarify the legal status of the contract before proceeding with implementation. It took seven months before the Ministry of Legal Affairs gave clearance to proceed, which caused a delay in the schedule. Although this was external to the project, it constituted inefficiency in implementation.

- Loss of confidence in the IFMIS management team required that they be replaced, necessitating repeat training and delaying implementation.

- An all-encompassing off-the-shelf enterprise resource planning (ERP) package was selected and implemented, which was probably not necessary given Zambia's needs. Significant specific subsequent configuration and parametrization was still necessary, and this was apparently not fully understood at the outset by the system implementers. This meant that time was lost in repeated configuration exercises, also leading to additional costs in the form of variation orders to the contract.

- Total IFMIS costs were plotted against number of uses and compared to other countries (see appendix D, figure D.1). The total IFMIS acquisition and implementation cost for Zambia was approximately US$43 million, including the costs of the contract with INDRA and subsequent investments, as well as the costs of PMEC, which was a separate implementation done on separate hardware and with a separate license for SAP. The cost for each named user in Zambia is estimated at about US$18,200, which is markedly higher than that of the average Bank IFMIS project (about US$15,000). Further, the cost of the PMEC and that of the total systems implementation would likely have been lower if a consolidated systems

[25] This brought out the weaknesses in the donor supervision arrangements. In theory, DFID was the lead donor for the IFMIS subcomponent, but did not have the necessary capacity on the ground to carry out the task. The Bank was in a better position to manage this situation, but it was not directly responsible in view of the MOU.

implementation plan had been adopted, with implementation carried out on the same set of hardware and with a jointly negotiated SAP software license agreement.

- The use of undocumented and illegible expenditures constitutes an inefficient use of project funds, even if these are reimbursed after project closure, because they were not available to the implementing agencies.

4.2 In view of inefficiencies during project implementation, efficiency is rated **modest**.

5. Outcome Ratings

5.1 Outcome is rated **moderately unsatisfactory**, which is a composite rating reflecting substantial strategic relevance and modest design, mixed progress in efficacy with major reservations, and modest efficiency.

5.2 Strategic relevance was rated substantial, but suffered from lack of clarity on the PDO and excessive ambition. Relevance of design was rated as modest because of the significant shortcomings in the logical framework. There remains a conceptual gap between project activities, outputs, and outcomes, and outcome indicators insufficiently inform how upstream reforms impact on the efficiency and effectiveness of service delivery institutions. The project was overly complex with many subcomponents that were not adequately prioritized. The inclusion of downstream service delivery pilots, such as beekeeping and supporting a mushroom farm, is too far downstream to effectively impact on service delivery institutions and bears insufficient relation to the remainder of the project.

5.3 Efficacy was mixed, reflecting on the one hand significant process outputs being achieved (IFMIS and PMEC), but on the other failure to translate these into tangible outcomes, partly because of political considerations, or that various systems were by passed or not used properly. There was not any plausible contribution by the project to the overarching program objective of improving the effectiveness and efficiency of service delivery institutions, which in any event does not appear to have been met.

5.4 Efficiency was rated modest. More could have been achieved given the resources available. Further, there were a number of operational inefficiencies during project implementation, including ineffective institutional arrangements, excessive complexity, inefficient use of project resources, and the choice of an overambitious IFMIS strategy that was unsuitable for country capacity.

6. Risk to Development Outcome

6.1 There has been an effort to sustain and deepen some of the activities supported under the project. The follow-up operation (PFMRP Phase I) has dedicated US$30.0 million through a multi-donor trust fund to continue support in critical areas including budgeting and planning, implementation of the IFMIS, and procurement reform.

6.2 Payroll and establishment control are now firmly embedded in the system and are unlikely to be reversed. Retrenchment measures have been taken, though reentry into the system remains a possibility and is inadequately monitored. Further, the political appointment (and dismissal) of senior civil servants jeopardizes modest gains made with regards to performance management. Lastly, risks arise from inadequate coordination between the cabinet and the MOF. While the macro envelope is provided by the MOF, the pay reforms and wage negotiations are led by the PSMD. There is scope for better aligning the negotiations with the budget calendar and improving the coordination between the two agencies.

6.3 With regards to PFM, a significant risk is that the legal framework is fragmented, and much of it is outdated, falling short of capturing both recently introduced reforms and internationally accepted practices. The government has recently proposed a revision of the existing legal framework including medium term planning and budgeting, a performance-oriented approach to budget management, comprehensive commitment controls, and the adoption of international accounting and reporting standards (IMF 2015b).

6.4 Considerable progress has been made regarding the setup and institutionalization of the IFMIS, and it is unlikely that this would be reversed. Some risks remain that controls are not sufficiently enforced and informants noted that this problem was particularly endemic in the roads sector. Further, activity based budgeting has become a risk to budget management and execution, causing a proliferation of transaction that has becomes unmanageable for the treasury effectively stifling budget management.

6.5 There remain some gaps with core IFMIS functionality (e.g. bank reconciliation and interface with revenue and payroll system) and coverage (as extra budgetary funds, and internally generated funds are largely managed outside the system).[26] These undermine the effectiveness of the system and should be prioritized over currently planned major investments in technical features, especially since the Zambian system is already amongst the most advance systems, comparable (in terms of technical features) to Vietnam, Russia, and Malaysia.

6.6 There remains an issue with mainstreaming the IFMIS project staff into the civil service. In Zambia, IFMIS staff went into a project where they received greater remuneration on the one hand, but on the other, were outside the mainstream civil service, thus potentially forfeiting opportunities for promotion. Mainstreaming the IFMIS project into the government, and staff into their previous positions, comes at a significant risk of losing carefully trained staff to the private sector.

6.7 The continued use of the legacy Financial Management System (FMS), which does have ex ante transaction control (or even basic budget or cash control), undermines budget management and jeopardizes the integrity of budget execution reports. Donors continue to push for the continued use of the FMS to support sector specific interventions. This cannot yield results and instead props up a system that should be abandoned. Further, the set-up of parallel systems would fragment the current information systems architecture, dilute capacity, and undermine some of the important achievements made thus far.

---

[26] Albeit some donor funds are channeled through IFMIS despite not being part of the TSA.

6.8 Risks remain with regard to the TSA. The number of idle balances remained a major efficiency concern at project end, also limiting the effectiveness of the IFMIS. This has been acknowledged under the follow-up operation, but with insufficient depth. First, it is suggested that the IFMIS would strengthen the TSA, rather than the TSA being viewed as a precondition for an effective IFMIS.[27] Second, the implementation strategy is vague. The PAD (World Bank 2005b, p. 18) notes that "the plan is to expand the centralization of the government cash balances held in various bank accounts through the creation of a unified bank account structure of linked accounts." While linking accounts means that balances would be known, the central bank will not be able to draw on them for investment (or fund requests from other spending units), nor do they extend its overdraft limit. Further adherence to the annual budget law cannot be strictly enforced for these balances under such an arrangement. An IMF (2011) guidance note on TSA makes this quite clear. For a TSA to work effectively, accounts should operate on a zero balance basis, and balances need to be swept into the central bank unconditionally—not periodically on an as-needed basis. The 1998 Ukraine Treasury Systems Project[28] may offer some guidance to that end. To maintain liquidity in commercial banks, the government could specify an amount given out, as was done for the consolidated fund in the Philippines, which provided full information on cost and transparency. Some progress was made in consolidating accounts in the Ministry of Finance, though the majority of accounts across spending agencies remain fragmented.[29]

6.9 While some of the service delivery pilots were considered interesting and successful, they have not been funded since, nor have they been sustained or scaled up. The risk that they would not be sustainable without full government ownership has already materialized.

6.10 Frequent turnover of officials in government was considered a remaining risk to the reform agenda by interviewees, albeit government has remained committed to IFMIS implementation despite various down times during project implementation.

6.11 Reflecting the above, risk to development outcome is rated **significant**.

7. Bank Performance

7.1 Bank performance for quality at entry was rated unsatisfactory and quality of supervision was rated as moderately unsatisfactory. Overall Bank performance is rated **unsatisfactory** in accordance with the harmonized evaluation criteria guidelines for ICRs.

Quality at Entry

7.2 This analysis is based on a review of the appraisal documents (PAD, grant agreements, and decision meeting minutes), as well as stakeholder feedback through interviews with government officials and Bank staff. It identifies strengths and weaknesses present at entry. It also considers issues that arose during implementation that can be

---

[27] See reference documents for PFMRP Phase I.

[28] See Ukraine Treasury Systems Project, P049174 reference documents.

[29] An IMF guidance note on TSA can be found at Pattanayak and Fainboim 2011.

associated with gaps in the operation's design. The main conclusion is that notwithstanding solid analytical work and an effort to achieve effective donor harmonization and alignment with the government program, the operation was far too ambitious, insufficiently prioritized, did not support some of the critical areas, and in some aspects underprepared. Furthermore, some of the implementation problems stemmed from design choices and key risks not being mitigated, despite having been identified by various reviewers at the concept stage of the operation.

7.3 **Analytical underpinnings and integration of lessons.** A rigorous conceptual analytical base was provided by the 1998 *Fiscal Management Report* (World Bank 1998) and the 2003 PEMFAR (World Bank 2004), which provided an in-depth assessment of the issues as well as policy recommendations on a broad range of areas subsequently covered by the project. However, how to sequence (scope and timing) and implement these reforms was outside the scope of these studies and insufficiently considered during project appraisal. This is particularly notable in the case of the TSA, where recommendations were vague, and the FMIS, where the ambitious scope led to the procurement of an excessively complex system that was unfit for the Zambian environment without adequate module prioritization. Second, the project design did not adequately draw upon the lessons learned from past experience, in particular those of the predecessor operation (PSCAP), which were practical and highly relevant. Lessons from the PSCAP ICR include "project design should be focused and not overly ambitious"; "an assessment of the implementation capacity of the borrower would allow for a better design"; and "the design of complex interventions such as IFMIS should take account of government capacity to conceptualize, design, implement, and manage such interventions" (World Bank 2005c, p. 15). Further, the operation did not visibly benefit from the rich Bank experience in implementing IFMIS in other regions[30], as is evident from the overambitious systems design, procurement, and implementation strategy. Similarly, Bank experience on retrenchment does not appear to have been sufficiently drawn upon.

7.4 **Donor coordination and harmonization with the government program.** The operation made a concerted effort to coordinate with other partners in order to reduce transaction costs and have a more streamlined overall engagement that was closely aligned with the government reform program. While this was an encouraging effort, the coordination mechanism turned into overly complicated implementation arrangements, lacking clarity of roles and responsibilities across partners. Further, a point raised by a peer reviewer during the decision meeting was that this approach essentially encompassed two SWAPs in one operation, which would complicate implementation arrangements. Mediation across various steering committees and technical working groups turned out to be necessary, but difficult. Further, it was suggested by stakeholders that the breath and complexity of the program was a reflection of wide-ranging donor priorities rather than a reflection of government ownership of a multifaceted reform program.

7.5 At the same time, the project was adequately set in an environment of a series of Poverty Reduction Support Credits, which would in principle leverage a higher-level policy discussion in both fiscal management and civil service reform. Budget support operations

[30] An extensive review of the Bank's portfolio in IFMIS since 1984 is available here.

were highly complementary to the project and contributed to the achievement of the PDOs. A table of supplementary policy actions is provided in appendix B, table B.2.

7.6 **Project too complex, but omitted critical aspect.** The design did not sufficiently recognize the iterative nature of a PFM reform project of this complexity. The project would have benefited a great deal from including periodic external assessments (as was done in Cambodia), which would have the potential for steering the project toward what works and reorient activities based on lessons learned. Further, the project design was excessively complex, as already discussed under "Relevance of Design," especially given client capacity. As noted above, excessive complexity and client capacity were explicit lessons highlighted from the preceding project (see PSCAP ICR [World Bank 2005c]), but were not taken into account during design. Further, a peer reviewer during the decision review meeting noted that "This could be a nightmare to manage for the government and for the donors." At the same time, however, the project did not sufficiently recognize the importance of the TSA, and support for this element was relegated to a U.S. Treasury adviser, even though the proliferation of bank accounts outside the control of the Treasury was a critical problem. This aspect should have been a key feature of the reform program, especially as it impacts the effectiveness of the IFMIS.

7.7 **Financing availability and instrument.** The overall program resource envelope (US$100 million) was adequate given scope, and a three-tiered APL was likely to have been the appropriate choice of instrument. Reflecting on progress from the APL 1, and given that most reforms in the program were first-generation reforms, the APL, an instrument that allows a more phased approach, was not utilized to its full potential, instead overburdening country capacity with excessive complexity. Financing availability exceeded local absorption capacity, and the five-year implementation horizon was overly ambitious, which is unfortunate given the lending instrument of choice.

7.8 **Institutional arrangements** were cumbersome and ineffective because of the excessive complexity of the operation, which covered too many activities. The institutional arrangement included a plethora of committees and technical working groups (for example, the Joint Technical Working Group to discuss technical aspects; the PEMFA Secretariat, which provided an advisory and coordinating role; the PEMFA Steering Committee, which was responsible for the implementation of the program; the Public Sector Reform Program Steering Committee, which provided the overall coordination of PSM; and the PEMFA Donor Committee, where donors would meet to review progress in overall implementation). The organogram in the MOU, annex 2 (GoZ 2004, p. 20) visualizes this arrangement.

7.9 **M&E.** The weaknesses in the results framework have been discussed under "Relevance of Design and the M&E sections." Lacking in particular were indicators pertaining to the PFMRP were absent, placing too much weight on the MTEF, and there was insufficient attention given to basic performance indicators for Treasury management and reporting functions, as was highlighted by reviewers during the project decision meeting, but never accommodated by the project team.

7.10 **Decision meeting** comments were only partially addressed. Important risks were highlighted, especially those regarding (i) the need to move toward a more simplified set of tangible and measurable results (some indicators place undue weight on the MTEF, ignoring the basic performance indicators for Treasury and reporting functions); (ii) too much of a focus on the input side, and missing the link to improved service delivery; (iii) complex fund-pooling arrangements posing implementation risk; (iv) inadequate absorption capacity of the government; (v) five years was an unrealistic timeframe; and (vi) risks related to rightsizing the civil service and the need to invest in effective establishment controls both through Human Resources and the budget system.

7.11 **Effectiveness condition.** No updated environmental assessment was shared with IEG, and it remains unclear whether it was conducted. The PAD also states (para 68) that a social impact assessment would be conducted prior to effectiveness in response to the retrenchment component, which was also not shared with the team. This was however not included as a formal effectiveness condition.

7.12 **IFMIS design.** There were a number of fundamental problems pertaining to the IFMIS design:

- Prerequisites (including an adequate budget management law, budget classification structure, institutional arrangements for banking government funds, and a review of functional processes and information flows) were not sufficiently in place prior to investing in the IFMIS. Unless these elements are well advanced, the selection, procurement, and implementation of the appropriate technology may yield unsatisfactory results.

- A "black box" approach to the IFMIS appears to have been adopted in the contractual and implementation arrangement, which assumed that if a comprehensive off-the-shelf ERP package is selected and implemented in its entirety, this implementation would correspond to actual government and user requirements. However, significant specific configuration and parametrization was still necessary, and this was apparently not fully understood at the outset by the system implementers. This meant that time was lost in repeated configuration exercises, which led to additional costs in the form of variation orders to the contract.

- The second disadvantage to the black box approach was that it did not prioritize the implementation of the modules.[31] The simultaneous implementation of all modules attempted in this project placed great strains on the capacity available, which delayed implementation for several years. Only toward the end, when the project was refocused to cater to core functional processes, was some implementation headway made.

- The project should not have supported a system (FMS) that is based on ex post recording of transactions. When an implementation strategy involves an interim basic

[31] Hashim (2014) notes that, in practice, it is necessary to first get the modules dealing with core budget execution processes in place, functioning, and stabilized before embarking on the implementation of non-core modules such as fleet management.

custom system, it is important that it is based on ex ante control of transactions. The FMS would be providing information on the budget and commitment ceilings, but not enforcing them. The project was designed such that data from the FMS would subsequently be uploaded into IFMIS to produce government-wide budget execution reports**.** Combining FMS data (which cannot guarantee completeness or authenticity) with IFMIS data (which does have ex ante transaction control) jeopardizes the integrity of the IFMIS data and the resulting combined budget execution reports.

7.13 Considering the above, and given that important issues that affected implementation were identified and conveyed to the appraisal team but ignored, quality at entry is rated **unsatisfactory**.

Quality of Supervision

7.14 The ICR presents a candid discussion of supervision, which is in line with the findings of this evaluation. The implementation arrangements surrounding the SWAP and pooled-funding approach clouded the actual supervision requirements, resulting in reliance on agreed review mechanisms within the framework of the original MOU signed in 2004. These arrangements were a substitute for standard Bank supervision; supervision took place in the Joint Technical Working Group, various committees, and donor working groups chaired by the director for PSM, and there were no routine implementation support missions or aide memoires. Hence, for example, the mid-term review was commissioned by the government (not the Bank) and discussed at the Joint Technical Working Group, and then changes were made to the design, and indicators were modified that were never formalized through a restructuring paper.

7.15 Despite broad recognition that implementation procedures and arrangements were too complex, the Bank supervision team made insufficient efforts to streamline the support. Some components were combined after the mid-term review, though the essence of the activities remained the same. Further, a subcomponent on revenue administration was added in later years, making project implementation more unwieldly. The PDO was never revised to adequately reflect project intent (and internal inconsistencies within project documents noted above), and the project team missed the opportunity to overhaul M&E and the results framework to better inform progress. Instead, the logical framework remained fragmented until the end.

7.16 The long gaps between Implementation Status and Results Reports (ISRs)—for example, 18 months between the penultimate and final ISRs—undermined their usefulness as a reporting and project management tool. The realism of some of the ISR ratings was also called into question by Bank management, but largely ignored.

7.17 The failure of the Bank team to have a sufficient voice in ongoing discussions between donors and government about the technical content of some subcomponents may also be attributable to the funding arrangement, whereby the cooperating partners chose leads for each subcomponent, and the Bank had sole responsibility for the retrenchment component only, and limited itself to procurement and financial management issues.

7.18 Unlike in the predecessor PSCAP, there was continuity in the Bank's management of this project. There was only one task team leader for the entirety of project implementation, which resulted in effective engagement with the client and other cooperating partners. In addition, from mid-2010, following a locally based financial management specialist joining the team, the government benefited from technical advice and hand-holding in areas related to the IFMIS, procurement, and internal audit, with resulting progress in these subcomponents. The IFMIS subcomponent had been particularly problematic as a result of overly ambitious design and had been languishing for the first four years of the project's implementation. It only started showing results after critical interventions by the Bank, despite not being the principal donor according to the MOU. This has proven critical in turning the IFMIS component around, and was to a large extent the reason for today's relative success.

7.19 Even though there was some improvement in project performance during the last few years of implementation, shortcomings in supervision and MTR, reporting, and failure to restructure the project sooner and more thoroughly lead the Bank's quality of supervision being rated as **moderately unsatisfactory**.

8. Borrower Performance

8.1 Overall borrower performance was rated **moderately unsatisfactory**, reflecting unsatisfactory government performance and moderately unsatisfactory performance by the implementing agency.

Government Performance

8.2 Government ownership and commitment varied across components and project implementation. Continuous turnover of senior administrative staff in key ministries and agencies, as well as technical staff in areas such as the IFMIS project, was disruptive. Over the lifecycle of the project there were six permanent secretaries in the MOF, four accountants-general, and four project managers overseeing PEMFA implementation. Further, at one point the entire IFMIS project team was changed, reflecting lack of confidence by senior management. These frequent changes delayed project implementation, because management in government had to be continuously briefed, and political support was unpredictable at times. Despite this, and a turbulent implementation experience in the early years, overall, the government maintained sufficient commitment to eventually implement pilots successfully.

8.3 The Government does not appear to have supported the establishment of a treasury single account, despite it being a critical condition for an effective IFMIS. This was a political choice, and the various reasons given, such as liquidity concerns could have been addressed directly as discussed in more detail in chapter 6. As noted elsewhere this increased the budget deficit and the debt service burden. Further, the sudden and unanticipated decision to increase wages undermined efforts in civil service effectiveness. In particular, given that this component was in part justified at project design to offset the 2003 wage bill increase. This has contributed to an unsustainable macroeconomic situation reflected in a budget deficit of 8.5 percent of GDP. Lastly, the government made no effort to sustain some of the pilots that were done under the Service Delivery Improvement Fund, despite preliminary successful results.

8.4 Also, despite moderate legislative changes the government did not take sufficient action to reform the underlying legal foundation and major legal provisions relating to transacting in a computerized environment for IFMIS were missed. Similarly reforms under the PRSC were delayed or partially implemented,[32] which further reflects insufficient Government commitment.

8.5 Also, despite the required legislative changes identified, the bill was not adequately amended. Major provisions relating to transacting in a computerized environment for IFMIS were missed.

8.6 The government made an effort to streamline donor coordination and implementation arrangements and set up an M&E department reporting directly to the cabinet. While this was perceived as helpful, the indicators to monitor progress remained unsuitable.

8.7 Government failure to act to address key issues and control of the wage bill results in an **unsatisfactory** performance rating.

Implementing Agency Performance

8.8 There were two implementing agencies: the Ministry of Finance in charge of the PEMFA component, and the Cabinet Office in charge of PSM and retrenchment. Under these, there were a multitude of offices responsible for various activities of the program. Under the MOF there was the Controller of Internal Audit, the External Technical Cooperation Department, the Investment and Debt Department, the Planning Department, the Financial Management and Accounting Department, and the IFMIS unit. Under the Cabinet Office, there was the PSMD and the Management Development Division.

8.9 Generally speaking, there were concerns with record keeping, especially when it came to ineligible expenditures in relation to operational cost such as allowances and per diems. Oversight of senior management was insufficient, there was a lack of clear lines of accountability for officers implementing the reforms, and oversight of contract management was problematic. That being said, there was commitment across the implementing agencies, such as on IFMIS, which eventually led to successful implementation in certain areas. Further reporting on progress has been largely adequate, with the data as per results framework being collected as planned.

8.10 There has been commitment to the reform process despite slow progress at times. Especially with regard to IFMIS implementation, the MOF has remained committed to implementing the IFMIS by ensuring organizational and technical readiness, and it took bold steps, including the complete dismantling and reorganization of the IFMIS unit when there was no confidence in its implementation capacity. Changes to the team of officers responsible for the program took place too often, however, and this was disruptive to the

[32] Modest rating for this policy area in ICRR.

implementation of the reform agenda. On the downside, the implementing agency did not establish a clear line of communication among the many stakeholders and partners, which affected its ability to manage the contractor effectively. This led to various delays (for example, clarification of the legal status of a revised contract) and inefficiencies, including honoring of unnecessary costs to the contractor. (Details on efficiency are discussed in more depth in chapter 4.) Continued commitment to the IFMIS by the Ministry of Finance and National Planning and various departments was critical for the eventual setup and utilization of the system. The capacity of the IFMIS team is currently perceived as strong, and receives important support from a resident adviser. Regarding other PFM activities, commitment has been modest, especially with regard to implementing new procurement guidelines and effectively utilizing the procurement authority as an oversight body. Progress with the PFM legal framework was slow, and the policy brought before the cabinet did not incorporate some key recommendations.

8.11 Commitment to public service reform was partial. The PSMD showed leadership in designing and implementing the PMEC, as well as getting the pay policy approved, both of which required significant government ownership. The pay policy, was approved by the cabinet in 2009, however implementation was held up until mid-2011 because of its political sensitivity. Parallel budget support operations had a number of related policy actions to accelerate the implementation of the pay policy (see appendix B). At the same time, impetus for progress in performance management has been missing, leading to disappointing results. Similarly, there was insufficient political will to make inroads in rightsizing of the civil service, which would have been particularly important given recent increases in the wage bill.

8.12 Reflecting the above, implementing agency performance is rated **moderately unsatisfactory**.

9. Monitoring and Evaluation

9.1 The design of the M&E framework was derived from that of the government program, which was a justified starting point. The results framework in the PAD, however, did not include adequate outcome indicators to reflect the objectives – a task made difficult by a poorly defined objective. Outcome indicators were largely process-oriented and not a good proxy for the objective. They did not lend themselves to an assessment of broader PFM outcomes such as fiscal discipline, strategic allocation of resources, operational efficiency, or effectiveness of oversight institutions. Similarly, public service effectiveness is not well represented through the outcome measure selected in the results framework, because the ratio of the total public wage bill to public service head count is not informative on the effectiveness of the civil service. No attempt has been made to measure the effectiveness and efficiency of public service delivery institutions, and the indicators chosen do not sufficiently inform how upstream PFM and civil service interventions and progress facilitate downstream service delivery – for instance turnover of civil servants and unfilled positions in social sectors would have been a useful indicator of progress towards objectives.

9.2 Intermediate outcome indicators were insufficient in measuring progress against the activities, which was partially the result of the complexity and scope of the program. To give but a few examples, information on supplementary appropriations and the reconciliation of historical costs and proposed budget estimates would have been helpful to capture progress on budgetary allocations. The links between policy, planning, and budgeting through PEFA scores, for example, would provide critical information on allocative efficiency, which has important repercussions on the ability of a service delivery agency to implement its mandate. Budget execution could have been measured through cash management indicators and effectiveness of the internal control environment. An indication of procurement differentials between the private and public sectors or percentage of procurements not subject to competitive tender would provide a good indication of operational efficiency. The quality of oversight institutions could be better reflected through timeliness and quality of financial and audit reports, evidence of follow-up on recommendations, and the degree of independence of institutions. Intermediate outcome indicators for civil service management were more adequate, with indicators regarding payroll, the management of establishment, and performance management, being particularly relevant. Tracking removal of excess staff from the payroll is also important, though it would have been helpful to reflect on whether staff reentered the system after retrenchment.

9.3 Further, indicators were at times not measurable, and inappropriate given the Zambian context. The ICR (World Bank 2013b, p.12) notes “it is questionable whether the PDO indicators (for example, ratio of wage bill to the public service headcount) could actually be measured in the Zambian context, let alone used to measure the outcomes identified in the PAD.” Indicators suffered at times from imprecision and attribution problems. This meant that possible slippages in attaining intermediate targets were not monitored and identified, challenging the attainment of the PDO. Furthermore, the indicators lacked quantitative baselines, and targets were set only for the first two years. The results matrix was not formally modified during project restructurings.

9.4 Given the scope of the program, the M&E design would have benefited from qualitative and quantitative impact assessment such as employing an external advisory panel (as was done in Cambodia)[33] to inform periodically on critical intervention areas. Also tracking of civil servants and an impact assessment of training would have been beneficial as was done in Malawi[34].

9.5 The M&E framework’s shortcomings were not addressed during implementation. As many important indicators were not part of the framework, there was limited opportunity for corrective action by the project team. However, the M&E framework that was in place was duly monitored, and ISRs reported against all dimensions of the program, albeit at times with delays.

9.6 The quantitative and qualitative M&E outputs were used by the various committees and by development partners to assess progress and steer the program. This was done with regular frequency. A new Monitoring and Evaluation Department was set up, reporting directly to the cabinet to streamline implementation procedures. Nevertheless, this process

[33] See Cambodia Public Financial Management and Accountability Project, P087945.

[34] See Malawi Financial Management, Transparency, and Accountability Project, P078408.

was ultimately ineffective as it did not identify the shortcomings in M&E nor steer the project in a way that would have improved its development impact.

9.7 Given inadequate M&E design, and somewhat passive implementation and utilization of the framework, M&E is rated **modest** overall.

10. Lessons

10.1 Good analytical work is an important underpinning for program design, but it is not sufficient. Program design must be strategic, practical, prioritized, and take into account ownership, implementation and absorptive capacity of the borrower. The reform agenda was very relevant in the context of Zambia, but the project failed to achieve its development objective because of a lack of consideration of the above.

10.2 Excessive project complexity leads to complicated institutional implementation arrangements, lack of focus, and dilute reform momentum. An approach focusing on a specific reform agenda may be more effective in channelling the necessary political capital to accomplish functional change. In Zambia, the IFMIS reform in itself was complex, politically delicate, and involved a broad set of stakeholders. Focusing on an enabling environment, IFMIS design, implementation, and appropriate utilization alone may have been sufficiently ambitious. Even if a complicated design is chosen at entry, it is important that proactive "pruning" takes place early enough in the implementation process – at the latest by mid-term review -- by dropping low priority activities where there is limited traction, and refocusing efforts on top priorities.

10.3 Related to the above, project design with a complex institutional reform agenda would benefit from explicitly recognizing the iterative nature of the reform process and making provisions for frequent, in-depth supervision[35] to inform periodically on critical intervention areas that may need to be adjusted and prioritized.

10.4 Donor coordination modalities should be carefully considered prior to project inception and should be designed to reduce transaction costs to the government and development partners without making implementation arrangements more complex. Pooling of donor funds may not be the most effective funding arrangement as inputs are subject to constraints outside of control of the various partners and pose unnecessary risks. In Zambia donor coordination was perceived as more taxing than beneficial to the client.

10.5 To ensure effective project management, there must be a rigorous recruitment process for key positions. Many of the problems that plagued the IFMIS subcomponent, for instance, were due, in hindsight, to the appointment of a project team that had to be replaced because of lack of capacity. A reform of the size, scope and complexity of the PEMFA should not be attempted without commissioning the provision of sufficient internationally experienced

[35] See, for example, the external advisory panel used in the Cambodia Public Financial Management and Accountability Project, P087945.

PFM expertise to advise on the direction of reform and on some of the more complex reform areas.

10.6 Financing retrenchment of government employees can be deeply unpopular and carries a significant reputational risk for the Bank. Unless retrenchment reforms are accompanied with complementary reforms and progress is closely monitored to avoid reentry of civil servants the intervention is unlikely to be effective. The Bank has a rich history in retrenchment reforms and design of interventions should carefully draw on previous experience.

10.7 Merit based recruitment of senior civil servants is a critical aspect to performance management. Performance contracts are of limited value if senior civil servants are politically appointed and can be dismissed arbitrarily as was the case in Zambia.

Lessons Pertaining to PFM and IFMIS

10.8 Consolidating fragmented bank accounts takes significant political will and may be given low priority during a time of economic growth and fiscal expansion. Idle balances are especially of concern to countries prone to external shocks, as the lack of a treasury single account means that these funds cannot be drawn on to cushion against unanticipated financing gaps. Linking accounts (such that balances are known) may be politically more feasible, but does not address the main problem that these funds are not within the purview of the treasury. Budget support operations may provide leverage for accelerating the reform.

10.9 Prior to launching IFMIS implementation, prerequisites should be well advanced (including an adequate budget management law, budget classification structure, institutional arrangements for banking government funds, and a review of functional processes and information flows). Unless this is the case, selection, procurement, and implementation of the System may result in the adoption of the wrong solution or retain obsolete processes, as was the case in Zambia.

10.10 The selection of a comprehensive, off-the-shelf ERP package is not sufficient for the implementation of an IFMIS, because it may not correspond to actual government and user requirements. Significant government-specific configuration and parametrization are usually necessary, and if this is not understood at the outset, considerable time may be lost in repeated configuration exercises. This would also lead to additional costs in the form of variation orders to the contract, as was the case in Zambia.

10.11 Sequencing reforms in the IFMIS is important in order to reap low-hanging fruit and not overburden client capacity. Core Treasury reform should be prioritized over non-core modules such as fleet management. At an early stage, even the budget may be uploaded ex post. In theory, the purchase of an all-encompassing ERP allows the simultaneous implementation of all modules, although this is rarely feasible, as the Zambia case shows.

10.12 The Bank may consider an approach where it supports training and technical support, leaving the financing of system implementation to the client. This may bring in realism, strengthen commitment, and avoid undue engagement in non-core modules. Comparing the PMEC and IFMIS experience makes for such a case. Government financed essential incremental improvements in PMEC. In contrast, the donor financed IFMIS included many non-core modules that were not necessary and only diluted implementation capacity.

When an implementation strategy involves an interim basic custom-designed system, it is important that it is based on ex ante control of transactions. In Zambia the FMS cannot be used to implement commitment or even basic budget or cash control. A system based on ex post recording of transactions does not have the capacity to enforce/implement budget, cash, or commitment control, and its implementation only gives the illusion that such control is being practiced. The FMS would be providing information on the budget and commitment ceilings, but not enforcing them. Further, the implementation of the IFMIS was intended to be restricted to the central and provincial levels of government, and the FMS was supposed to continue to be used at the district levels, even after the IFMIS became available. Data from the FMS was supposed to be uploaded into the IFMIS to produce government-wide budget execution reports**.** Combining FMS data—which has no controls, and therefore cannot guarantee completeness or authenticity—with IFMIS data—which does have ex ante transaction control—jeopardizes the integrity of the IFMIS data and the resulting combined budget execution reports.

References

AFRODAD (African Forum and Network on Debt and Development). 2011. *Domestic Debt Management in Africa: The Case of Zambia.* Harare, Zimbabwe: AFRODAD.

Andrews, Matt. 2010. *How Far Have Public Financial Management Reforms Come in Africa?* HKS Faculty Research Working Paper Series, RWP10–018. Cambridge, MA: John F. Kennedy School of Government, Harvard University.

Beyani, Choolwe. 2013. Zambia *Effective Delivery of Public Education Services.* Discussion Paper. AfriMAP and Open Society Foundations.

CSPRZ (Civil Society for Poverty Reduction Zambia). 2012. "Public Procurement System in Zambia. A Case for Procurement Monitoring." Civil Society for Poverty Reduction Zambia. Lusaka.

GoZ. 2004. "MOU between GoZ and DIFD (UK), the European Commission, the Embassy of Ireland, The Government of the Kingdom of Denmark, the Ministry of Foreign Affairs of Finland, the Government of the Federal Republic of Germany, the Government of the Kingdom of the Netherlands, the Government of the Kingdom of Norway, the Government of Sweden, the International Development Association, and the United Nations Country Team in Zambia concerning the Public Expenditure Management and Financial Accountability (PEMFA) Program." Lusaka: GoZ.

_____. 2005. *Public Financial Management Performance Report and Indicators. Assessment Based on PEFA.* Lusaka: GoZ.

_____. 2006. "MOU between GoZ and DIFD (U.K.), Government of Sweden, and IDA, Concerning the Public Service Management (PSM) Program." Lusaka: GoZ.

_____. 2008. *Public Financial Management Performance Report and Indicators. Assessment Based on PEFA.* Lusaka: GoZ.

_____. 2008. "MOU between GoZ and DIFD (U.K.), EC, Embassy of Ireland, Government of Denmark, MFA Finland, FR of Germany, MFA Netherlands, Government of Sweden, IDA, UN Country Team, African Development Bank, and USAID, concerning the PEFMA Program, signed December 2004, revised July 11, 2008." Lusaka.

_____. 2009. *Public Service Management Component of the Public Service Reform Program: Mid-Term Review of the Public Service Management (PSM) Support Program—Final Report*. African Development Professional Group. Lusaka: GoZ.

_____. 2010a. *Living Conditions Monitoring Survey 2010*. Lusaka: Central Statistical Office.

_____. 2010b. *Public Expenditure Management and Financial Accountability Program Evaluation. Overview Report*. Prepared for the Ministry of Finance and National Planning, GoZ, by REPIM in association with Oxford Policy Management. Lusaka: GoZ.

_____. 2011a. *PEMFA Secretariat Exit Report*. *Public Expenditure Management and Financial Accountability Program*. Lusaka: Ministry of Finance and National Planning.

_____. 2011b. "MOU between GZ and DIFD, EU delegation, MFA Finland, MFA Netherlands, Government of Sweden, IDA, and African Development Bank concerning the PEFMA Program, signed December 2004, revised July 11, 2008, and June 30, 2011." Lusaka: GoZ.

_____. 2011c. *Sixth National Development Plan: Sustained Economic Growth and Poverty Reduction*. Lusaka: Ministry of Finance and National Planning. Lusaka: GoZ.

_____. 2012. *Public Financial Management Performance Report and Indicators. Assessment Based on PEFA*. Lusaka: GoZ.

_____. 2013a. *Public Financial Management Performance Report and Indicators. Assessment Based on PEFA*. Lusaka: GoZ.

_____. 2013b. *Public Financial Management Reform Strategy for the Government of the Republic of Zambia 2013–2015.* Lusaka: GoZ.

_____. 2013c. “Progress Report on the Pay Policy Component.” World Bank Mission of February 23, 2013. Public Service Management Secretariat, Management Development Division, Lusaka.

Hashim, Ali. 2014. *A Handbook on Government Financial Management Systems: A Practitioners Guide for Setting Reform Priorities, Systems Design, and Implementation*. Africa Operations Services Series. Washington, DC: World Bank.

IEG (Independent Evaluation Group). 2013. *The World Bank Group and Public Procurement: An Independent Evaluation.* Independent Evaluation Group Studies. Washington, DC: World Bank.

_____. 2015 *Zambia Country Program Evaluation, FY04-13: An Independent Evaluation.* Washington, DC: World Bank Group.

IMF (International Monetary Fund). 2014. *2013 Article IV Consultation*. IMF Country Report No. 14/5. Washington, DC: IMF.

_____. 2015. *2015 Article IV Consultation.* IMF Country Report No. 15/152. Washington, DC: IMF.

_____. 2015b. *Toward an Integrated Legal Framework for Public Financial Management*. IMF Country Report No. 15/240. Washington, DC: IMF.

Klimavics, Raimonds, and Peter Murphy. 2010. “Technical Review of Pilot Integrated Financial Management Systems and its Use in Government Budgeting, Accounting and Financial Reporting.” IMF, Washington, DC.

Lawson, Andrew. 2012. *Evaluation of Public Financial Management Reform: Burkina Faso, Ghana, and Malawi, Final Synthesis Report.* Stockholm: SIDA.

Leiderer, Stefan, Maximilian Geigenmuller, Anja Hornig, Kathrin Kastle, Christopher Smith, and Franziska Troger. 2012. “Efficiency of Local Service Provision in Zambia’s Health, Education and Roads Sectors.” German Development Institute.

McCarthy, Phiri, and David Watkins. 2014. *Improving Cash- Basis IPSAS Financial Reporting.* Washington, DC: IMF.

Murphy, Peter, Richard Allen, Vijay Ramachandran, and John Grinyer. 2012. “Public Financial Management Reform Strategy.” IMF, Washington, DC.

Murphy, Peter, Suzanne Flynn, Roberto Tibana, Phiri McCarthy, and Jim Ramsey. 2014. *Strengthening Key Public Financial Management Systems.* Washington, DC: IMF.

Pattanayak, Sailendra. 2016. *Expenditure Control: Key Features, Stages, and Actors*. Fiscal Affairs Department. Technical Notes and Manuals. Washington, DC: IMF.

Pattanayak, Sailendra, and Israel Fainboim. 2011. *Treasury Single Account: An Essential Tool for Government Cash Management.* Technical Notes and Manuals. Washington, DC: IMF.

de Renzio, Paolo, Matt Andrews, and Zac Mills. 2010. *Evaluation of Donor Support to Public Financial Management (PFM) Reform in Developing Countries. Analytical Study of Quantitative Cross-Country Evidence*. London: Overseas Development Institute.

Schiavo-Campo, Salvatore, and Daniel Tommasi. 1999. *Managing Development Expenditure*. Manila: Asian Development Bank.

UNPAN (United Nations Public Administration Network). 2011. *Zambia: State for Public Service Reforms.* Lusaka: UNPAN.

World Bank. 1998. *Fiscal Management Report.* Africa Region. Washington, DC: World Bank.

_____. 2000. *Project Appraisal Document, Republic of Zambia, Public Service Management Program Support Project, in Support of the First Phase of the Public Service Reform Program.* Washington, DC: World Bank.

_____. 2003a. *Implementation Completion Report, Republic of Zambia, Public Service Capacity Building Project in Support of the First Phase of the Public Sector Capacity Building Program*. Washington, DC: World Bank.

_____. 2003b. *Zambia—Public Expenditure Management and Financial Accountability Review.* 2 vols. Washington, DC: World Bank.

_____. 2004. *Zambia Public Expenditure Management and Financial Accountability Review. Country Financial Accountability Assessment.* Report No. 26162-ZA, Africa Region. Washington, DC: World Bank.

_____. 2005a. "Project Concept Note Review Meeting. Zambia: Proposed Public Sector Management Program Support Project (PSMP-SP) — Republic of Zambia. April 4, 2005." World Bank, Washington, DC.

_____. 2005b. *Project Appraisal Document*, *Republic of Zambia, Public Service Management Program Support Project, in Support of the Second Phase of the Public Service Reform Program.* Washington, DC: World Bank.

_____. 2005c. *Implementation Completion Report*, *Republic of Zambia, Public Service Capacity Building Project in Support of the First Phase of the Public Service Capacity Building Program*. Washington, DC: World Bank.

_____. 2006. *Financing Agreement. Public Service Management Program – Support Project between Republic of Zambia and International Development Association.* Washington, DC: World Bank.

_____. 2012. *Implementation Status and Results Report*. *Zambia Public Service Management Program Support Project (Project ID: P082452), Loan Credit No. IDA41400.* Washington, DC: World Bank.

_____. 2013a. *Beyond the Annual Budget. Global Experience with Medium-Term Expenditure Frameworks.* Washington, DC: World Bank.

_____. 2013b. *Implementation Completion Report* (ICR), *Republic of Zambia, Public Service Management Program in Support of the Second Phase of the Public Service Reform Program.* Washington, DC: World Bank.

_____. 2015. *World Development Indicators. Poverty and Equity Database*. World Bank. Development Research Group. http://data.worldbank.org/data-catalog/world-development-indicators

_____. 2016. World Development Indicators. Poverty and Equity Database. World Bank. Development Research Group. http://data.worldbank.org/data-catalog/world-development-indicators

Appendix A. Basic Data Sheet

ZAMBIA PUBLIC SECTOR MANAGEMENT PROGRAM SUPPORT PROJECT (P082452, IDA - 41400)

Key Project Data (amounts in US$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	100.19	108.69	108.50
Loan amount	30.00	26.59	88.60
Cancellation	0.00	4.80	0.00

Cumulative Estimated and Actual Disbursements

	FY06	*FY07*	*FY08*	*FY09*	*FY10*	*FY11*	*FY12*
Appraisal estimate (US$M)	6.00	16.00	21.00	25.00	30.00	0.00	0.00
Actual (US$M)	0.00	0.35	16.85	20.33	25.33	26.33	27.35
Actual as % of appraisal	0.00	2.80	80.23	81.32	84.43	0.00	0.00
Date of final disbursement: December 23, 2013							

Project Dates

	Original	Actual
Initiating memorandum	03/04/2003	04/04/2005
Negotiations	04/01/2003	09/21/2005
Board approval	12/30/2003	01/05/2006
Signing	02/10/2006	02/10/2006
Effectiveness	05/10/2006	05/10/2006
Closing date	06/30/2012	06/30/2012

Task Team members

Names	*Title*	*Unit*
LENDING		
Harry C. Garnett	Consultant	AFTPR-HIS
Patricia Palale	Public Sector Mgmt. Specialist	AFTP1
Ross Worthington	Sr. Public Sector Mgmt. Specialist	AFTPR-HIS
SUPERVISION/ICR		
Modupe A. Adebowale	Consultant	AFTME
Reynaldo P. Castro	Consultant	AFTPR-HIS
Hellen Mbao Chilupe	Senior Operations Officer	AFMJB
Fenwick M. Chitalu	Financial Management Specialist	AFTME

Nelia Polines Dinkin	Program Assistant	AFTP3
Tesfaalem Gebreiyesus	Lead Procurement Specialist	SARPS
Wedex Ilunga	Senior Procurement Specialist	AFTPE
Lulu Kasamba Mwaanga Milinga	Team Assistant	AFCS3
Joseph Kizito Mubiru	Sr. Financial Management Specialist	LCSFM
Mushiba Nyamazana	Economist	AFTP1
Jonathan David Pavluk	Senior Counsel	LEGAM
Herimpamonjy Mavoarisoa Ranaivoarivelo	Program Assistant	MNSPR
Lozi S. Sapele	Program Assistant	AFCS3
Gert Johannes Alwyn Van Der Linde	Lead Financial Management Specialist	AFTME
Ross Worthington	Sr. Public Sector Mgmt. Specialist	AFTPR-HIS

Staff Time and Cost

Stage of Project Cycle	***Staff Time and Cost (Bank Budget Only)***	
	No. of staff weeks	***USD Thousands (including travel and consultant costs)***
	LENDING	
FY04	N/A	11.94
FY05	N/A	65.52
FY06	N/A	161.84
Total:		239.30
Supervision/ICR		
FY07	N/A	79.25
FY08	N/A	51.64
Total		**130.89**

Appendix B. Other Project-Related Data

Table B.1. Performance of the APL1 (first phase)

Dimension	*ICR*	*ICR Review*
Outcome	Satisfactory	Moderately satisfactory
Institutional Development	Modest	Modest
Sustainability	Likely	Likely
Bank Performance	Unsatisfactory	Unsatisfactory
Borrower Performance	Satisfactory	Satisfactory

Source: IEG 2006

Table B.2. Triggers, Phase 2

Pay Reform

1. **Substantial progress made in implementing the monetization of benefits available to civil servants.**

The cabinet approved the Medium-Term Pay Reform Strategy (MTPRS) in August 2002, which would decompress pay within an agreed establishment wage bill target. However, this policy was not implemented as planned. The decompression took place (13:1 from the previous 8:9:1), but the wage bill rose to 8.9 percent of GDP. The government accepted this overrun and has put in place a number of measures to manage the process. Among other things, stringent measures have been put in place to manage the restructuring of the separations program required to bring the wage bill down, and the cabinet approved a new, lower wage bill target of 8.1 percent, which was achieved.

The government is now taking the steps necessary to bring the wage bill down to agreed levels. In the short term, some of the key steps include:

i) Enhancing the link between the payroll and establishment through unique postcodes. This is being done through the Interim Establishment Register that has been created under the initial implementation of the PMEC. The register is being used to clean the employee database by ensuring that only employees in approved positions are migrated to the new PMEC system.

ii) Apart from the freeze on any new recruitment, any critical recruitment has to be centrally cleared by the Public Service Management Division (PSMD). In this regard, PSMD is only approving applications for authority to employ that relate to replacement of deceased employees, those dismissed, or those that exit the service, and this is upon confirmation that they have been removed from the payroll and that the positions exist in the approved establishment, and if it was budgeted for. All applications to fill posts that have been vacant for some time are being rejected.

iii) Other measures include the abolition of sitting allowance to officers attending meetings during working hours. This is contained in a circular referenced CO.101/25/1, dated 25 June 2004, issued by the secretary to the cabinet to all controlling officers.

iv) Finalizing the processing and paying of separation packages for already identified excess staff and redundant staff and to remove them from the payroll: The government is using funds from both the Treasury and under PSCAP to undertake this exercise.

As part of the implementation of the MTPRS, a number of allowances have either been abolished or merged into the pay, as follows:

Abolished allowances

i. Automatic entitlement of directors and other eligible staff to government duty vehicles and running expenses has been withdrawn. Implementation guidelines have been worked out and effected. A monitoring mechanism has been put in place to ensure compliance.

ii. The Teachers Special Education Allowance, which contributed up to 30 percent of their total pay, was rescinded completely. Teachers with higher qualifications were put in a higher salary grade.

iii. A contributory medical insurance scheme (government, 60 percent: individuals, 40 percent) has been worked out and will soon be introduced. For senior staff, this will replace the unlimited medical treatment provided by government free-of-charge to the officer (which sometimes includes evacuation abroad).

iv. Other allowances, for example, the Rural Hardship Allowance for employees serving at the provincial and district levels, uniform upkeep, tools allowance, extra duty, and commuted overtime were abolished from 1 April 2003, while others, for example, the Funeral Grant, are to be replaced by a contributory scheme. The Rural Hardship Allowance that was paid to classified daily employees has been merged into the salary.

Allowances merged into pay

v. In accordance with PSMD Circular B1 of 2004, from 1 January 2004, in line with the MTPRS, the government merged about 14 allowances payable to police and prisons service personnel into the salary: grade, coxswain, equitation, mental, theatre, fingerprint, protection unit kilometer, body guard, armorer, bandsman, instructor, shift patrol, uniform, and ferrier allowances.

vi. As part of the recommendations under the MTPRS, and in line with the MTEF, government will, from 2005, move toward unified salaries. This, however, is subject to negotiations with public service unions.

2. Fixed-term contracts negotiated with all principal secretaries

All principal secretaries are now employed under three-year contracts. Work to develop performance-related contracts has been completed, and the consultancy report has been reviewed by a committee of principal secretaries. An implementation plan is currently being prepared for consideration and approval by the secretary to the cabinet.

3. Salaries of key technical and professional staff increased, as laid out in the MTPRS

The government has continued implementing the measures put in place to manage the wage bill as indicated in (i) above.

In spite of the challenges encountered with the wage bill, government has made progress, within its capacity, toward this target since the cabinet approved the MTPRS:

i. From 1 April 2003, the salaries of key professional and technical staff were increased by an average of almost 100 percent, whereas those of non-key staff were increased by 35 percent.

ii. Salary scale decompression started on 1 April 2003, when the ratio of top-to-bottom pay rates increased to 13:1 from the previous 8:9:1.

iii. In line with the MTPRS, the salary grading structure of the civil service was reduced from 25 grades to 6 grades, while the number of increments within each grade was increased from 5 to 8; protective services salary scales have been introduced for the police, prisons, immigration, and fire-fighting personnel, with an effective date of 1 April 2004, as recommended under the MTPRS, thus replacing the PF, PS, and PTS salary scales.

iv. Government is undertaking periodic payroll-cleansing exercises, and if this results in savings on personnel emoluments, government will continue with its efforts to enhance salaries of key technical and professional staff.

Establishment and Payroll Control

4. **Effective payroll and establishment control system in place, with no ghost workers, no ghost allowances, and no retrenched staff returning to the civil service**

The implementation of the computer-based PMEC system has reached an advanced stage. The data-cleaning exercise is now routine, which has helped to ensure a close linkage between the establishment and the payroll.

The following are the notable areas:

i. All payrolls, except that of the Ministry of Health, are now on the PMEC.
ii. Data cleaning has now become a routine exercise for the end-users trained. The end-users, who are charged with the responsibility of managing the payroll areas on the system, are drawn from the Human Resources and Accounting cadres.
iii. As a contingency measure, a total of 41 support staff drawn from the Human Resources Information and Planning and Centralized Computer Services Department have been training to ensure that end-users are adequately supported. The cabinet approved the setting up of a separate department to run the PMEC system.
iv. Sensitization workshops were conducted for all key stakeholders, key among them being principal secretaries, chief executive officers, and heads of departments in ministries, institutions, and provinces. The workshops are aimed at: (a) disseminating information on the operation of the PMEC system; (b) impact analysis of the management of payroll and establishment; and (c) management of excess staff that have remained on the old payroll for the areas that are live.

Measure to control illegal employees, allowances, and reentry. In addition to the routine data-cleaning exercise, the PMEC system has other built-in measures that are aimed at ensuring that ghost workers and illegal allowances are completely eliminated, and that there is no reentry of retrenched employees on the payroll.

Illegal employees and allowances. The organizational structure and conditions of service (business rules) as defined in the Establishment Register and Terms and Conditions of Service, respectively, make up the foundation of the PMEC system. The organizational structure is the control that ensures that only employees with authorized positions are allowed on the PMEC system. Unlike the old system, which had no link with the establishment, and therefore could not prevent illegal employees getting on the payroll, the payroll on the PMEC system is driven by the establishment.

At the same time, the Terms and Conditions of Service are the built-in business rules that ensure that employees get authorized allowances. The old system had no means of validating allowances, and allowances were given to employees who did not deserve them. The PMEC system has defined allowances according to positions, salary scale, qualification, and station as part of the business rules. For example, only employees in stations that are classified as rural areas are eligible to get rural hardship allowances.

Other controls on the PMEC system are being enforced by the data-driven nature of the SAP system. There is no more overpayment on such allowances because the period has to be defined, and once the period elapses, the allowance is automatically dropped. The PMEC system is not paying any abolished allowances such as equitation, theatre, production boarding master, and the like that were paid on the old system.

Before the 14 payroll areas went live, the PMEC team ensured that only employees on authorized establishment were migrated to the PMEC system. All the remaining payroll areas that expected to go live before the end of the year will be subjected to the same process. Similarly, for allowances, the built-in controls (defined business rules) are applied once the payroll area is migrated to the PMEC system.

It is difficult to come up with the substantial savings on the illegal employees and allowances at this early stage, considering that only about 4,000 employees are on the PMEC system. However, a more comprehensive and accurate estimate of savings will be known once all the payroll areas are live. Moreover, benefits are already being seen, such as terminations that took a long time on the old system are now been done on time by the newly trained end-users, considering that delays in terminations account for the largest number of illegal employees on the payroll.

The end-users drawn from the Human Resources and Accounting cadres are now responsible for their payroll areas, with Human Resources taking a prominent role. They are responsible for ensuring that all employees that are retired, deceased, resigned, and dismissed are terminated from the system on time. End-users are now aware that if terminations are not done on time, the system will not allow them to transfer or promote, because the PMEC system will mark such positions as occupied. In addition, a group of super-users are monitoring end-users to ensure that they perform their duties diligently and do not abuse the system.

Reentry of retrenched civil servants into the system. The PMEC system will be used to perform some verification on retrenched employees who decide to return, to ensure that they do not find their way back on the payroll. The verifications will be performed against termination records on the system. According to the PMEC system operational requirement, all the termination records will be archived for a period of 10 years.

Financial and Policy Management

5. The MTEF will replace the cash budget as the basis for disbursement in the fiscal year that includes the final year of the project, Phase I

As reported in the last update, this trigger has been met. The MTEF-based budget for 2004–06 was the first one to be implemented, and the 2004 budget was the first MTEF-based budget.

i) The retooled ABB software has been installed in all ministries and provinces. This enabled ministries and provinces to prepare their 2005 budgets from their stations.

ii) The detailed review of the MTEF process reported in the last update has facilitated the development of the 2005–07 MTEF and the 2005 budget. The Green Paper is currently undergoing consultations, and comments from the consultative process are being incorporated in the budget.

iii) Sensitization and training programs have commenced for officers at the district level.

6. All proposals with financial implications made to the cabinet over the past year cleared by the MOF for concurrence with the budget agreed under the MTEF

All cabinet memos have a statement that the MOF has cleared the memo before it is taken to the cabinet. The linkage between the cabinet and the budgeting process has been strengthened, because the cabinet in general, and the Estimates Committee in particular, is involved throughout the budgeting process under the MTEF.

Furthermore, strong institutional ties between the Cabinet Office (through the Policy Analysis and Coordination Division and the Management Development Division) and the MOF have been strengthened, because the MTEF team spearheading the development of the MTEF includes representatives from the Cabinet Office. Both institutions are committed to ensuring that future policy and other proposals forwarded to the cabinet are grounded in the budget and MTEF.

Financial Management and Accountability

7. The 2001 end-of-year financial statements for the seven ministries piloting the Performance Improvement Fund ready for review by the auditor general within six months

This trigger has been met. The auditor general report on the audit of government accounts was tabled two days (29 December 2003) before the deadline (31 December 2003) for the first time.

Table B.3. Complementary World Bank Support for Public Sector and Public Financial Management through Development Policy Operations

FY	*Project name*	*Prior action*
2012	**PRSC-3**	The recipient, through MOF, has: (a) operationalized the integrated financial management information system in at least 15 sites.
		The recipient, through MOF has: (b) submitted, to its cabinet the draft public financial management strategy designed to strengthen financial management in the public sector.
		The recipient, through PSMD, has: (a) completed the job evaluations for the public service.
		The recipient, through PSMD, has: (b) designed new pay structures for the public service.
		The recipient, through the Zambia Public Procurement Authority, has: (a) finalized and published the procurement regulations designed to increase transparency, competition, and efficiency in public procurement.
		The recipient, through the Zambia Public Procurement Authority, has: (b) updated and commenced implementation of the Procurement Reform Action Plan for the years 2011–13, and commenced decentralization.
2011	**PRSC-2**	The recipient has demonstrated enhanced predictability of budget execution as reflected by the fact that, during fiscal year 2009, at least 85 percent of budget heads expended between 95 percent and 105 percent of their total budgetary allocated funding for said year, as maintained to the date of this agreement.
		The recipient has reduced the arrears owed by the central government to the Public Service Pension Fund from K 93 billion at the end of fiscal year 2008 to not more than K 67 billion by the end of fiscal year 2009, as maintained to the date of this agreement.
		The recipient, through the MOF, has submitted to the cabinet a draft comprehensive pay policy designed to restructure the public service and supporting creation of an efficient and motivated workforce.
		The recipient, through the Zambia Public Procurement Authority, has drafted and submitted procurement guidelines to its Ministry of Justice designed to increase transparency, competition, and efficiency in public procurement.
2010	**PRSC-1**	The recipient has demonstrated more predictability of budget execution as reflected by the fact that, during fiscal year 2008, at least 82 percent of budget heads expended between 95 percent and 105 percent of their total budgetary allocated funding for said year.
		The recipient has reduced domestic arrears to suppliers from K 376 billion in 2007 to K 193 billion at the end of 2008.
		The recipient, through MOF, has finalized the draft comprehensive pay policy dated April 2009, aimed at restructuring the public service and supporting creation of an efficient and motivated workforce.
		The recipient, through MOF, has reduced the arrears owed to the Public Service Pension Fund from K 305 billion in 2007 to not more than K 93 billion by the end of 2008.
2008	**Second Economic Management**	The recipient has implemented a payroll management and establishment control system in six additional central spending agencies, enabling the human resource officers to directly access the system.

	and Growth Credit	
		The recipient has ensured more predictability of budget execution by providing to 34 out of 49 budget heads with annual calculated expenditures of between 95 and 105 percent of the total funding for fiscal year 2006.
		The recipient has reduced domestic arrears to suppliers with: (i) stocks diminishing from K 532.8 billion at the end of 2005 to equal or less than K 491.8 billion at the end of 2006; (ii) K 147 billion released to further pay down the arrears in 2007; and (iii) a commitment expressed in the 2008–10 MTEF/Green Paper and the 2008 budget to reduce these arrears to negligible levels by 2009.
		The MOF has implemented a phased reduction of arrears of contributions owed by the government to the Public Service Pension Fund with: (i) stocks diminishing from K 464 billion at the end of 2005 to equal to or less than K 388 billion at the end of 2006; (ii) K 112 billion released to further pay down arrears in 2007; and (iv) a commitment expressed in the 2008–10 MTEF/Green Paper and the 2008 budget to reduce these arrears to negligible levels by the end of 2008.
2005	**Economic Management and Growth Credit**	The cabinet has agreed that it will approve any supplemental to the budget prior to the occurrence of spending, and that such a supplemental would show not only where spending will increase, but also where it will be reduced as a result.
		The cabinet has approved for submission to Parliament a revised Finance Act that strengthens financial management and accountability, including provisions that:·(i) define the role and functions of the Treasury; (ii) strengthen the role of internal audit through establishment of audit committees; (iii) define the responsibilities of the Accountant General's Department; (iv) enhance provisions for oversight of statutory corporations, and (v) prohibits expenditures from being incurred that exceed the appropriation.
		MOF has (i) transferred the payroll to the PMEC system; (ii) trained users for all central ministries; (iii) based personal emolument releases on PMEC; (iv) matched each public servant to a specific post on the establishment; and (v) ceased to pay public servants whose posts are not on the establishment, except those identified for retrenchment but not yet paid off.
		MOF submitted a Green Paper to the cabinet in the third quarter of 2004 with three-year indicative budget ceilings for each ministry, inclusive of ceilings for personal emoluments.
		MOF has tabled in the borrower's legislature the annual budget for 2005, including an annex that compares the estimated expenditures for the year 2005 with the budget releases for the years 2004 and 2003. This would be presented in a summary table aggregated by budget head, showing the personal emolument and non–personal emolument spending from government resources.
		PSMD in the Cabinet Office has consolidated most allowances into base salary and reduced the overall ratio of allowances to base salary subject to negotiations with public service unions and the identification of their fiscal implications.
		The Bank of Zambia, MOF, and the Development Bank of Zambia have signed an MOU that specifies the supervisory role of the Bank of Zambia and the MOF with regard to the Development Bank of Zambia until that bank falls under the Banking and Financial Services Act.
		The MOF has adopted a time-bound restructuring plan for payment of the government's arrears to utility and insurance companies.

		The MOF has submitted recommendations to the Constitutional Review Committee that would (i) enable the budget to be approved by Parliament before the start of the fiscal year; (ii) enhance accountability for public expenditure by restricting retroactive approval of supplementary appropriations; and (iii) the Office of the Auditor General has submitted its recommendations to the Constitutional Review Committee on enhancing its autonomy and expanding its duties.
2000	**Fiscal Sustainability Adjustment Credit**	Agreed with IDA on staff retrenchment plans at the National Pension Scheme Authority, including clear and transparent retrenchment criteria prepared by the management of the Authority.
		Agreed with IDA on the technical details of implementing the proposed changes in budget management as described in paragraphs 69-72 above.
		The Bank of Zambia to install a new system of cash management that minimizes the cost of idle governmental balances at commercial banks, consistent with the provisions of the LDP.
		Complete a review of 2000 mid-year budget in accordance with the provisions of the LDP
		Furnish a plan for the restructuring of ZR in accordance with the LDP.
		Furnish evidence showing that National Pension Scheme Authority has satisfactorily carried out its redundancy plan in accordance to the LDP.
		Implement new system for quarterly cash allocation to improve the predictability, accountability, and transparency of public spending, including appropriate control of commitments.
		Share of social sectors has been protected in the 2000 budget, as revised during the mid-year review of the budget and in accordance with the provisions of the LDP.
		Submit to Parliament amendments to enhance Bank of Zambia's authority to take control of banks and to ensure that any new guarantees given by bank shall be made only when adequate provisions have been made in its annual budget to indemnify the bank against any probable loss arising from such guarantees.
		Submitted a plan to alter cash management practices in relation to ministerial accounts held at commercial banks so as to minimize the arbitrage opportunity that presently exists.
		Submitted to the cabinet proposed amendments to the Banking and Financial Services Act to enhance the Bank of Zambia's powers to act promptly and effectively to sanction banks.
1999	**PSREP (ESAC III)**	Implement public service reform
		Social sector funding in 1999 budget has been at least 36 percent of non–debt service domestic expenditure

Source: Operations Policy and Country Services (World Bank) Prior Action Database.

Table B.4. PDO Indicators

Indicator	*Baseline*	*Target*	*Actual*
Indicator 1	**Ratio of total public wage bill to public service head count reaches 15 percent in real terms.**		
Value	1:$188	1:$226	N/A

Date	4/30/2005	12/31/2010	6/30/2012
Comments	Not achieved.		
Indicator 2	**Strategic planning, business planning and performance planning, hierarchy, and processes aligned with and linked to the MTEF process.**		
Value	0	100 percent	100 percent
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	Integrated planning and MTEF framework implemented in all ministries and two provinces.		
Indicator 3	**Government PEM framework characterized by full MTEF structure adopted in all ministries, departments, and institutions and major parastatals.**		
Value	MTEF operational in five ministries.	All ministries and provinces	MTEF planning process in all ministries and nine provinces.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	N/A		
Indicator 4	**MTEF based on central government-wide IFMIS.**		
Value	MTEF now partially based on FMS.	All ministries, departments, institutions, and major parastatals	MTEF planning process in all ministries and line provinces
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	MTEF rolled out and is a principle budgeting tool for central government. MTEF has also been rolled out to pilot local governments in preparation for fiscal decentralization.		

Source: World Bank (2013c).

Table B.4. Intermediate Outcome Indicators

Indicator	*Baseline*	*Target*	*Actual*
Indicator 1	**Consistent, modernized, and harmonized legal framework for public expenditure management (parliamentary approval and implementation of revised Finance Act and revised regulations in line with PEMFA reforms).**		
Value	PEMFA reforms not incorporated in Finance Act and Regulations.	1. Revised Finance Act and regulations presented to cabinet for approval (June 30, 2007). 2. Formal consultative mechanisms agreed for financial legislative drafting implemented (Dec. 31, 2007). 3. Public Finance	Partially achieved. Not all PEMFA-supported reforms were included in revised Finance Act. May 31, 2012

		Legislation harmonized (June 30, 2010).	
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	Major provisions not included in the Finance Act and Regulations relate to transacting in a computerized environment as IFMIS is implemented. Legislative changes required have been identified, but bill not amended.		
Indicator 2	**Institutional arrangements and mechanisms implemented that better link the Department of Economic and Technical Cooperation (ETC) to Budget Office and donors**		
Value	Institutional arrangements for donor coordination with ETC are ad hoc and poorly formalized.	All Financial Act–related bills submitted to Parliament.	Partially achieved. ETC produces annual monitoring reports on donor coordination and assistance. Coordination assistance developed around the direct budget support process and implementation of PEMFA.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	Government still maintains that the transaction costs of dealing with donors are high and processes are not efficient.		
Indicator 3	**Internal audit capacity developed through implementation of computer-aided techniques (CAAT) and associated audit enhancements across the public service.**		
Value	CAAT minimally used and staff not trained in applying CAAT.	1. CAAT procedures manuals produced and distributed (Dec. 31, 2006). 2. Revised annual audit work plans based on CAAT developed and implemented in line with CAAT rollout (Jan. 2007 to Dec. 2008). 3. 90 percent of internal audit reports produced within 120 days.	Internal auditors trained in CAAT; CAAT techniques incorporated in planning and execution of audits.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	Controller of internal audit noted, but only a small number of internal auditors have the efficiency of using the tool effectively. Training of staff ongoing and more training planned in follow-on program.		

Indicator 4	**A public service at national and subnational levels that has a sustainable, efficient, and effective establishment that meets the government's service delivery goals.**		
Value	Public service establishment characterized by substantial number of unpaid retrenched staff, especially at subnational levels.	Percentage of staff leaving restructured positions in ministries falling to 10 percent.	Indicator not met because the decentralization policy approved in 2004 was not implemented.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	N/A		
Indicator 5	**Payroll and establishment efficiently managed and controlled at the central line ministry and at provincial levels through integrated computer-based systems.**		
Value	Payroll and establishment control operational at ministry level only.	Payroll and establishment control rolled out to all provinces and districts.	Achieved: PMEC system implemented at central ministry level and decentralized to all provinces.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	N/A		
Indicator 6	**Development and implementation of a domestic debt management policy.**		
Value	No domestic debt management or debt market policy in existence.	Debt management and market policies incorporated in MTEF and macroeconomic analytical frameworks.	Achieved: Debt management policy developed, approved, and used for planning tools. Database has been maintained for foreign debt and spreadsheet used for domestic debt. Government plans to upgrade to Debt Management and Financial Analysis System (DMFAS) 6.0.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	DMFAS 6.0 will incorporate government foreign as well as domestic debt data. Changes to Loans and Guarantees Act identified, and revised law developed.		
Indicator 7	**A multiyear planning framework and macroeconomic model in place.**		
Value	Simple macroeconomic framework produced.	Production of multiyear planning framework and implementation of a macroeconomic model to forecast national and global policy impact on budget.	Achieved: Multiyear macroeconomic model (ZAMMOD) developed and used for macroeconomic modeling for Sixth National Development Plan and MTEF from 2010.
Date achieved	4/30/2005	12/31/2010	6/30/2012

Comments	N/A		
Indicator 8	**Implementation of an approved establishment and removal of excess staff from the payroll identified at project-design stage.**		
Value	Approximately 8,000 staff identified for either redeployment or separation.	Payment of staff identified for retrenchment through rightsizing.	As of Dec. 2012, 830 former employees in the water sector and 400 from the road sector were paid retrenchment packages. A further 100 from the road sector were paid using government resources. Wage bill was reduced, but not as substantially as anticipated.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	N/A		
Indicator 9	**Strategic planning and performance management systems institutionalized in the central ministries.**		
Value	Strategic planning system not linked to performance-related pay structure or MTEF framework	Performance-based pay salary component in 50 percent of ministries linked to the strategic and work plan processes by June 30, 2010.	Not achieved, although all central ministries prepare five-year strategic plans, but not yet linked to performance management.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	Under the project, 21 ministries and 17 institutions had their strategic plans reviewed. These plans inform the preparation of annual work plans and activity-based budget.		
Indicator 10	**A comprehensive pay policy designed for all and implemented for managerial and professional staff.**		
Value	Pay policy is inconsistent and lacks coherence.	An optional performance-related pay structure implemented by 2008–09.	Achieved: Comprehensive pay policy was finalized and approved by cabinet in 2009, but implementation only commenced in May 2012.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	Because of the lag between the approval of the pay policy and the implementation, the pay policy implementation plan had to be revised and updated. Government proposes to establish a Remuneration Commission to oversee pay policy. Follow-on technical assistance possible.		
Indicator 11	**Transformation of the Zambia National Tender Board (ZNTB) oversight body for government procurement through review of Procurement Act and decentralization of procurement function.**		

Value	ZNTB authority over government procurement restricted by Procurement Act.	Revised Procurement Act submitted to cabinet by June 2006, decentralized procurement functions to ministries and spending agencies by Jan. 2007. Procurement and Supplies Units (PSUs) established an all ministries and spending agencies. Eighty PSUs established and operational (Dec. 2008).	New Public Procurement Act assented by president in 9/2008 and enacted into law in 12/2008. Procurement regulations finalized and published 7/2010 and statutory instrument passed. All ministries and spending agencies have PSUs, though not all are operating to highest rating.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	National standard bidding documents finalized, launched, and disseminated to all procurement entities, December 2012. Procurement fully decentralized, January 2013. Zambia Public Procurement Authority draft strategy to implement new functions prepared in 2011.		
Indicator 12	**Development of the capacity of OAG to substantially execute the accountability role required of Supreme Audit Institution as called for in Article 26 of the Lima Declaration.**		
Value	OAG provincial offices not professionally staffed; value for money auditing not implemented; audit standards, audit manuals, and guidelines do not reflect contemporary public service audit best practice.	Eighteen professional audit staff based in provincial offices with a minimum of 1 per office. Value for money auditing increased by 20 percent (June 30, 2007). New code of ethics and audit standards, audit manuals, and guidelines implemented in OAG (June 30, 2008).	Partially achieved: five provincial offices constructed enabling OAG to establish a presence in all nine provinces. All provincial offices built have at least one qualified auditor. Implementation of value for money and performance audit increased.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	Few auditors in OAG with capacity to carry out value for money and performance audit. Capacity building still necessary.		
Indicator 13	**IFMIS fully implemented in five key ministries and piloted in two district agencies by the fiscal year of the project.**		
Value	IFMIS not implemented in any ministries.	IFMIS piloted in eight ministries in two provinces by 2008.	IFMIS implemented in 28 sites, including 24 ministries and 2 provinces.
Date achieved	4/30/2005	12/31/2010	6/30/2012
Comments	After numerous delays, the government was able to get IFMIS implementation back on track with Bank support after project was extended. Nine more sites were rolled out in Jan. 2013. Follow-on operation in preparation.		

Indicator 14	**Full implementation of FMS with activity-based budgeting (ABB) in all districts and 10 spending offices.**		
Value	ABB operational in all central ministries, departments, and agencies.	ABB implemented in 9 provinces, 20 districts, and 5 large spending agencies.	Partially achieved: FMS migrated to nine provinces. Central government departments at central level using MTEF for budget cycle.
Date achieved	4/30/2005	12/31/2010	6/30/2012

Source: World Bank 2013b.

Appendix C. Progress by PEFA Cluster

This appendix clusters the PEFA indicators by (i) strategic budgeting; (ii) budget preparation; (iii) resource management; (iv) internal control and management; (v) accounting and reporting; and (vi) external evaluation following Andrews (2010). Numerals are used to allow averaging out across dimensions.[36] There is some overlap across dimensions, because some dimensions contribute across clusters.

Table C.1. PEFA Scores in Strategic Budgeting

Dimension	*2005*	*2008*	*2012*	*2005-12*	*2008*
PI-12 (i) Preparation of multi -year fiscal forecasts and functional allocations	2	2	2	=	2
PI-12 (ii) Scope and frequency of debt sustainability analysis	4	3	3	↓	3
PI-12 (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	2	4	4	↑	4
PI-12 (iv) Linkages between investment budgets and forward expenditure estimates	2	3	3	↑	3
Average total	2.5	3.0	3.0	↑	3.0

Source: GoZ (2005, 2008, 2012).

Table C.2. PEFA Scores in Budget Preparation

	Dimension	*2005*	*2008*	*2012*	*2005-12*
Budget preparation	PI-11 (i) Existence of and adherence to a fixed budget calendar	3	2	2	↓
	PI-11 (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	4	4	4	=
	PI-11 (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	1	1	4	↑
	PI-5 (i) The classification system used for formulation, execution, and reporting of the central government's budget	2	4	3	↑
	PI-6 (i) Share of the listed information under PI-6 in the PFM PMF booklet in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)	3	3	2	↓
	PI-8 (i) Transparent and rules-based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	1	3	3	↑
	PI-8 (ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year	2	1	2	=

[36] Numerical scores are applied to allow for averaging. The PEFA score "A" is given the highest value of "4," and the PEFA score "D" is given the lowest value of "1."

	PI-10 (i) Number of the above-listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	3	4	3	=
	PI-D2 (i) Completeness and timeliness of budget estimates by donors for project support	2	3	3	↑
	Subtotal average	**2.3**	**2.8**	**2.9**	↑
Legislative budget deliberation	PI-27 (i) Scope of the legislature's scrutiny	2	3	3	↑
	PI-27 (ii) Extent to which the legislature's procedures are well-established and respected	2	3	3	↑
	PI-27 (iii) Adequacy of time for the legislature to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	4	4	4	=
	PI-27 (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	2	2	2	=
	PI-11 (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	1	1	4	↑
	Subtotal average	**2.2**	**2.6**	**3.2**	↑
	Average total	**2.3**	**2.7**	**3.0**	↑

Source: GoZ (2005, 2008, 2012).

Table C.3. PEFA Scores in Resource Management

	Dimension	***2005***	***2008***	***2012***	***2005-12***
Inflows (taxes)	PI-13 (i) Clarity and comprehensiveness of tax liabilities	3	3	3	=
	PI-13 (ii) Taxpayer access to information on tax liabilities and administrative procedures	3	3	3	=
	PI-13 (iii) Existence and functioning of a tax appeals mechanism	3	3	3	=
	PI-14 (i) Controls in the taxpayer registration system	2	2	2	=
	PI-14 (ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	2	3	3	↑
	PI-14 (iii) Planning and monitoring of tax audit and fraud investigation programs	3	3	4	↑
	PI-15 (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	1	2	NR	NA
	PI-15 (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	3	3	3	↑
	PI-15 (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury.	4	3	3	↓
	PI-17 (i) Quality of debt data recording and reporting	2	2	2	=

	PI-17 (ii) Extent of consolidation of the government's cash balances	2	2	2	=
	Average subtotal	2.5	2.6	2.8	↑
Donors	PI-D1 (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)	1	2	3	↑
	PI-D1 (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	1	1	1	=
	PI-D2 (i) Completeness and timeliness of budget estimates by donors for project support	2	3	3	↑
	PI-D2 (ii) Frequency and coverage of reporting by donors on actual donor flows for project support	1	1	1	=
	PI-D3 (i) Overall proportion of aid funds to central government that are managed through national procedures	1	2	2	↑
	Average subtotal	1.2	1.8	2	↑
Outflows (cash)	PI-16 (i) Extent to which cash flows are forecast and monitored.	2	3	3	↑
	PI-16 (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitments	1	1	2	↑
	PI-16 (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of Ministries Departments and Agencies	2	2	2	=
	PI-27 (iv) Rules for in-year amendments to the budget without ex ante approval by the legislature	2	2	2	=
	PI-17 (i) Quality of debt data recording and reporting	2	2	2	=
	PI-20 (i) Effectiveness of expenditure commitment controls	2	2	2	=
	PI-D1 (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	1	1	1	=
	Average subtotal	1.7	1.9	2	↑
Procurement	PI-19 (i) Transparency, comprehensiveness, and competition in the legal and regulatory framework	1	NA	3	↑
	PI-19 (ii) Use of competitive procurement methods	2	NA	1	↓
	PI-19 (iii) Public access to complete, reliable, and timely procurement information	2	NA	1	↓
	Average subtotal	1.7	NA	1.7	=
HR / Payroll	PI-18 (i) Degree of integration and reconciliation between personnel records and payroll data	2	4	4	↑
	PI-18 (ii) Timeliness of changes to personnel records and the payroll	1	1	2	↑
	PI-18 (iii) Internal controls of changes to personnel records and the payroll	1	4	4	↑
	PI-18 (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	2	3	4	↑

	Average subtotal	1.5	3	3.5	↑
	Average total	1.8	2.3	2.4	↑

Source: GoZ (2005, 2008, 2012).

Table C.4. PEFA Scores for Internal Control, Audit, and Monitoring

	Dimension	***2005***	***2008***	***2012***	***2005-12***
Internal controls	PI-20 (i) Effectiveness of expenditure commitment controls	2	2	2	=
	PI-20 (ii) Comprehensiveness, relevance, and understanding of other internal control rules/ procedures	2	3	3	↑
	PI-20 (iii) Degree of compliance with rules for processing and recording transactions	2	2	2	=
	Average subtotal	**2.0**	**2.3**	**2.3**	↑
Internal audit	PI-21 (i) Coverage and quality of the internal audit function	1.0	3.0	3.0	↑
	PI-21 (ii) Frequency and distribution of reports	3.0	3.0	3.0	=
	PI-21 (iii) Extent of management response to internal audit findings	2.0	2.0	2.0	=
	Average subtotal	**2.0**	**2.7**	**2.7**	↑
Monitoring	PI-4 (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	1.0	3.0	2.0	↑
	PI-9 (i) Extent of central government monitoring of AGAs and PEs.	2.0	2.0	2.0	=
	PI-9 (ii) Extent of central government monitoring of SN government's fiscal position	2.0	2.0	2.0	=
	Average subtotal	**1.7**	**2.3**	**2.0**	↑
	Average total	**1.9**	**2.4**	**2.3**	↑

Source: GoZ (2005, 2008, 2012).

Table C.5. PEFA Scores for Accounting and Reporting

	Dimension	***2005***	***2008***	***2012***	***2005-12***
Accounts reconciliation	PI-22 (i) Regularity of bank reconciliations	3	4	4	↑
	PI-22 (ii) Regularity of reconciliation and clearance of suspense accounts and advances	2	2	2	=
	Subtotal average	**2.5**	**3**	**3**	↑
In-year reporting	PI-24 (i) Scope of reports in terms of coverage and compatibility with budget estimates	3	2	2	↓
	PI-24 (ii) Timeliness of the issuance of reports	4	2	2	↓

	PI-24 (iii) Quality of information	2	2	2	=
	Subtotal average	**3**	**2**	**2**	↓
Annual reporting	PI-25 (i) Completeness of the financial statements	3	2	2	↓
	PI-25 (ii) Timeliness of submission of the financial statements	3	3	3	=
	PI-25 (iii) Accounting standards used	2	2	3	↑
	Subtotal average	**2.7**	**2.3**	**2.7**	**=**
Special reporting	PI-4 (ii) Availability of data for monitoring the stock of expenditure payment arrears	3	4	4	↑
	PI-7 (ii) Income/expenditure information on donor-funded projects that is included in fiscal reports	2	3	1	↓
	PI-8 (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government, according to sectoral categories.	1	1	1	=
	PI-9 (i) Extent of central government monitoring of AGAs and PEs	2	2	2	=
	PI-9 (ii) Extent of central government monitoring of SN government's fiscal position	2	2	2	=
	PI-10 (i) Number of the above-listed elements of public access to information that are fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	3	4	3	=
	PI-23 (i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	2	3	3	↑
	Subtotal average	**2.1**	**2.7**	**2.3**	↑
	Average total	**2.6**	**2.5**	**2.5**	↓

Source: GoZ (2005, 2008, 2012).

Table C.6. PEFA Scores for External Accountability

	Dimension	*2005*	*2008*	*2012*	*2005-12*
External audit	PI-26 (i) Scope/nature of audit performed (including adherence to auditing standards)	3	3	3	=
	PI-26 (ii) Timeliness of submission of audit reports to legislature	4	3	3	↓
	PI-26 (iii) Evidence of follow-up on audit recommendations	3	3	3	=
	Subtotal average	**3.3**	**3.0**	**3.0**	↓
Legislative audit analysis	PI-28 (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	2	2	2	=
	PI-28 (ii) Extent of hearings on key findings undertaken by the legislature	4	4	4	=
	PI-28 (iii) Issuance of recommended actions by the legislature and implementation by the executive	3	3	3	=
	Subtotal average	**3.0**	**3.0**	**3.0**	**=**
	Average total	**3.2**	**3.0**	**3.0**	↓

Source: GoZ (2005, 2008, 2012).

Appendix D. IFMIS Design, Implementation, and Utilization

Work on the Zambia IFMIS started under the PSCAP, a 13-year APL launched in 2000, which closed in June 2005. The PSCAP was intended to put in place critical system-wide reforms, including the basic financial management, accountability, transparency, personnel, and other systems, and begin to rationalize staffing, reform pay, introduce more effective management of payroll and establishment, replace the cash budget, and improving financial management systems.

Under the Public Sector Management Program Support Project (PSMP-SP), which was the second phase of the APL and ran from January 2006 to June 2012, the intervention aimed to develop the government's capacity to manage expenditure on the basis of the MTEF, and roll out the systems developed and piloted during Phase I throughout government, including the line ministries, departments, and agencies.

It now continues under the Public Financial Management Reform Program, PFMRP–Phase 1, which is to run from April 2014 to December 2017.

Over this 17-year period, the total investment in IFMIS-related activities under these projects will be US$37.9 million.[37] In addition, DFID is stated to have spent about US$8.0 million on the design and development of an establishment and payroll management system, and the government has spent a significant amount of money from its own resources,[38] which could be another US$6.0. Total investment in systems-related work is estimated at around US$50.0 million.

The systems-related activities under these projects were designed to put in place the basic information systems that would be needed to support the policy, institutional, and procedural reforms envisaged. They have involved work in three related areas:

1. Design and implementation of a basic transaction recording system, the FMS, which was considered to be an important interim step toward the eventual implementation of the full-function IFMIS
2. Design and implementation of a full-function, integrated, and automated financial management system (IFMIS) to ensure efficient and effective use of public resources
3. The development and implementation of a payroll management and establishment control system (PMEC), to improve and rationalize administration of the payroll and establishment.

[37] FMIS database 2014—maintained by Cem Dener.

[38] The exact amount of government-financed investment is not readily available. However, the amount cited is an amount that was paid by the government to the contractor and not reimbursed from the pooled funds for reasons discussed later in this paper.

Commitment Control and Financial Management System (FMS)

The FMS is an in-house accounting system that was developed in 2002, and subsequently rolled out to all the ministries in 2003 under PSCAP. The purpose *was to implement more effective financial management, accounting, and commitment control.* PSCAP had also supported the design and implementation of a commitment control system, which seeks to control expenditure to the quarterly allocation ceilings as a measure to curb domestic arrears. The PSMP-SP envisaged an integration of the commitment control system into the FMS and the rollout of the upgraded system to all central spending agencies and provinces. It was also envisaged that the FMS Chart of Accounts would be synchronized with that used in the ABB system, which had also been developed under PSCAP and was used for budget preparation. It was expected that this would result in a fully automated commitment control system, a retooled FMS to take into account the ABB budgeting process (World Bank 2005).

The implementation of a basic system such as the FMS was considered to be an important interim step toward the eventual implementation of the full-function IFMIS, insofar as it would help identify core information and account processing requirements, and its implementation would go a long way toward contributing to the development of the functional specification of the IFMIS modules and preparing staff for the transition to a fully computerized accounting and reporting environment.

Issues with FMS functionality

The implementation strategy adopted under PSCAP and PEMFA, to start off with an interim, basic custom-developed system (FMS) until a full-function IFMIS is procured and implemented (which could take several years) was practical and reasonable. Such a strategy has also been used elsewhere in Bank-financed public expenditure management projects such as those in as Russia and Kazakhstan. In these countries, locally developed interim systems were used to support core budget execution processes until the procurement and implementation of a full-function system based on Oracle Financials was ready for use.

However, a key difference with the Zambia FMS[39] was that the interim systems in these other countries were based on **ex ante control of transactions**. All expenditure requests needed to be entered in the system prior to payment, and would be approved for payment only after a budget and a funds availability check was done by the system. Ex ante control of transactions enabled the Treasury and Budget Department to exercise budget and cash control. If commitment control was also being implemented, then commitments (purchase order) needed to be recorded in the system and would block funds corresponding to the purchase order to ensure their availability when an invoice came up for payment, thereby ensuring that arrears would not be built up. The FMS and the commitment control system, however, are both based on an ex post recording of expenditure transactions **after they have been paid.**

[39] It may be noted that the FMS design approach used in the Zambia project is common to several other projects in African countries undertaken at this time, including Kenya and Ghana.

Under this mode of operation, the system cannot be used to implement commitment, or even basic budget or cash control. A system based on ex post recording of transactions does not have the capacity to enforce/implement budget, cash, or commitment control and its implementation gives only the illusion that such control is being practiced. The FMS would just be providing information on the budget and commitment ceilings, but not enforcing them.

Further, the implementation of the IFMIS was intended to be restricted to the central and provincial levels of government, and the FMS was supposed to continue to be used at the district levels, even after the IFMIS became available. Data from the FMS was subsequently supposed to be uploaded into the IFMIS to produce government-wide budget execution reports**.** Combining FMS data—which has no controls and can therefore not guarantee completeness or authenticity—with IFMIS data—which does have ex ante transaction control—jeopardizes the integrity of the IFMIS data and the resulting combined budget execution reports.

Other countries with separate systems at the district level, including Ghana and Malawi, are making significant inroads in rolling out the central systems to districts. If there is insistence that a simpler system is needed and only such a system can be implemented, then at least it must be assured that this system encompasses the core functional processes of budget execution and practices ex ante control of transactions. A good example is the use of the Serenic Navigator system used at the district level in Malawi.

Integrated Financial Management Information System

A pilot phase commenced during fiscal year 2003 under PSCAP and envisaged the implementation of a systemic core IFMIS with procedural, human resource, and legislative reforms in the areas of planning, budgeting, financial management, accounting, internal auditing, and financial reporting. It was expected that: (1) the IFMIS would be piloted in five ministries (and subsequently rolled out to all ministries, provinces, and spending agencies before being integrated with the systems of other institutions such as local authorities, grant-aided institutions, and parastatals in the next phase; (2) a government-wide area network would be implemented; (3) a well-conceptualized, documented, and a comprehensive ICT strategy would be developed; (4) a trained cadre of information technology and FMS experts in GoZ government would be put place; (5) the government's Information Technology Unit (CSSD) would be restructured and its staff trained to be able to support IFMIS after implementation. This department would also be expected to coordinate the full rollout of the IFMIS to other ministries, departments, and spending agencies; and 6) an updated government financial regulations manual would be developed.

Comments on design

Several policy and institutional prerequisites need to be in place before work can start on the actual system implementation. These include:

- A Budget Management Law that provides the legal basis for financial management and provides the basic controls that are to be applied to the use and management of government funds
- A budget classification structure and accounts classification that enables consistent recording and reporting in accordance with these requirements
- Institutional arrangements for banking government funds and processing expenditure and receipt transactions, as laid out in the Budget Management Law.
- A review of the functional processes and information flows and their information requirements for specific functions and identifying related issues. This would be followed by a redesign of these processes *where necessary*. The redesigned processes, information flows, and information requirements would form the basis for the definition of the overall information architecture for financial management and the actual design of the information systems modules to support the functional processes for a specific function.

It is only after the above requirements have been met or are at least well advanced that the selection, procurement, and implementation of the appropriate technology should proceed (see Hashim 2014).

Comparing the Zambia implementation against this list, it is noted that:

- The necessity of revising the Finance Act and associated regulations and manuals was recognized. The Finance Act was revised in 2012, but not all of the reforms required to implement a good budget execution system based on ex ante control of expenditure transactions were included. Nevertheless, a start has been made, although further work needs to be done.
- The systems that were envisaged under this component were to use the Chart of Accounts and budget classification structure designed and adopted under the implementation of the ABB program, which preceded it. The importance of these aspects was recognized in the design.
- However, neither the PSCAP nor the PEMNA financial management components discussed the issues related to banking arrangements for government funds or had any plans to establish a TSA.
- Even though the project documents state that the design of the IFMIS would be based on the functional requirements for financial management and would not be information technology–driven, there is little evidence that this has indeed been so.

A "black box" approach to the IFMIS appears to have been adopted in the contractual and implementation arrangement, which assumes that if a comprehensive off-the-shelf ERP package is selected and implemented in its entirety, this implementation would correspond to actual government and user requirements. However, this is rarely so, since significant government-specific configuration and parametrization is necessary, and if this is not understood at the outset by the system implementers, considerable time is lost in repeated configuration exercises, which can lead to additional costs in the form of variation orders to the contract.

The second disadvantage to this implementation approach is that it does not prioritize the implementation of the modules. In practice, it is always necessary to first get the modules dealing with core budget execution processes in place, functioning, and stabilized before embarking on the implementation of non-core modules such as fleet management. The simultaneous implementation of all modules, as attempted in this project, placed great strains on the capacity available, which delayed implementation for several years. It was only toward the end, when the project was refocused to cater to core functional processes first and was extended by two years that some implementation progress was seen.

Payment and Treasury Management

The policy and institutional infrastructure, which includes government banking arrangements and the setting up of a TSA, is a prerequisite for the effective functioning of an IFMIS. Without this, improvements expected from an IFMIS will be restricted to efficient transaction processing, and it could actually be counterproductive from a fiscal standpoint, because it could lead to a situation that increases the speed of the fiscal hemorrhage.

At the start of the project, Zambia had a decentralized payment system, with each department responsible for its own payments. Departments were issued checkbooks by the MOF, and government bank accounts were controlled by the accountant general. In 1999 the government had some 204 bank accounts, 99 of which were at the Bank of Zambia. Except for payments for personal emoluments, line ministries made payments from their subaccounts at the Bank of Zambia. Funds were disbursed to ministerial subaccounts ("control accounts" 1-99) from the general revenue account (account 99). Ministries held separate accounts for recurrent and capital expenditures. In addition, subaccounts for donor projects were kept at the Bank of Zambia. Personal emoluments were paid from a central account controlled by the MOF (World Bank 1998).

At this time, the lack of information on balances in linked line ministry accounts at the ZRB and bad cash management caused repeated payment problems, and government checks bounced regularly. On average, 100 of 3,500 checks bounced every day. Bounced checks were returned to MOFED rather than the issuing line ministry. As a result, the line ministry remained unaware of the lack of funds and continued to write uncovered checks. Ministries also held a variety of accounts at commercial banks. These accounts were used to facilitate payments in remote areas. They were also used for revenues that line ministries considered nongovernment revenues (World Bank 1998).

In order to cut down on bounced checks and make the ministries more responsible for their payments, the government moved to a more decentralized system where the line ministries could transfer the amounts in their linked accounts at the ZRB to their commercial bank accounts. The government also decided to decentralize payroll payments for personal emoluments in order to increase line ministries' responsibilities for their payrolls and provide incentives to save on personnel by removing ghost workers and no-shows from the payroll.

The World Bank (1998) noted that one of the benefits of decentralized payments would be a better separation of fiscal and monetary policy, and such a system would shift responsibility for expenditure control to the line ministries. The report noted that if the decentralization of payroll accounts proves successful, the government should consider decentralizing all retail payments.

The Bank report also noted that Zambia's current Treasury management system was not working well. Expenditure control was centralized by means of the cash budget, but commitments, payments, and accounting were decentralized to line ministries.

The Bank advised Zambia to move toward a system of Treasury management that matches responsibility with authority and the capability to perform the function assigned. However, the Bank report did not point out explicitly that even though several variations are possible to the basic institutional setting and banking arrangements, it is necessary that they preserve the basic requirements for control, which are:[40]

- All government financial resources should be under the control of the Treasury.
- Any commercial bank accounts used for government payments and receipts should be zero balance accounts, which should be cleared to the TSA as soon as possible.
- All government receipts should be deposited in an appropriate subaccount of the TSA.
- The Treasury should be in a position to determine the magnitude of these resources at any given point—that is, the balances in government accounts.
- All expenditures from the TSA or from any zero balance accounts should be subject to budgetary controls.

In the absence of these conditions, a decentralized system could lead to a further deterioration in budget and cash control and cash management across a large number of bank accounts, and the advantages of decentralizing could be lost due to significant buildup of idle cash balances in these accounts.

Evidence for this had already started accumulating at the time. The Bank report notes that the commercial bank accounts could contain substantial amounts of funds, forcing the MOF to cut cash allocations and issue Treasury bonds. Donors contributed to the inefficient management of cash when they required deposit of aid in a commercial bank account, since this cash often remains unused during the year because of lack of counterpart funds. All this idle cash could be used by the bank to buy T-bills, thereby loaning the government money back to it at a higher interest rate.

With further decentralization of the banking arrangements in the absence of the basic prerequisites and an IFMIS that would ensure that payments are in accordance with budget allocations, the situation deteriorated further. Currently there are over 10,000 Bank accounts in commercial banks. These accounts are not under the control of the Treasury, and significant idle balances have built up.

The IMF (Murphy and others 2012) reported that the balances in these accounts in 2009 and 2010 were as shown in table D.1. Thus the average balance was around K 500 billion. Although the IMF mission was informed by the accountant general that at the end of each

[40] This is outlined in more detail in appendix E.

month, balances typically are cleared to the TSA account within a few days of the end of the month, the accountant general has no mechanism to monitor whether the commercial banks are indeed remitting residual government balances back to the TSA within the stipulated time period.

Table D.1. Summary of Monthly Commercial Bank Government Deposits

2010	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
Gov't balance	524	569	606	365	403	409	363	354	401	686	645	488
Donor balance	110	121	79	97	71	48	78	53	70	88	88	59
Third party	10	3	44	2	5	6	5	5	20	281	23	7
Grand total	644	693	729	464	479	463	446	412	491	1055	756	554
2009	***Jan***	***Feb***	***Mar***	***Apr***	***May***	***Jun***	***Jul***	***Aug***	***Sep***	***Oct***	***Nov***	***Dec***
Gov't balance	402	417	442	428	500	558	412	429	398	531	634	695
Donor balance	55	58	72	140	96	81	99	112	111	89	107	100
Third party	58	18	15	60	12	63	6	6	5	7	23	5
Grand total	515	493	529	628	608	702	517	547	514	627	764	800

Source: IMF 2010.

For comparison purposes it is noted that the short-term domestic borrowing figure for the government is around US$2.0 billion. This means that this figure could have been cut by 25 percent if these amounts had been swept into a TSA and were available to government for cash management purposes. The cost of borrowing this amount from the banks at around 15 percent is US$300 million.

Although the proliferation of bank accounts outside Treasury control was a critical problem, there has not been a discussion of the importance or establishment of a TSA. Some work in this area was done by the U.S. Treasury, but with little effect in view of the proliferation of bank accounts and the buildup of idle balances. This aspect should have been a key feature of the reform program and is a serious omission in the project design.

Sequencing of Reforms

In Zambia, the directions for reform were to implement a decentralized payment system with less focus on a TSA and a greater focus on the MTEF and more advanced budget management methodologies such as ABB. In the absence of even a basic budget execution system, the implementation of advanced budget preparation methodologies such as ABB can only lead to limited benefits, since there would be no mechanism in place to control expenditures by programs/activities and to report on actuals against these programs and activities. The FMS, which essentially has been the system of record in Zambia during 2000–12, only recorded transactions after they occurred, and it could not be relied upon as an accurate record of actuals and has no means to do ex ante budget control.

Later developments in early 2011 showed that the TSA idea was central to the reform, and it was included as an important part of the reform program in a follow-on operation to PEMNA that is now under way. With the progress in the implementation of the IFMIS after 2010, an MTEF and an ABB are likely to translate into more tangible benefits.

Systems Implementation

While discussing systems implementation, it is important to note the implementation and supervision arrangements that had been put in place under PSCAP and PEMFA. Under these projects, the Bank and other donors pooled funds to provide support to address the issues identified. A lead donor was identified for each component of the project based on their interest and competitive advantage in the activities envisaged under the subcomponent. DFID was responsible for financing and supervising the implementation of a key payroll and establishment control system under PSCAP and was the lead donor for the IFMIS subcomponent under the later PEMFA programs.[41]

IFMIS implementation started in the early years of PEMFA, and a contract for systems implementation was awarded to an international firm, Soluziona S.A. of Spain, after an ICB for an amount of approximately US$23.5 million in November 2006. The contract called for the implementation of an off-the-shelf package to address financial management and budget execution issues in Zambia. The firm offered SAP as its application software choice in its bid.

It was agreed between the MOF and the contractor that the system would be implemented at eight pilot sites, including the MOF and two provinces. The objective of the pilot was to confirm the proof of concept. The sites had been selected to represent a complete cross-section of functional requirements and types of transactions that are generated across government. The piloting in eight sites was supposed to commence in April 2008.

However, implementation soon ran into trouble, for the following reasons:

- Frequent changes to the team of officers responsible for the program, which also indicated a lack of senior management ownership of the IFMIS program.
- The contractor's firm was bought out by another firm, INDIRA. This required that government clarify the legal status of the contract and perform some due diligence before proceeding with implementation. It took seven months before the Ministry of Legal Affairs gave clearance to proceed, causing a delay in the schedule.
- Loss of confidence in the IFMIS management team required that they be replaced.

In order to address the above concerns, government management, including the secretary to the Treasury; the secretary to the cabinet; the permanent secretary, planning, MOF; and the permanent secretary, budget, decided to focus on the challenges facing IFMIS implementation and initiated a review of the system.

It was decided that the piloting of the IFMIS would be restricted to the MOF, which should be able to have a technical "go live" date in November 2008. Thereafter, there could be a more realistic and well-coordinated rollout of the IFMIS. A new IFMIS management team made up of senior public servants from the Accountant General's Office was put in place.

---

[41] It is also noted that under the follow-on project, the Bank has a more direct role in the supervision of the IFMIS.

The government staff seconded to the IFMIS project was to be reassessed and retained on merit. A team with legal experts was put in place to carry out a due diligence of the IFMIS solution-provider and sort out issues related to the contract.

Notwithstanding the above, the implementation arrangements, in which multiple donors were able to voice requirements and there was no single direct line of communication and control with the contractor, affected the ability of the government to manage the contractor. This enabled the contractor to use the situation to his advantage.

The contractor put forward a payment request for extra items amounting to about US$6.0 million, consequent to the changes proposed by government to the schedule and other factors, including charges for a new set of servers and for delaying the pilot implementation at all sites. The contractor convinced the government to pay for these and similar items. This matter came to the attention of the Bank after the fact, when the government asked for a reimbursement of the amount from the pooled funds. The Bank procurement staff and advisers found that, according to the contract, these items would not be eligible for payment and disallowed the reimbursement from the pooled funds; consequently, the government paid for them from its own resources.

Requests for further additional payments continued from the contractor for items that were considered by the government to be part of the initial contract, and this essentially caused a breakdown of relations between the government and the contractor. As a result, the government was left with one pilot site partially implemented, and the contractor refusing to do more work without additional payments.

This situation brought out the weaknesses in the donor supervision arrangements for the component under the project. In theory, DFID was the lead donor for this subcomponent, but did not have the necessary capacity on the ground to carry out the task. The Bank was in a better position to manage this situation, but was not directly responsible in view of the MOU signed by the Bank and the other donors before the start of the project.

However, notwithstanding the MOU, the Bank started taking a more proactive role after the extra item fiasco, with the realization that without such action, project implementation could suffer seriously and the project might incur additional financial losses, since the contractor could take advantage of the situation.

The government requested that the IMF review the pilot implementation and advise on the future course of action. The IMF adopted a very cautious approach (see Raimonds and Murphy 2010) and various options for the way forward. The IMF mission in September 2010 noted that the selection of SAP as the platform for implementation may not have been the most suitable choice for the GoZ, and simpler software, "more contextually appropriate application software arrangements would have been better." It also recommended that all activities related to rollout be stopped until a formal review of the existing pilot was carried out and project rescoped.

The Bank had fielded a short mission to review the implementation status at about the same time. The Bank mission noted that at the MOF pilot site, the system that has been made operational and the transaction-processing layer for budget execution had been implemented. All departments in the MOF were using the system. Budget preparation was still on ABB. The Budget Department loaded the approved budget appropriations into the new system and used it to carry out budget releases. MOF used the system for processing all expenditure transactions. Procurement requests, purchase orders, GRN, and invoices were processed by the system, and checks were printed. There was also a working interface with the payroll system. Altogether, there were about 50 users at the MOF. The mission was informed that the new system was the only system being used in the MOF for transaction processing related to expenditures and receipts, and that a parallel second set of books was not maintained on another system. The Bank mission was of the view that the system, as configured for these activities, may require some clean-up for more efficient processing, but that this could be done as part of the pilot evaluation at the end of the pilot phase. The mission was informed that for the rest of the pilot sites, the H/W infrastructure was ready, end-users had been trained, and the S/W as configured could be used at these pilot sites, and the part of the system that is in use at the MOF could start being used at other pilot sites.

In the absence of critical issues with the TP layer, which were not encountered during the visit, the Bank did not foresee significant risks in the further rollout of the system to the remaining pilot sites. Instead, the Bank recommended:

- That the government first implement modules to cater to core Treasury processes, payments, and receipts transactions across government before going on to other non-core elements, such as fixed assets management, human resources management, and budget preparation.
- To start with, budget preparation could be done outside the system, and the final approved budget could then be loaded in the system and used to control expenditure. However, all subsequent in-year budget transactions, such as budget releases, transfers, and the like, should then be done in the Treasury system.
- Delay implementation of procurement management, debt management, fixed assets, inventory management, and fleet management.
- Implement core interfaces, such as those to ABB, bank reconciliation, and revenue receipts.
- Initially implement an interface to payroll, and eventually integrate it to the IFMIS.

The Bank was of the view that while the government should address the core issues related to the technology infrastructure to ensure that the system can operate, it need not wait for a fully functional system at one pilot site that is complete in all its aspects before proceeding further with the other pilot sites. The Bank's opinion was based on the fact that the process of pilot implementation was itself a test, and it is only by using the system in various situations that it would be possible to unearth its problems and fix them.

The Bank also noted that the government was willing to proceed with rolling out to other sites on its own with the SAP expertise it had acquired and had appointed a new IFMIS project manager who had previous experience running a SAP system at the Zambia Revenue Authority (ZRA). This political support was critical to making progress with the IFMIS, and a hiatus at this point could lead to a waning of this support.

The Bank team therefore suggested a more aggressive approach to take advantage of the new government commitment evidenced during the mission and because the team had 10 SAP-certified specialists who could proceed with the rollout. It recommended that SAP South Africa be asked to do a quality assurance for the system configuration to address noted issues. This deployment would only be for pilot test purposes, and issues resulting from it would serve as a checklist of errors to be corrected as deployment proceeded. Since the systems architecture chosen was a centralized architecture, these corrections would only need to be made at the central site, and the corrections would be available across the network. The Bank therefore suggested that it was not necessary at this stage to suspend the project pending a detailed, in-depth technical review and rescoping, and that this could be done in parallel.

The Bank also noted that the software had been acquired by the government through an ICB, and the process had taken more than a year. Changing the software at this point would be very wasteful, since the government had already acquired 1,500 licenses for the SAP software, and the outcome of a new ICB-based procurement process would be unpredictable and would delay the project a further two years at least.

The Bank also took a more active role in monitoring the process. With a Bank lead financial management specialist on site in Zambia, the situation improved. The next Bank mission was able to verify that the team was indeed able to deliver on the promised additional pilot sites. However, the mission noted that the government IFMIS team required the advice and guidance of a senior and experienced IFMIS adviser and further strengthening of the team.

By this time, the Bank had, in effect, taken on active supervision of the project and had started playing a more proactive role. Steady progress continued on this component, with the 28 sites delivered at the close of the project. The quality of supervision and the borrower performance both improved significantly after 2010, and this improvement continued to the end of the project.

Parallel to the rollout, reviews of the system configuration were done and issues related to configurations corrected. Part of this related to the need for the contractor to customize the original software to expand the SAP domain field to accommodate the largest numbers that could be expected in the financial reports of the government. The contractor had to customize the SAP source code to achieve this. Even though the contractor asserted that SAP South Africa had quality-assured the customization, later developments showed that this customization had caused serious secondary effects in other parts of the system, and figures reported from different modules of the system did not match. In 2013 the government decided to rebase its currency by dropping the last three zeros, and this meant that the normal field length would suffice. The government hired another firm to do this work, and SAP South Africa quality assured that the resultant code was bug-free. However, the whole process of diagnosing and fixing these issues took over two years, and this contributed to delays and uncertainly in the quality of the implementation.

Overall, the Bank intervention was critical in keeping work on the IFMIS on track. Continuation of the rollout and embarking on a parallel effort to correct the configuration of and other problems retained momentum, which was critical to advancement of system implementation. This was confirmed to the present review mission by the government team**.**

The Bank has now prepared a follow-on operation, which continues support of the IFMIS implementation and has corrected some of the design deficiencies of the earlier ESCAP and PEMFA operations. It has included a specific component to address cash management issues and implement a TSA. A total of 43 out of 50 MPSAs have now been implemented.

System Utilization

The system has been implemented in a centralized architecture, with the central servers located in Lusaka. A back-up and disaster recovery site with a duplicate platform has been completed and is connected and operational at a separate location. MPSAs in Lusaka have been connected through a WAN. Earlier, the provincial headquarters were to be connected through VSAT. But they are now connected through an optic fiber link, thereby removing potential problems of latency and delays caused by a satellite-based link. Line ministry offices at the headquarters and the provincial headquarters use the system to process all transactions.

The budget is prepared by the legacy ABB system and is loaded into the IFMIS at the start of the year by the Budget Department. All in-year changes to the budget are made directly in the system. Cash releases are also recorded in the system by the MOFEP. System implementation at the line-ministry level covers the complete P2P cycle (Procure to Purchase), with all stages of the transactions recorded directly in the system. This includes the request for procurement. The purchase order-LPO is produced directly by the system and commits funds at the time it is raised by the system. The GRN and invoice are recorded on receipt, and the payment order is produced directly by the system against the line ministry bank account at the commercial bank.

The line ministry departments at the provincial headquarters operate through a central accounting unit that is connected directly to the system. However, the Ministries of Health, Education, and Agriculture have their own accounting units at the provincial level, and these units are not connected, nor are the spending units such as hospitals that are subordinate to these ministries. These units use the FMS system for recording their transactions on an ex post basis, as do the offices at the district levels. These are posted back into the IFMIS periodically.

IFMIS has been rolled out to 43 of the 50 MPSAs. In addition, all 10 provincial headquarters have been connected to the IFMIS for their expenditure processing.

Budget Execution Reports. The review mission met with the chief accountant of the Ministry of Health and was informed that all transactions at the headquarters of the line ministry are processed through the system, and no transaction is processed outside the system. The chief accountant was in a position to produce a report at any point that gave the budgeted amounts, the revised budget, the funds released, the commitments, and the expenditures to date by line item for cost centers reporting to her. She showed the mission the report for June 24, 2015, the day of the visit. The chief accountant informed the mission that such a report was possible for every ministry where the IFMIS has been implemented. A more summarized report by line ministry was also produced by the staff of the Office of the Accountant General for three line ministries as a sample to verify this statement. It is noted from these reports that between 75 and 90 percent of the expenditure at the line ministries is processed through the system.

The mission notes that it is important to implement the system and complete the coverage relating to large spending units of key ministries in Lusaka—for example, hospitals—and provincial-level deconcentrated ministry offices—Education, Health, Agriculture, Home Affairs, and Community Development—and donor-funded projects and the district-level spending units, even though the expenditure as a percentage of the total budget for the line ministry is not very high, since this will enable the active use of the system for managing work programs of these line ministries across the country.

This enhancement in coverage is also very important from another point of view. The mission was informed that other donors who support government's efforts in the health and education sectors are eager to proceed with the implementation of separate IFMIS systems to support their activities in these sectors at the district and provincial levels. This would lead to the fragmentation of the information systems architecture across the country and undermine some of what has been achieved thus far.

Furthermore, the mission was informed that the auditor general has already connected provincial audit offices with the support of the IFMIS team.

Budget Preparation. As mentioned, the ABB legacy system is currently used to prepare the budget. However, the government has now acquired licenses for the budget preparation module of the SAP software, and it is envisaged that the budget for 2016 will be prepared in the SAP system. This will enable better integration between the budget preparation and execution processes.

Related PEFA observations. The 2012 PEFA report for Zambia was done when only 28 MPSAs were connected. It states that "Expenditure commitment controls (PI-20, dimension (i)) have strengthened through the advent of IFMIS, which blocks any proposed commitment not supported by the approved budget and the quarterly allocation ceilings."

The PEFA report also states "Under the cash-based commitment control system, arrears to suppliers tend to be paid off eventually during the year, though this is more the case for those MPSAs on IFMIS."

With the extension of the system to the additional MPSAs and all provinces, this situation will have improved further in terms of the coverage of the control functionality provided by the IFMIS.

TSA and Banking Arrangements

The follow-on Bank operation now addresses the issue of banking arrangements and the establishment of the TSA, mentioned earlier, which are critical to the effectiveness of an IFMIS as an instrument of fiscal control. A TSA pilot has been initiated at MOF since January 2015. The TSA account, a new bank account, has been set up in the Reserve Bank of

Zambia (RBZ) as a subaccount of the Control 99 Account/Consolidated Fund Account. The fund transfer from Control 99 to the TSA account is based on the rolling monthly cash release of the MOF, determined through the quarterly cash forecasts (profiles) submitted through the IFMIS. The funds for the recurrent departmental charges are no longer transferred into the operational bank accounts of the ministry in the commercial bank.

In the pilot, the MOF approves its expenditure payments for the recurrent departmental charges in the IFMIS and sends the electronic payment instructions to the RBZ through an interface established between the IFMIS and the banking system. Based on the instructions, the RBZ transfers funds into the bank account of the respective employee or the vendor through the RTGS. The recipient gets a confirmation message on their cell phone.

Some quality assurance of the security aspects of the interface with the bank has been carried out, and the security has been enhanced. SAP South Africa, an RBZ consultant, and the IFMIS team worked together to set up the recommended tool (MQ Adopter) for this process. The Bank team is now proposing a third-party assessment of process controls and information technology security of the IFMIS.

The Treasury plans to roll out the TSA arrangements to the Eastern Province by 1 June 2015 and to complete the TSA rollout by year-end. In addition, a Cash Management Unit has been set up in the MOF. The Cash Management Unit will be involved in providing guidance to staff in the ministries on cash forecasting. It is maintaining an inventory of the government bank accounts and closing down the unnecessary accounts on a regular basis. Following is the break-up of these bank accounts:

Table D.2. Status of Bank Accounts, 2015

Bank	***Number of bank accounts***	***Bank accounts closed***	***Bank accounts still open***
Bank of Zambia	262	54	208
Commercial bank accounts	11,065	105	10,960
Total	11,327	159	11,168

Source: World Bank (2015).

Discussions with the project team for the new operation indicated that there is some concern in government that since some key commercial banks rely heavily on government funds to maintain their liquidity and comply with legal requirements, operationalizing zero balance accounts with these commercial banks outside Lusaka will not be feasible in the short term. This aspect needs to be monitored closely, as it presents a risk going forward. However, this situation could be managed by entering into a more transparent arrangement with a set of commercial banks to operate as fiscal agents of the RBZ with a specified amount of liquidity maintained in these banks to meet government payments, instead of the opaque arrangement now in place, where the balances in these accounts are not monitored or controlled, and these balances build up to levels that have an inordinately high cost to government.

Remaining Work

Some of the key issues pertaining to the IFMIS remain:

- ***Bank reconciliation*****:** The electronic automatic bank reconciliation process in the IFMIS has not been configured yet. The delay in producing a government-wide budget execution reports is largely due to the time needed by the MPSAs to manually carry out the bank reconciliation. In this process, the RBZ deposits the bank statements in its secure portal, accessible to the Treasury staff, who download these bank statements and reconcile them with the IFMIS-generated cash book. The Office of the Accountant General thereafter compiles the BER for all the ministries. The BER is then sent to the information technology team of the Centralized Computer Services Department, tasked to post it on the portal. All this takes time. The accountant general plans to improve the timeliness by automating the reconciliation process and by setting up a special desk tasked with posting the BERs on the portal. This needs to be done with urgency.
- ***IFMIS interfaces with the revenue system have not yet been developed:*** The revenue information is updated in the IFMIS by the ZRA through a manual process. The information on actual revenue collections in the banks is first captured in the ZRA system, and reentered in the IFMIS system on a quarterly basis. This is due to the lack of interface between the ZRA system and the IFMIS. Such an interface would automate the flow of information on a daily basis, and thus reduce duplication of work and update general ledger/accounting registers with revenue information on a timely basis to support improved cash planning.
- ***The payroll system, PMEC, is not yet interfaced with the IFMIS*** to update payroll information in the accounting registers in a timely manner.

The government has signed an Enterprise Agreement with SAP South Africa that provides the government with a source of quality SAP expertise for technical tasks associated with the system and also rationalizes the licensing arrangements for the software being used for the IFMIS, PMEC, and ZRA systems under separate licensing arrangements. The work related to the interfaces is planned to be carried out under this new agreement.

Staffing Issues

It was recognized at the start of the project that inadequate human resource management arrangements could represent a high risk to implementation and sustainability. The project envisaged that a trained cadre of information technology and IFMIS experts in government would be in put place, and the government's Information Technology Unit (CSSD) would be restructured and its staff trained to be able to support the IFMIS after implementation. This department would also be expected to coordinate the full rollout of the IFMIS to other ministries, departments, and spending agencies.

Notwithstanding the above, staffing has been a constant source of concern in the project. As noted earlier, the IFMIS team set up at the start was replaced midway in the project by accountant general staff, complemented by information technology personnel from the CSSD. Staff has been trained in the use of SAP, but staff numbers remain lower than required to run a government-wide networked operation. The Bank project team has struggled to get the government to pay attention to staffing concerns, with mixed results. The team under the current project has also recommended augmenting the capacity of the CSSD through additional hiring and training of existing staff. An international IFMIS adviser has finally been hired and started work in Lusaka effective May 2015.

The current project envisages that the IFMIS team will be mainstreamed now, with the team moving as a unit to the office of the accountant general and the technical staff moving back to the CSSD. This has caused some concerns for the staff, since they will be losing some of their special allowances. Staff discontent represents a high risk to the project and will need to be managed closely. At this time, technical staffing remains a key vulnerability for the project.

Payroll Management and Establishment Control (PMEC) System

The development and implementation of the PMEC was supported originally by DFID, and later by the Bank. It was designed to put in place an effective service-wide payroll management and establishment control system to improve and rationalize administration of the payroll and establishment.

PMEC was introduced in 2004 and maintains an establishment register where the approved organizational establishment for included ministries and institutions is recorded. The system ensures that employees over and outside the establishment in the payrolls cannot be put on the payroll. The PMEC project included a data-cleaning process, where illegal employees over and outside the establishment in the payrolls were identified and removed, and a set of policies and procedures to be used by the end-users was formulated, and end-users and super-users of the system were trained to operate and use it in their day-to-day work. The PMEC system had been implemented on a separate instance of SAP, and operated on a separate set of servers. The system took a considerable amount of time to install, at a cost of about US$8 million.

At the start of the PSM Project, all payrolls managed by the Ministry of Finance and the Cabinet Office were migrated to the PMEC, which established a firm foundation on which future payroll and establishment control interventions could be built.

The activities under the PSM subcomponent of the PMEC included training; integrating the PMEC system with the IFMIS on a common platform; interfacing the PMEC system with third parties such as commercial banks, DDAC, Public Service Pensions Fund, NAPSA, and the Department of National Registration; creating the management structure and appointing qualified staff to administer the system and provide technical support where necessary; and strengthening of the PMEC Help Desk system so that it adequately and competently supports users of the system.

PEMEC Implementation

Compared with the IFMIS, PMEC implementation has proceeded comparatively smoothly. The system has put in place an effective service-wide payroll management and establishment control system. The system now covers the entire Zambian civil service and produces the payroll of all government employees (numbering about 179,000), ensuring that they occupy duly authorized positons and that payments are made to their bank accounts in the commercial banks. The offices in the provincial headquarters enter the payroll transactions for staff under their purview, and transactions related to adjoining districts are brought to the provincial headquarters for entry. The mission was informed that six districts have also been directly connected to the system to enable transaction entry.

The PSMD staff ensures that payroll costs are within the authorized budget limits, even though the system has not yet been integrated with the IFMIS, where these authorizations are maintained.

PMEC is a part of the IFMIS landscape and needs to be integrated into it on a common platform. This was planned as part of the present project, but it has not happened. At present, the software versions used for the PMEC and the IFMIS are not the same, with the PMEC ahead of the IFMIS in currency of the software. Plans are now in place for this integration to happen, and the SAP expertise available to the government under the recently signed SAP enterprise agreement should make it possible. The planned interfacing of the PMEC system with third parties has also not happened. This again is planned to take place under the Enterprise Agreement. The functionality of the system is restricted to an establishment register and a payroll module. Other modules of the HRMIS software suite have not been implemented.

Notwithstanding the above, the focused implementation of the system to address the establishment and payroll modules instead of a whole raft of ancillary functions at the same time has enabled this core functionality to be put in place. This has been possible because government's commitment to the reform and rightsizing of the civil service was strong, and these functionalities in the system provided an essential tool for it to proceed on this agenda. PMEC implementation has ensured that government has a better handle on a significant chunk of the budget. The secretary, PSDM, stated that payroll costs are currently some 50 percent of the budget and represent about 12.4 percent of the GDP.

The 2012 PEFA (GoZ 2012) notes that "the payroll control system appears to be operating reasonably well. A major improvement has been the decentralization of PMEC, which has significantly shortened the time between changes to personnel records/personnel data base and changes to the payroll. The payroll audit function has strengthened and the chances of 'ghost' workers appear to have fallen as a result."

Implementation Costs

It is useful to compare the costs of the Zambia IFMIS implementation with other Bank-financed projects that use an off-the-shelf application software package, as Zambia has done. Implementation costs vary with the scope and scale of the implementation. Nevertheless, it is possible to get an approximate idea of the costs to be expected for implementing a system with a given scope from existing data on completed projects by plotting the contracted cost of actual systems implementation against the number of end-users (used as a proxy for scale of the system) that are connected to the system. In this exercise, it is necessary to use comparable numbers. Thus, the cost elements should cover the same elements for all projects, and if this expense has been incurred in various phases of the project—say, for pilot implementation and rollout—then these costs should be summed.

Hashim (2014) gives this data for 10 World Bank–financed IFMIS projects that involve implementation of a commercial, off-the-shelf (COTS) package, and the results are shown in figure D.1, which displays the contracted costs covering the H/W, S/W, implementation services, WAN/LAN networking, and training plotted against number of COTS user licenses acquired (used as a proxy for end-users).

It is possible to use this data to predict approximate costs for, say, a 1,000-user COTS implementation. For example, since the costs are represented by:

$Y = 0.0096x + 4.74$; if $x = 1{,}000$, then $y =$ US$14.34 million (+/-) 20 percent.

Therefore, as a broad parameter, it is safe to assume that implementation costs for a COTS implementation would be about $15,000 per user.

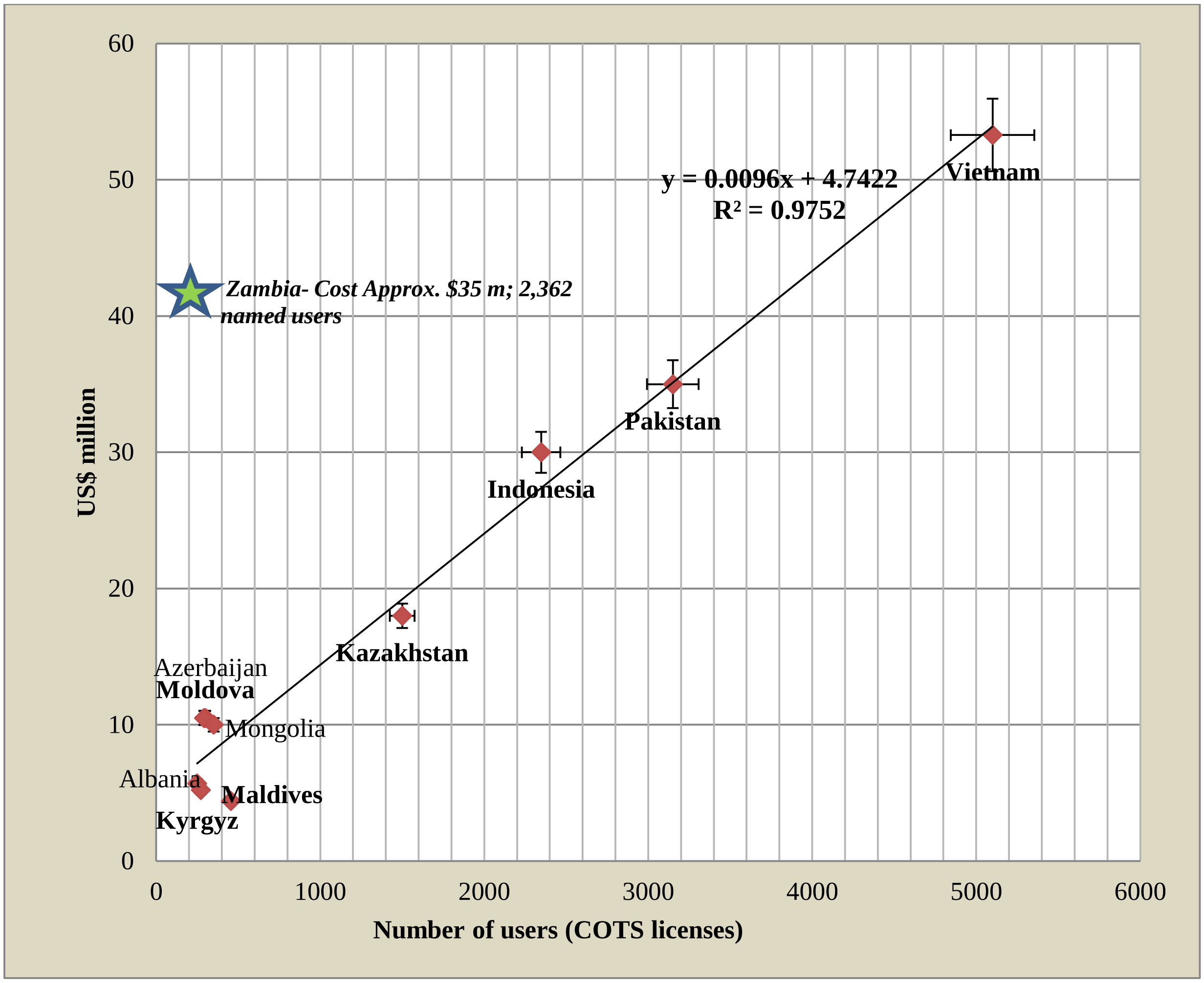
The diagram also shows the Zambia IFMIS capital costs plotted on this graph. The total IFMIS implementation costs for Zambia are approximately US$35 million, including the costs of the contract with INDRA and subsequent investments. The number of named users on the system according to the project team is currently 2,362.[42] This gives a figure of US$14,817/named user, which is broadly in line with the costs of other Bank-financed IFMIS implementations.

Here the costs of the PMEC have not been added, since this was a separate implementation done on separate hardware and with a separate license for SAP. However, if the US$8.0 million incurred for this system is added, the total cost is US$43 million, and the cost per named user rises to US$18,204.

The cost of the PMEC and that of the total systems implementation would likely have been lower if a consolidated systems implementation plan had been adopted, with the implementation carried out on the same set of hardware and with a jointly negotiated SAP software license agreement.

[42] Data on approximate costs and number of named users provided by the IFMIS team.

Figure D.1. Zambia IFMIS Cost per User in Comparison to Peer Countries



Source: IEG.

Table D.3. Evaluation of the degree of consolidation of Government Cash Balances in a TSA

Whether a TSA been established and the percentage of the central government budget funds banked in the TSA	***10***	***A starting score of 10 is given which would represent the case where all government financial resources are part of the TSA or banked in the Central Bank.***
TSA established but large project and program advances given out to line ministries which are banked outside of the TSA	-2	This score tries to determine whether large advances are given out to line ministries at the start of the year and if so whether these are banked in the Central bank / or fiscal agent in ZBAs or are they banked in commercial banks which are not linked to the TSA; If they are not then a score of -2 is given.
Large EBFs Banked outside Central bank and TSA	-2	If large Extra-budgetary funds exist and whether they are banked in the TSA or not. If they are not then a score of -2 is given.
Large IGFs exist and Banked outside the Central Bank and TSA	-2	Whether or not Internally generated revenues (fees etc.) are Banked in the Central Bank/TSA or are they banked in commercial banks owned by the line agencies; If they are banked in non-linked commercial bank accounts owned by SUs then a score of -2 is given
Large amounts of Donor funds Banked outside Central Bank TSA	-2	(a) Whether or not Donor funds are Banked in the Central Bank / are part of the TSA. If they are not then a score of -2 is given.

Source: IEG.

Table D.4. Evaluation of Technical Aspects of an IFMIS

Dimension		***Score***
Nature of Information systems support for Budget Execution / Treasury Processes	No information systems support.	0
	Rudimentary and partially manual information systems assist Treasury in distributing limits, warrants and controlling payments. Patchwork of systems is in use that are not connected to each other	1
	Basic IT systems at HQ and Treasury branches connected via telecommunications; exchanges summary information.	2
	A country wide on-line Custom developed BASIC Treasury system is in use that enables budget availability check and warrant control and enables the MOF/ Treasury to practice Fiscal control.	3
	A FULL FUNCTION Treasury system with capacity for budget management, commitment management, accounts payable, accounts receivable, general ledger, purchasing, fixed assets and fiscal reporting is in place. System has capacity to implement accrual accounting.	4

	Subtotal	4
System Architecture	None	0
	Distributed architecture	1
	Partially distributed architecture	2
	Centralized architecture	3
	Subtotal	3
System Deployment	None	0
	Treasury centric	1
	Treasury and Line ministries and budget administrators are directly connected to the system	2
	Budget administrators, line ministries, spending units and treasury offices are connected. OR line ministries and SUs have access via a web portal	3
	Subtotal	3
Use of Data Warehouse and Analytic Tools	None	0
	A data-warehouse has been implemented and gives users the capability to formulate queries against the system databases and produce a variety of fiscal and budget execution and other analytical reports.	1
	Subtotal	1
	Grand Total	11

Source: IEG.

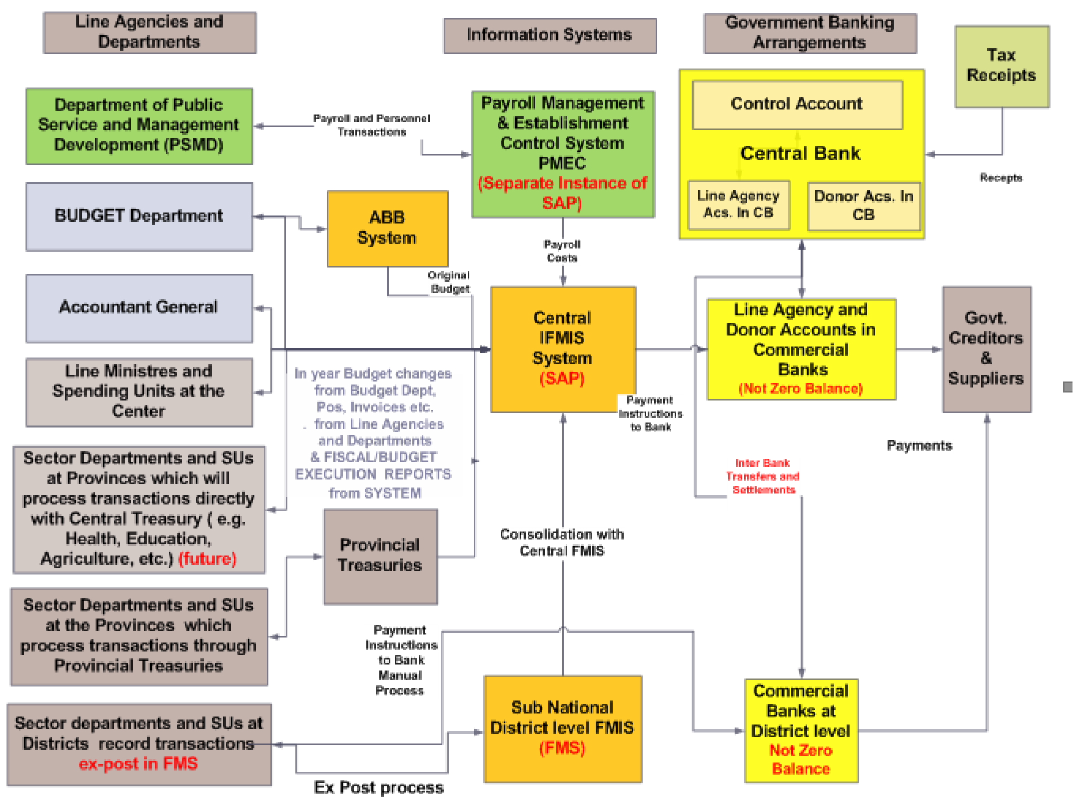
Appendix E. Information Systems Architecture for Fiscal Management

Three separate systems have been implemented under the projects discussed here, which have contributed to setting up these systems for Zambia. These include the central SAP-based IFMIS to manage budget execution at the central and provincial levels, the custom-developed FMS that is to be used at the district level, and the PMEC, which is implemented on a separate instance of SAP and is used to manage the entire civil service establishment and calculate the payroll for government employees.

The information systems architecture for the Zambia Financial Management System, outlined below, shows the various systems that have been implemented under the project, their interfaces with each other, and the banking system and the core information flows.

The figure shows that at the start of the year, the approved budget is loaded into the IFMIS from the budget preparation system (ABB), and all in-year changes are made directly by the Budget Department in the IFMIS. For an expenditure transaction, the diagram traces the flow from the point of its origination at the spending unit to its payment to the payee. For a receipt transaction, the diagram shows its route from the point it is deposited in a bank by the payer to the point of its recording in the FMIS. It also shows the interface between the central and the district-level FMISs and the interface between the PMEC and the IFMIS, which enables payroll transactions generated from the HRMIS to be routed to the IFMIS for payment.

Figure E.1. Zambia Information Systems Architecture for Fiscal Management



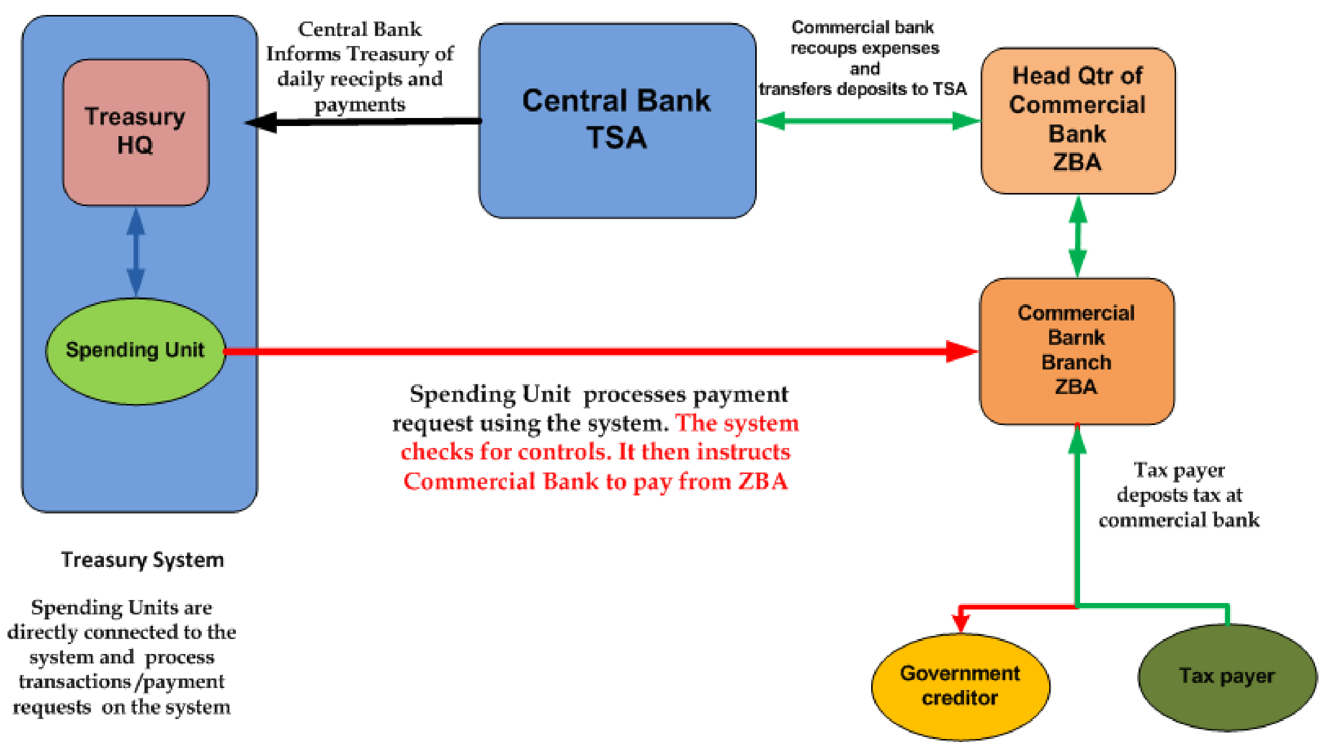
Source: IEG.

Appendix F. Arrangements for Banking Government Funds—the Treasury Single Account and the Zero Balance Model

Implementation of Treasury systems requires setting up some institutional arrangements to fulfill the requirements for the custody and use of these funds laid down in the Budget Management Law. These include arrangements for banking government funds and processing payment and receipt transactions.

The working of the zero balance model for the TSA is shown in figure F.1 and detailed below.

Figure F.1. TSA Zero Balance Accounts Model



Source: IEG.

TSA–Zero Balance Model: This is an alternative arrangement put in place in cases where the central bank does not have an adequate network of provincial/regional branches, or does not have the capacity to handle the large volume of transactions associated with government payments and receipts. In these cases, the central bank selects one or more commercial banks to serve as its fiscal agent(s). The fiscal agent(s) makes payments on behalf of the Treasury, and recoups all payments made from the central bank. Fiscal agents make daily deposits of all government revenues to the TSA in the central bank. The arrangement has the advantage of providing more expeditious payments to government creditors in view of the greater capacity of commercial banks to process these transactions.

Two aspects are important for the efficient functioning of this system. First, the float of all payments to be transferred to the TSA should be as small as possible. Second, these accounts should be zero balance accounts. Their balances should be cleared to the TSA periodically to ensure that government has an accurate idea of the total amount of cash available in the system to optimize its borrowing strategies.

For a system based on the use of commercial banks as fiscal agents to work efficiently, the fiscal-agent bank branches would need to be automated and connected to their headquarters, with an automated bank/check clearing system in place. In the absence of such a system, the time taken to clear all payments and deposit all receipts in the TSA could be longer and could lead to significant floats before receipts are deposited in the TSA.

Here, spending units can have direct access to zero balance accounts held at a commercial bank. This arrangement may result in a quicker response time for payment transactions, since the payment authority resides in the agency itself. However, the bank accounts should continue to be under the control of the Treasury, even though SUs may have access to them to make approved payments. This way, Treasury can obtain data on balances in these accounts and make transfers from or to them independently of the spending agencies.

In this case, the responsibility for ensuring compliance with budget execution limits and procedures is delegated to the spending agency. For this system to be successful, the MOF needs to ensure that the agency adheres to necessary controls prior to making a payment. This can be achieved in two ways:

- Budget control responsibility can be exercised by officers from the Treasury who are out-posted to the line agency.
- By connecting the spending units directly to an automated Treasury system used for controlling budget execution and for processing payment transactions. Here, the system design should incorporate the necessary controls; the location of the payment authority is not as important as it would be in a manual system. Prior to allowing a payment, the Treasury system software would normally ensure that a budget appropriation exists, a warrant allocation (cash) is available, and a prior commitment has been made, in cases where commitment accounting has been implemented. Manual intervention would normally be required only to override some of these restrictions. The system would keep a log of the event, including the date, time, amount involved, and the name of the authorizing officer. This would ensure adherence to the controls prescribed for budget execution.

The ex-ante adherence to these controls would not automatically be possible in a manual system. Where spending agency finance personnel are functionally and administratively responsible to the head of the spending agency, they may be subject to pressures to process payment transactions that do not comply with specified procedures. It may therefore become more difficult to ensure that prescribed controls and procedures are adhered to in a decentralized system, as compared with a Treasury-based central system.

Appendix G. Economic and Social Indicators

Series name	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***
Growth and Inflation									
GDP growth (annual %)	6.2	6.2	5.7	6.4	10.8	6.3	6.7	6.7	6.0
GDP per capita growth (annual %)	3.4	3.3	3.1	3.0	4.4	3.6	3.9	3.5	2.8
GNI per capita, Atlas method (current US$)	620.0	750.0	970.0	1,060	1,080	1,180	1,350	1,700	1,680
GNI per capita, PPP (constant 2011 international $)	2,382	2,453	2,653	2,988	3,059	3,217	3,456	3,471	..
Inflation, consumer prices (annual %)	9.0	10.7	12.4	13.4	8.5	6.4	6.6	7.0	7.8
Composition of GDP									
Agriculture, value added (% of GDP)	14.5	13.2	12.5	12.4	10.5	10.2	10.3	9.6	..
Industry, value added (% of GDP)	33.4	34.9	33.9	32.4	35.5	35.9	34.4	33.9	..
Services, etc., value added (% of GDP)	52.1	51.9	53.6	55.2	54.0	63.9	55.3	56.5	..
External Accounts									
Exports of goods and services (% of GDP)	32.6	33.6	28.9	29.3	37.0	38.1	42.1	43.3	40.9
Imports of goods and services (% of GDP)	25.3	32.2	30.5	26.9	30.9	31.8	37.1	41.1	37.8
Current account balance (% of GDP)	4.6	(1.2)	(3.3)	6.0	7.5	4.6	5.5	(0.6)	(1.4)
Total debt service (% of GNI)	1.2	1.0	1.0	1.1	0.8	1.0	0.9	1.3	1.6
Fiscal Accounts									
Revenue, excluding grants (% of GDP)	21.3	22.4	22.0	18.7	19.8	20.9	21.1	19.2	18.2
Deficit (% of GDP)	1.1	0.2	3.2	2.6	1.8	3.6	4.8	6.5	5.5
Gross International Reserves (months of imports)	2.2	2.5	2.1	5.1	3.0	2.8	2.8	2.4	3.5
Social Indicators									
Life expectancy at birth, total (years)	51.0	52.5	53.9	55.2	56.4	57.4	58.4	59.2	..
Immunization, DPT (% of children ages 12-23 months)	81.0	80.0	87.0	94.0	83.0	81.0	78.0	79.0	86.0
Mortality rate, under-5 (per 1,000 live births)	104.5	98.0	93.1	87.4	82.1	78.6	74.4	70.2	66.6
Out-of-pocket health expenditure (% of private expenditure)	43.8	67.8	68.2	67.8	65.7	66.4	67.1	66.7	..
Health expenditure, public (% of GDP)	2.0	1.9	2.2	2.3	2.3	2.4	2.6	2.9	..
Net enrolment rate, primary, both sexes (%)	92.9	93.7	95.4	90.5	88.3	91.9	93.7	91.4	..
Unemployment, total (% of total labor force)	15.6	15.2	15.6	14.8	13.2	13.2	13.1	13.1	13.3
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	60.5	..	..	..	..
Improved water source (% of population with access)	58.1	59.0	59.8	60.6	61.4	62.2	63.0	63.8	64.6
Improved sanitation facilities (% of population with access)	41.9	42.2	42.4	42.6	42.8	43.0	43.2	43.5	43.7
Population growth (annual %)	2.8	2.8	2.9	3.0	3.0	3.0	3.0	3.1	3.1
Population (Total) (million)	12.4	12.7	13.1	13.5	13.9	14.3	14.8	15.3	15.7

Source: World Bank 2016 (World Development Indicators 2016); GoZ Annual Economic Reports.
Note: (...) indicates data not available. DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; GNI = gross national income; PPP = purchasing power parity.

Appendix H. Progress in Pilots Funded by the Service Delivery Improvement Fund

The aim of the Service Delivery Improvement Fund was to provide resources to potential transformative initiatives that could positively impact services downstream. Eighteen individual projects met the criteria and received financial support, including the education, agriculture and livestock, health, forestry, local government, judiciary, social security (pension services), and disaster management sectors. Projects included the promotion of science and technology education through the use of mobile science exhibition units; establishment of a mobile court system in the Namwala and Itezhi Tezhi Districts; strengthening community participation in safe motherhood and child health in Mpika District; decentralized work processes for improved access to pension services; integrating municipal systems for service delivery in the Mazabuka Municipal Council; and establishing a decentralized, integrated land administration system in Kitwe.

The justice and health projects in the Itezhi-Tezhi Province were highlighted as particularly innovative and productive. The introduction of mobile courts led to a reduction of the pending case load from 400 in 2005 to zero in 2009, and the disposal of new cases in an average of 10 days, compared with 60 days before the intervention. The project was recognized in 2009 by the African Association of Public Administration and Management. With regard to health, there was a reduction in maternal mortality from 179/100,000 live births (2005) to 69/100,000 (2009). First antenatal attendance rose to 87 percent, immunization to 74 percent, and supervised deliveries to 85 percent. Improved service delivery resulting from this project was recognized by the United Nations in 2009. Improvements from other projects were reported, including an increased number of basic schools with access to mobile laboratories; a greater number of girls enrolled in science subjects; increased capacity in milk processing and other milk by-products; improved production and dissemination of livestock-production extension messages; and an increased number of community members using modern bee-keeping methods. No rigorous evaluations (for example, impact evaluations) of these pilots were conducted.

No provision was made for scaling up the successful subprojects, so they remained highly localized, district-level interventions that had little broader impact on service delivery improvement. The projects were viewed as an end in themselves, and were thus implemented as stand-alone efforts by the ministries.

Appendix I. List of Persons Met

Name	*Position*	*Organization*
Kundavi Kadiresan	Country Director	World Bank
Deryck Brown	Sr. Governance Specialist	World Bank
Khuram Farooq	Sr. Financial Management Specialist	World Bank
Patricia Palale	Public Sector Specialist	World Bank
Helen Mbao	Senior Country Officer	World Bank
Srinivas Gurazada	Senior FM Specialist	World Bank
Greg Robins	IFMIS Adviser	World Bank / Ministry of Finance
Dick Chellah	Accountant General	Ministry of Finance
Simon Kayekesi	Principal Economist	Ministry of Finance, Donor Coordination
Rachel Zyambo	Project Manager	Ministry of Finance, IFMIS Project
Innocent Mututa	Quality Assurance Manager	Ministry of Finance, IFMIS Project
Paul Lupunga	Chief Economist	Ministry of Finance, Multilateral Cooperation
Mumba Chamba	Program Coordinator	Ministry of Finance, PEMFA
Clare M. Mazimba	Financial Management Specialist	Ministry of Finance, PEMFA
Ron M. Mwambwa	Deputy Auditor General	Office of the Auditor General
Emmanuel Tembo	Director	Office of the Auditor General, Provinces
Davy Siaime	Assistant Director	Office of the Auditor General
Mwambula Mayaka	Assistant Director	Office of the Auditor General, MIS Planning
Sally Ross	Assistant Director	Office of the Auditor General, Planning and Information
Patrick Simusokwe	Assistant Director	Office of the Auditor General, Public Debt and Investment
Evans S. Hamaila	Assistant Director	Office of the Auditor General, Revenue
Velepi C. Mtonga	Permanent Secretary	Office of the President, Public Service Management Division
Milambo Michelo	Assistant Director (TS)	Office of the President, Public Service Management Division
Raphaele Simfukwe	Assistant Director (TS)	Office of the President, Public Service Management Division
Maxwell Musongole	Director General	Zambia Public Procurement Authority

Vida Chivalu	Director	Zambia Public Procurement Authority, Compliance Department
Ethel Kayande	Manager	Zambia Public Procurement Authority, Compliance Monitoring
Nancy Muchindu Mwamba	Chief Accountant	Ministry of Health
Alice Sievu	Principal Accountant	Ministry of Health
Bruce Lawson-McDowall	Deputy Head of Office	DFID
Tobias Nybo Rasmussen	Resident Representative	IMF
Stephanie Peters	Senior Program Manager	KFW