



**DRAFT**

**PUBLIC EXPENDITURE MANAGEMENT  
COUNTRY ASSESSMENT AND ACTION  
PLAN (AAP)  
ZAMBIA**

**PREPARED BY THE WORLD BANK AND THE IMF IN  
COLLABORATION WITH THE ZAMBIAN AUTHORITIES**

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## LIST OF ABBREVIATIONS

AG	Accountant General
ABB	Activity Based Budgeting
BOZ	Bank of Zambia
CCS	Commitment Control System
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
DFID	UK Department for International Development
EC	European Commission
EMU	Expenditure Monitoring Unit (MFNP)
ESDS	Educational Services Delivery Survey
FMS	Financial Management System
GFS01	Government Financial Statistics (IMF manual, 2001 edition)
GRZ	Government of the Republic of Zambia
HIPC	Heavily Indebted Poor Countries Initiative
IA	Internal Audit department
IMF	International Monetary Fund
IFMIS	Integrated Financial Management System
MER	Monthly Expenditure Return
MFNP	Ministry of Finance and National Planning
MTEF	Medium Term Expenditure Framework
OAG	Office of the Auditor General
PER	Public Expenditure Review
PEMFAR	Public Expenditure Management and Financial Accountability Review
PRP	Poverty Reduction Programs
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Sector Capacity Building Program
PSRP	Public Sector Reform Program
PSPF	Public Service Pension Fund Board
RDC	Recurrent Department Charges
SOE	State Owned Enterprise
TNDP	Transitional National Development Plan
WB	World Bank

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## I. EXECUTIVE SUMMARY

The capacity to effectively allocate and track poverty-reducing public expenditure is critical to the government of Zambia's (GRZ)'s ability to successfully implement its Poverty Reduction Strategy (PRS) and to support the commitments made under the Enhanced Heavily Indebted Poor Country (HIPC) initiative. The objective of the current exercise, the HIPC expenditure tracking assessment and action plan (AAP), carried out jointly by the World Bank and the IMF in December 2003, is to assess the current status of Zambia's public expenditure management (PEM) systems and recommend priority actions to address key shortcomings. Existing and planned donor assistance, and any gaps that may remain, are also identified.

The mission met with the Zambian government (GRZ) and the main donors in the PEM area in order to: (i) assess the capacity of the PEM system to track poverty-reducing expenditures; (ii) identify ongoing and planned initiatives and associated technical assistance (TA) for improving PEM; and (iii) prepare a draft action plan for improving PEM.

**The assessment showed that Zambia now achieves 3 out of the 16 PEM benchmarks, compared to 3 out of 15 in the assessment carried out in 2001 (see Table 1).** Table 1 summarizes the overall assessment against the 16 benchmarks. Since the last assessment in 2001 there has been some general upgrading in the timeliness and quality of expenditure reporting, where an additional benchmark is achieved. There has also been an improvement in the preparation of multi-year expenditure plans, but this is at an early and does not yet meet the benchmark standard. In the area of comprehensiveness of the budget, one indicator, inclusion of donor provided funds, does not meet the benchmark status. The reason for the downward revision is mainly because this evaluation is based on more complete information and the guidance for the AAP process has been clarified with regard to this benchmark. Overall, Zambia's PEM system still requires substantial upgrading in the areas of budget formulation and execution in order to make the budget a functioning tool for implementing fiscal policy.

**GRZ has identified PEM reform and financial accountability as major priorities in its PRSP.** GRZ has initiated a number of reforms that could, within the next few years, address many of the deficiencies of the current system. Major initiatives, outlined in the text below, include the introduction in the 2004 budget of a more comprehensive budget classification system, known as Activity Based Budgeting, a Medium-Term Expenditure Framework (MTEF) and the development of an Integrated Financial Management System (IFMIS) by 2006. In the interim, considerable efforts are being made to improve existing reporting, accounting, and cash management and expenditure control systems.

**However, it will take time before these major initiatives, particularly the IFMIS, can deliver their anticipated benefits.** In the interim the priority for GRZ should be to maintain and continue to improve existing systems and most critically to enforce compliance. There is evidence that, in the past, remedial actions, when implemented, were often subsequently

reversed or not adequately maintained. Existing regulations and instructions therefore need to be strongly enforced in all areas of PEM, and particularly internal expenditure control, cash management and in pursuing the recommendations of internal and external audit. Sanctions need to be made transparent and applied more consistently and comprehensively. The lack of enforcement of existing financial instructions and regulations is probably the most serious threat to the sustainability of any PEM system that is established.

**With the coordinated assistance of the major donors active in PEM, adequate Technical Assistance (TA) should be available to support a comprehensive PEM Action Plan.** GRZ has recently established a joint Government/donors group to oversee and monitor progress in public sector reforms, including progress in PEM reform. A joint Government/donors technical team is developing a specific action plan, largely based on the World Bank funded Public Expenditure Management and Financial Accountability Review, published in 2003 (PEMFAR). An action plan for improving PEM is outlined in section VII.

**The view of the mission is that a considerable, protracted effort is required to bring the PEM system up to acceptable levels and the immediate priority is to ensure compliance with existing PEM systems and regulations.** While the new initiatives and ongoing reforms represent a good opportunity for improving PEM, they also represent a challenge to fiscal management. In order to ensure that fiscal management is not disrupted the reform program needs to complement the strengthening of existing PEM systems and take account of the limited capacity to implement such reforms within GRZ. The mission suggested that careful consideration is given to the pace and sequencing of the reform program so that current systems continue to be strengthened, not undermined, as new initiatives are introduced. High priority PEM reforms include the strengthening and eventual integration of the existing quarterly cash release and commitment control systems, to ensure they are more comprehensive and enforced.

**Table 1: Public Expenditure Management AAP Indicators in Zambia**

	Indicators	ASSESSMENT			
		Standard Benchmark	Desk Assessment	2001 Assessment	2003-04 Assessment
	<b>FORMULATION</b>				
	<b>COMPREHENSIVENESS</b>				
1	Fiscal reporting adequately covers the Government Finance Statistics definition of the general government sector	A	C	C	C
2	Government activities are not funded through inadequately reported extrabudgetary sources to a significant degree	A	B	B	B
3	Budget outturn data are quite close to the original budget	B	C	C	C
4	Fiscal reports include grants projected to be provided by donors	A	A	A	B
	<b>CLASSIFICATION</b>				
5	Budget expenditures are classified on an administrative, economic, and detailed functional or programmatic basis	B	C	C	C
6	Poverty-reducing expenditures are clearly defined	A	C	C	C
	<b>PROJECTION</b>				
7	Multi-year expenditure projections are integrated into the budget formulation process	A	C	C	B
	<b>EXECUTION</b>				
	<b>INTERNAL CONTROL</b>				
8	There exists a small stock of expenditure arrears, with little accumulation of arrears over the previous year	A	C	C	C
9	Internal control is effective	A	B	B	B
10	Tracking surveys are in use, or are unnecessary	B	C	C	C
	<b>RECONCILIATION</b>				
11	Satisfactory reconciliation of fiscal and banking records is undertaken routinely	A	A	A	A
	<b>REPORTING</b>				
	<b>IN-YEAR REPORTING</b>				
12	Internal fiscal reports are received within four weeks of the end of the relevant period	B	B	C	C
13	Good-quality classification of poverty reducing spending is reflected in the in-year budget reports	A	C	C	C
	<b>FINAL AUDITED ACCOUNTS</b>				
14	Routine transactions are entered into the main accounting system (s) within two months of the end of the fiscal year	A	A	A	A
15	An audited record of the financial outturn is presented to the legislature within twelve months of the end of the fiscal year	B	C	C	B
	<b>NEW</b>				
	<b>PROCUREMENT</b>				
16	The procurement system supports efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency and value for money.	A			B
	<b>TOTAL NUMBER OF BENCHMARKS MET</b>		4	3	3
	<b>Notes:</b> Shaded cells indicate where the assessed indicator meets or exceeds the standard benchmark level				

## II. COVERAGE

This assessment is confined to Central Government's capacity to effectively allocate and track pro-poor spending. In many developing countries spending authority has been devolved to lower levels of government - regions, localities, or villages and would warrant inclusion in the assessment. In Zambia, however, subventions for local government administration are provided by the Ministry of Local Government and Housing, mainly in the form of grants, and constitute less than 1% of total central government spending. Therefore, Central Government and its branches in the provincial and district administrations undertake the bulk of poverty-reducing expenditures and are the focus of this assessment.

Although it is difficult to quantify the amount of internally generated revenue, direct grants from donors and total spending by Local Government, in the absence of comprehensive and reliable reports, these are not thought to be significant relative to the central government budget. In conclusion, it is thought that Local Government in Zambia carries out a very small proportion of total and poverty-reducing spending and is therefore excluded from this assessment. Zambia's Poverty Reduction Strategy (PRS), endorsed by the Cabinet in May 2002, envisages an enhanced role for local government but this will take considerable time to implement and become apparent in the spending figures.

## III. BUDGET FORMULATION

### ***Indicator 1~ Fiscal reporting adequately covers the Government Finance Statistics (GFS) definition of the general government sector***

***Overall assessment: The budget is confined to central government: the activities of local government, parastatals, extra budgetary funds and contingent liabilities are not reflected in the budget documents but have had a significant impact on public finances. (C) – Benchmark not met***

According to the IMF GFS manual, the general government consists of all government units and non-market non-profit institutions (NPIs) that are controlled and mainly financed from government units. This includes: all units of central and local governments; statutory institutions established as government owned self-governing units carrying out government policies; and extra-budgetary funds which are generally financed from earmarked revenues or receipts and established by specific Parliamentary Acts. General government excludes Financial Institutions and Public Corporations established under Company Law, and generally operating on market principles. It also excludes those enterprise type operations which operate on a commercial basis, but which are not as yet, for one reason or another, incorporated under Company Law. Finally, it excludes the Central Bank.

Fiscal reporting of general government should include all operations of the above mentioned units, including any receipts, and corresponding payments, not appropriated in annual budgets of central and local governments. In principle it should include quasi-fiscal

operations carried out through non general government entities, such as financial institutions or commercial banks, as well as tax expenditures incurred as a result of exemptions or other tax rebate mechanism established under law. The object of fiscal reporting is to ensure that the government is fully aware of all the relevant information when deciding overall fiscal policy and prioritization of government actions, or adjusting them in mid-course. The full disclosure of all government operations through timely and routine accounting reports is essential to ensure that the government is fully able to report comprehensively on the assets and resources that it manages in the name of the general public.

In Zambia, the budget is confined to central government and includes Departments, House of Chiefs, judiciary, ministries, national assembly, and the presidency. Grants to Local Government and Statutory Institutions (universities, health and hospital boards, etc) are recorded in the budget. In most cases their funding consists of a block grant with no expenditure details. Any revenues collected and retained by these bodies (user fees) are not included in the Budget, or reported during the year. The activities of some extra- budgetary funds, such as the Road Fund, and increasing liabilities of some government pension funds are also inadequately reflected in the budget<sup>1</sup>. In addition, the World Bank estimated that the deficit of state-owned enterprises/parastatals totaled 9% of GDP in 1999, compared to a central government deficit of 4% of GDP, which added to large unrecovered losses by the Bank of Zambia (BOZ), of about 7.1% of GDP. Overall these represent a substantial fiscal risks (see World Bank, PEMFAR, 2003, for a complete discussion of these issues). The privatization and commercialization program undertaken by the government in recent years has reduced the subsidies and liabilities being generated on behalf of government, but not reflected in the fiscal accounts —the quantum, however, is likely to remain significant.

The coverage of fiscal information is not complete and probably merits a rating of *C*, when these exceptions are taken as a percentage of total budget. GRZ should consider moving towards consolidated general government reports, which include local government budgets and accounts and appropriately reflect state-own enterprises, parastatals, statutory institutions and extra- budgetary funds in the annual budget and final accounts (see the GFS 2001 guidelines for the recommended treatment of these entities in the budget)..

***Indicator 2 ~ Government activities are not funded by inadequately reported extra budgetary sources to a significant degree***

*Overall assessment: Significant government expenditures are not fully accounted for in the budget. Supplementary appropriations have been frequently used to reallocate as well as increase expenditure from the budget and also to regularize one-off transactions not sanctioned in the original budget . (B) – Benchmark not met*

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<sup>1</sup> The Road Fund was established by an Act of Parliament. The Board comprises public servants and members from the private sector with an external auditor appointed by the Auditor General from the private sector. The accounts are reported to Parliament and published separately from the Budget.

It is estimated that ministries, budgetary funds, extra budgetary funds, and statutory institutions receive a limited amount of resources in the form of official and unofficial non tax revenues (e.g. fees and charges). For example, in the education sector the World Bank funded Educational Services Delivery Survey (ESDS) in 2002 concluded that “public funds are the most important source of financial flows for primary and basic schools”, comprising around 95% in some provinces.

However, subsidies to and losses of state-owned enterprises (SOEs), Zambia National Commercial Bank (ZNCB) and the Bank of Zambia (BOZ), which result from direct fiscal or quasi-fiscal activities, have been significant but are generally not reflected in the budget. With regard to SOE's, the central government has frequently been the primary source of arrears, particularly with the utility companies, and the SOEs themselves have often built up arrears and/or borrowed from the banking sector. Many of these liabilities have eventually accrued to the GRZ. The financing of some notable funds, such as the Public Service Pension Fund (PSPF), and the Road Fund are also not comprehensively detailed in the budget.

A World Bank study into the composition of the 1999 budget estimated the deficit from losses in SOEs/parastatals at around 9% of GDP, local governments at over 2% of GDP, extra budgetary funds as over 1% of GDP and BOZ losses on foreign exchange transactions at over 5% of GDP. In addition, the budget documentation should reflect other “off-balance sheet” items, such as guarantees and other contingent liabilities of the public sector as well as the fiscal risks associated with such items. The omission of these items may provide a misleading picture of the financial position of the GRZ, especially due to the significant losses and contingent liabilities arising from state enterprises and the PSPF.

Although is difficult to discern reliable information on all the above items, due to fragmented reporting arrangements, there are reasons to believe that the situation has improved from 1999, and thus a ‘B’ ranking might be justified (this requires that ‘deficit’ funded from the above sources has declined to less than 3.1% of GDP, i.e. 10% of expenditure). The privatization program has dramatically reduced the number of SOEs, while the commercialization program has seen a reduction in reported losses in SOEs and the BOZ (some previously loss making SOEs are now recording profits).

### ***Indicator 3 ~ Reliability of budget as a guide to future***

*Overall assessment: Significant variations between the budget and actual revenue and expenditure outturns exist at both the aggregate and line ministry level. (C) – **Benchmark not met***

A study conducted by the World Bank in 2002, under the Public Expenditure Management and Financial Accountability Review (PEMFAR), concluded that “the Zambian government has consistently approved budgets that are structurally over-committed and that lack the resources to meet the on-going obligations of the government. The most obvious result has been that actual expenditures at the end of the year bear little relationship with the original budget estimates.” Supplementary appropriations have been frequent and significant relative

to the initial appropriation. Some supplementary appropriations have been directed at regularizing, ex post, transactions that were not sanctioned by Parliament.

Table 2 presents selected budget aggregates (as presented in the annual appropriation “Yellow Book”) against outturns for the three years from 2000 to 2002. Both domestic revenue and financing from GRZ’s development partners is systematically inflated during the budget preparation process in order to facilitate the incorporation of unrealistic expenditure proposals into the budget and MTEF processes.

**Table 2: Zambia budget estimates and actual expenditure (billions of Kwacha)**

	2000	2000	2001	2001	2002	2002
	Budget	Outturn	Budget	Outturn	Budget	Outturn
<b>Total Revenue and grants</b>		<b>1,354</b>	<b>4,048</b>	<b>2,889</b>	<b>4,010</b>	<b>3,631</b>
<i>Of which</i>						
Grants		575				
<b>Expenditure</b>		<b>1,821</b>		<b>2,676</b>	<b>5,677</b>	<b>3,269</b>
<i>Of which</i>						
Personal Emoluments		491		774	1,198	1,098
PRP (HIPC)	Na	Na		79	420	102
Capital		308		596	2,230	611

Source: *Zambian authorities, various Financial Reports and budget ‘Yellow Book’.*

Table 3 indicates that the variance between the printed budget and fiscal outturn data is also significant when broken down by selected ministerial vote. The outturn for key social sectors, such as education and health, has been consistently and significantly below the budget estimate, up to 68% below in the health sector in 2002. Spending by the Ministry of Works and Supply, the ministry responsible for much of the government’s capital spending program, was less than 80% of the budgeted figure in 2002. Defense spending has been consistently above the budget estimate, with the exception of 2002. The lack of consistency and high degree of volatility between the budget and actual spending hampers the ability of ministries to plan and execute programs, and in Zambia’s case the problem appears particularly acute in the areas where most poverty reducing spending occurs.

**Table 3: Zambia budget estimates and actual expenditure by selected ministerial vote (Outturn as a percentage of budget)**

	2000	2001	2002
Ministry of:			
Defense	26%	32%	-4%
Education	-45%	-45%	-23%
Health	-51%	-64%	-68%
Home Affairs	-35%	-34%	-46%
Works and Supply	-71%	-38%	-80%
Total Recurrent Revenue and Grants <sup>1</sup>			-39%

Source: *Government of the Republic of Zambia: Financial Reports 2000, 2001 and 2002* .

1. Total recurrent revenue only for 1999-2001

The high degree of variance between the budget and fiscal outturns reflects weaknesses in both budget preparation, as noted above, and budget execution. The inability to stringently enforce the quarterly cash release system—due to the approval of previously unanticipated requests for funding during the quarter—results in regular ad hoc changes in the distribution of funding between ministries, votes and/or the breaching of aggregate ceilings. Neither the cash management system nor the commitment control system comprehensively covers all aspects of the budget (i.e. the cash management system mainly incorporates current expenditures) and enforcement is weak with sanctions rarely applied. Overall, these factors seriously undermine the credibility of the budget as a tool of fiscal management. An immediate priority for the reform program should be to integrate the cash and commitment control systems and enhance enforcement to ensure complete compliance across GRZ's operations, with sanctions applied for non-compliance where appropriate.

***Indicator 4 ~ Inclusion of donor funds***

***Overall assessment: In large part, donor funds are adequately reflected in the budget but not in the outturn data as difficulties remain in accounting for disbursements. (B) – Benchmark not met***

Donors are requested to provide their annual commitment plans to the MFNP prior to the beginning of each year. Commitments are separately identified in the budget 'Yellow Book' by donor as either 'capital grants' or 'external borrowing' and, where possible, by program. Loans and grants tied to particular expenditures are also noted in the budget document under the relevant Head and Sub-head codes.

In principle, all donor-supported programs should be included in the budget. In practice, the budget incorporates only known commitments for programs covered by underlying government/donor-to-government agreements. Actual disbursements vary considerably from planned commitments and major revisions are made during the year—for example, the 2002 budget estimate was increased by 53% during the year as increased commitments were reported. The Auditor General's annual reports have also repeatedly noted the high variance between budgets and outturn data as a result of disbursements being generally tied to the provision of counterpart funds and/or policy performance. In order to improve the realism of the estimate of donor funds it would be advisable for the government to take a more systematic approach to forecasting donor receipts, for example by attaching a more realistic probability to analyze the distinction between commitments and likely disbursements.

The recording of donor disbursements is also not reported on a timely basis. The Financial Report of the 2002 government accounts, which was released in November 2003 and is certified by the Auditor General, did not include the actual outturn figures for grants received from donors as these were not available at the time of preparation. This is mainly due to the difficulties in capturing a substantial portion of donor receipts in accounting terms due to a lack of timely information provided by donors, their counterparts in line ministries and the BOZ. Grants in-kind are also not systematically captured in fiscal reports. The absence of such information undermines the comprehensiveness of budget reporting and makes it

impossible to reconcile the reported fiscal accounts with balance of payments information on external donor receipts.

***Indicator 5 ~ Budget expenditures are classified on an administrative, economic and/or detailed functional or programmatic basis***

*Overall assessment: The presentation and reporting of government finances is currently based on very broad economic and organizational (e.g. according to ministries and departments) classifications. The 2004 budget will be based on an Activity Based Budget (ABB) classification system, which should provide administrative, economic, functional and programmatic classifications that are consistent with the GFS. (C) – **Benchmark not met***

Zambia's budget is limited to an administrative and very broad economic classification. While the 2003 budget does not have a functional or programmatic classification, the 2004 budget is to be based on what has been termed as Activity Based Budgeting. The former makes it difficult to discern the major priorities, programs, and activities of the Government within and across sectors. In response to this shortcoming, the MFNP has worked over the past several years to introduce an ABB system.

ABB has been under development for a few years and should provide a more detailed administrative, economic and functional budget classification, which is consistent with standard GFS definitions. This should ultimately improve the analysis of links between resource inputs and specific programs and activities and as such can enhance budget management. The new classification system should also help to facilitate more detailed and comprehensive monitoring of poverty related expenditure associated with specific programs and activities.

The Government has an ambitious plan to: (i) submit to Parliament the 2004 budget using the ABB classification; and (ii) upgrade and modify the main accounting and reporting system, the Financial Management System (FMS), so that the accounting and reporting for 2004 is also based on ABB. The ABB has been piloted in a few ministries but is not yet fully integrated into the cash release, accounting, and reporting systems. Given that manual accounting and recording systems still underpin the relatively basic FMS, the full benefits of ABB might not be fully realized until a more fully computerized Integrated Financial Management System (IFMIS) is in place<sup>2</sup>. Given the risks associated with introducing such a relatively advanced form of budget management, the ABB will be run alongside the current budget system, as a backup, during 2004.

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<sup>2</sup> The GRZ have been developing an IFMIS for a number of years with assistance from the European Commission, World Bank and other cooperating partners. It is scheduled to be operational in 2006.

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***Indicator 6 ~ Poverty-reducing expenditures are clearly identified***

*Overall assessment: Spending on the Poverty Reduction Programme (PRP), linked to HIPC expenditure, is identified and reported under a separate budget sub-head code. In 2003 additional codes were introduced into the classification system to identify other poverty related spending within the budget, but the ability to identify and track all poverty related spending is hampered by the limitations of the current classification system. The ability to adequately monitor poverty reducing expenditure should be enhanced significantly by the move to activity-based budgeting (ABB) in 2004 and the implementation of the IFMIS. (C) – **Benchmark not met***

The GRZ clearly recognizes the need to be able to identify and track resources provided under the Heavily Indebted Poor Country Initiative (HIPC) as well as other poverty reducing expenditures. In 2001 the government introduced into the budget classification system a separate new budget code for Poverty Reduction Programmes (PRP) financed under the HIPC initiative, in order to separately identify, budget and track these resources. PRP spending is classified at the subhead level of expenditure and as such Controlling Officers (COs) cannot divert resources to other non-poverty related activities but can reallocate between such activities (subhead 1 expenditure is for Personal emoluments [PE]; subhead 2 is recurrent departmental charges [RDCs]; subhead 3 is capital expenditure; and PRP expenditures are coded as subhead 4). The Financial Report for 2002 shows that direct HIPC related PRP expenditure comprised 3.1% of total expenditure.

In order to reflect the more comprehensive nature of GRZ poverty reducing expenditures, in 2003 the MFNP prepared a list of all budget line items related to Zambia's Poverty Reduction Strategy (PRS) and the Transitional National Development Plan (TNDP). The MFNP allocated the PRP, PRS and TNDP new budget codes at the subsidiary level (i.e. below subhead) or 99, 98 and 97 respectively, within the existing budget classification. This information is so far not published. The benefit of this system is that poverty spending is identified as part of the current budget code structure, rather than two separate coding systems.

The main drawback to the current system results from the weaknesses of the classification system (see indicator 5), which makes it difficult to properly allocate resources on the basis of functions and not on the basis of programs or activities. Consequently, most of the items tagged as poverty reducing are currently capital expenditures and grants, which are easier to identify (though some retention and hardship allowances are included). Considerable current resource inputs associated with these programs are not reported, while it is also difficult to discern whether the classification really matches the priorities of the PRSP.

The introduction of ABB for the 2004 budget should improve the comprehensiveness and the ability to adequately track poverty spending, based on specific programs and/or functions identified within the new classification system. Line ministries, departments, and provinces could then automatically report on the execution of identified poverty spending in their monthly expenditure reports (MERs). More comprehensive quarterly budget execution reports, including full coverage of poverty reducing spending, is expected to be published

within 45 days of the end of the quarter, beginning with the report for the first quarter of 2004.

***Indicator 7 ~ Integration of medium-term forecasts into budget formulation process***

*Overall assessment: The government has presented a consultative Green Paper on a medium-term expenditure framework (MTEF) covering the 2004-06 period. While this represents considerable progress, the Green Paper present's only the macro economic and aggregate fiscal framework. (B) – Benchmark not met*

The Government presented its first consultative “Green Paper” on its Medium Term Expenditure Framework (MTEF) covering the period 2004-06 in October 2003. The Green Paper forms the basis for the preparation of the annual budget for 2004. It outlined both the macroeconomic framework and fiscal framework. The macroeconomic framework provides projections on the growth of the economy, inflation, exchange rate, balance of payments and domestic and foreign debt service payments. The fiscal framework, which is based on the macroeconomic framework, outlines the expected amount of resources available to the Government, and proposals on how they will be allocated, by type of expenditure.

The Green Paper has been subject to a broad consultative process which has included the Cabinet, Members of Parliament, with participation by the President and consultations at provincial level. The Government hopes that these consultations will promote transparency, enhance the realism of budget preparation and increase the understanding and ownership of the budget by all stakeholders.

As such, the Green Paper is a first step in the effort to link budgets to the national priorities as espoused in Zambia’s PRSP and Transitional National Development Plan. The Green Paper, however, defined the resource envelope for the fiscal framework in the medium term (2004-06) but did not contain detailed sector allocations. Bottom-up costing of policies and programs by line ministries and agencies has been initiated for the 2004 budget, but it is not certain when this process will be completed. The ability to develop multi-year planning of programs under the MTEF should also be enhanced by the development of Activity Based Budgeting (see indicator 5) and improvements in the information management systems.

#### IV. BUDGET EXECUTION

***Indicator 8 ~ There exists a small stock of expenditure arrears, with little accumulation of arrears over the previous year***

*Overall assessment: Despite improvements in the recording and reporting of expenditure arrears, combined with enhancements in cash management and the commitment control system, expenditure arrears remain an endemic feature of Zambia’s PEM system. At the end of December 2002, the stock of domestic expenditure arrears was estimated to be around 12% of total expenditure, excluding expenditure for arrears clearance, equivalent to 3.7% of GDP. (C) – Benchmark not met*

Despite considerable effort over many years to contain arrears growth, significant payment arrears remain a feature of the public expenditure management system in Zambia<sup>4</sup>. The MFNP commenced a program of quarterly audits of arrears in 1998 and this has developed into a comprehensive database of domestic arrears, which was completed in June 2003. The database is maintained by MFNP and is based on regular monthly returns from line ministries to the Expenditure Monitoring Unit MFNP, combined with active quarterly audits run by the Internal Audit department in the MFNP. Information is reported on economic classification of arrears and for the source of capital arrears (principal, interest, penalties, foreign exchange related costs, and the timing payment was due). Table 4 summarizes the quantum of audited arrears as of the end of December 2002.

**Table 4. Summary table of verified domestic arrears (as of end-December 2002)**

	<b>Total<sup>2</sup></b>	<b>Current items</b>	<b>Capital items<sup>2</sup></b>
<b>Kwacha billion</b>	602	289	313
<b>% Government Expenditure<sup>1</sup></b>	12%	6%	6%
<b>% GDP</b>	3.7%	1.8%	1.8%

Source: Zambian authorities

1. Ratio of total expenditure net of expenditure to clear arrears. 2. Includes K173 billion of capital arrears reported in H1 2003 but relating to 2002 expenditure.

Note: GRZ will accumulate external payment arrears to the Paris Club group of creditors following the expiration of a debt relief agreement in March 2003. These should be dealt with when a new PRGF and rescheduling agreement can be reached.

The arrears problem fundamentally reflects poor fiscal discipline and financial compliance, although weaknesses still persist in the related expenditure planning and control, cash management and commitment control systems. The government's cash rationing system, initially established in 1993, has evolved from a weekly system to one in which quarterly cash flow projections and cash ceilings are set for all but capital expenditure items in the budget. Projected capital expenditure requirements are submitted separately to the MFNP by relevant ministries. Capital expenditure is not yet part of the commitment control system (CCS). In 2003, the quarterly cash release system was combined with the CCS, which is effective in the majority of government institutions. Internal audit reports suggest that the cash management and CCS helped to limit the accumulation of new arrears during the first half of 2003.

Overall, these are positive and much needed developments. Notwithstanding, cash releases have not strictly conformed to the quarterly cash ceilings, mainly because expenditure policy decisions have led to the execution of unbudgeted and ad hoc expenditures. Enforcement of the CCS, with sanctions imposed for non-compliance or against over-commitment and virement of funds between budget subheads, has also been inadequate.

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<sup>4</sup> See Diamond and Schiller, country illustration in Public Expenditure Management Handbook, Chu and Hemming, IMF, 1991 for a description of efforts to contain arrears from the 1980s.

Over the medium- to long-term, the development of the IFMIS can help to integrate the CCS, cash management and the accounting system. New commitments can be automatically limited and posted in the accounting system in accordance with the approved cash ceilings and expenditure priorities. However, in order to be effective any system requires a credible budget and political commitment to ensure compliance.

***Indicator 9 ~ Internal control is effective***

*Overall assessment: The internal audit (IA) function faces severe resource constraints and is hampered by the predominance of manual systems and the difficulty in enforcing the compliance of Controlling Officers in line ministries. (B) – Benchmark not met*

The main internal audit functions, as set out in the Financial Regulations, are to maintain pre-audit controls on expenditure and to assess the adequacy of the financial management systems and procedures in place. The internal audit service is presented across government and a consolidated annual work program is produced and costed. Internal audit reports, which include recommended actions, are sent to the relevant Controlling Officer in the line ministry and the office of the Internal Auditor. A system for tracking implementation has been established and there is evidence that some recommendations are being adopted. The service has been particularly effective in auditing arrears. The PEMFAR concluded that “internal auditors have been effective in diagnosing problems in the financial management procedures, but their potential impact is still severely limited by the lack of adequate human and financial resources to carry out their work and insufficient follow-up on their recommendations”.

***Indicator 10 ~ Tracking surveys are used, where necessary, to supplement internal control, but may not yet be a regular feature of the PEM system.***

*Overall assessment: The current PEM system does not adequately track poverty related spending and only one tracking survey has been undertaken, in the primary education sector, as part of the Bank sponsored PEMFAR exercise. (C) – Benchmark not met*

Tracking surveys seek to estimate the amount of public money that is actually delivered through the budget system to service delivery units, including decentralized or deconcentrated spending entities. These surveys provide a double check on the quality of internal control systems and are more sharply focused than regular external audits. As part of the World Bank sponsored PEMFAR, an expenditure and service delivery survey (ESDS) was conducted for primary education. The results suggested that the majority of discretionary expenditure does not reach its formally intended destination, but instead around two-thirds “leaks” to public intermediary administrative costs or private interests *en route*.

With the introduction of Activity Based Budgeting (see Box 1), more comprehensive coverage of fiscal reporting and improvements in the information management systems it should eventually become possible to reliably track resource transfers through to service delivery units and through them to the final uses. However, it is likely that this will take considerable time to implement and in the interim additional Poverty Expenditure Tracking

Surveys (PETS) might be considered to monitor the effectiveness of public spending in key poverty-related areas.

***Indicator 11 ~ Satisfactory reconciliation of fiscal and banking records is undertaken routinely***

*Overall Assessment: All Controlling Officers (COs) are required to submit bank reconciliation statements to the Accountant General (AG) within 15 days after the end of the month. In order to improve reporting some commercial bank data is also now reported directly to the Accountant General. (A) – **Benchmark met***

Zambia operates a decentralized system of financial control, with the Controlling Officer (CO) of each ministry or agency responsible for the making of payments, the collection of revenues and the control of the assets and liabilities under his/her jurisdiction. Within this system ministries and departments maintain sub-accounts in commercial banks that ‘*mirror*’ control accounts held in the Bank of Zambia (BoZ) as well as regional accounting units and bank accounts (idle balances are not to be held in the *mirror* accounts but with the BOZ). GRZ has acknowledged that a minimum of 700 accounts are ‘*necessary*’ to deliver this decentralized system. These may be used to obfuscate and undermine the reconciliation process. An internal review by the Accountant General (AG) in 2002 revealed considerable shortcomings in the reconciliation process between bank statements and cashbooks.

In order to address these deficiencies, the AG reissued instructions to all CO’s regarding the reconciliation of bank accounts in 2003. CO’s are required to report all accounts and submit reconciliation statements to the office of the AG by the 15<sup>th</sup> of every month (bank balances and cash book). This is separate from the monthly expenditure returns (MER), which also include the reconciliation information. During 2003 the AG initiated a process whereby in addition to information on the Control Accounts held by BOZ, bank account information on *mirror* accounts is also accessed directly (electronically) by the AG’s office, as well as through the monthly returns from line ministries (the coverage under this initiative is not yet comprehensive). The AG has also started to withhold transfers of recurrent departmental charges (RDC) funds if bank reconciliation statements are not received in time from line ministries.

These initiatives have greatly improved the AG’s ability to reconcile bank statements within an acceptable timeframe. The authorities track compliance and estimate that over 95% of monthly bank reconciliations (by value of reconciled-total balances) are completed by the end of the following month.

## **V. BUDGET REPORTING**

***Indicator 12 ~ Internal fiscal reports are received within four weeks of the end of the relevant period***

*Overall assessment: Internal budget reports are generally received by the MFNP 15 days after the end of each month. Despite the ongoing improvements in the overall system, some of the largest ministries submit reports with significant delays. (C) – Benchmark not met*

Ministries are required to submit Monthly Expenditure Returns (MER) to the Accountant General (AG) and the Budget Office in the MFNP by the 15<sup>th</sup> of the following month. The format follows the budget votes and heads and contains the following information: budget provision; budget provision balance; expenditure; commitments; outstanding commitments; cash releases, arrears. Generally, the majority of MERs are received between two to four weeks after the end of the preceding month, although some key ministries, such as defense, health and education, generally submit the MER after the end of the month. Given the significance of these spending ministries with regard to the overall budget, and poverty related spending in particular, this benchmark is assessed as not being met.

The core computerized accounting system, the financial management system (FMS), is used to capture accounting transactions as recorded in the cash book backing sheets and is the basis for reconciling government accounts. Monthly FMS reports should also be submitted to the AG by the 15<sup>th</sup> of the following month but delays in entering budget appropriation details at the beginning of the year has resulted in a significant backlog. By mid-December 2003, FMS reports had been received by the AG up to around September. It is expected that the reporting can be brought up to date by end-January 2004, although this is symptomatic of the weaknesses of budget preparation in Zambia that undermine the budget's credibility.

***Indicator 13 ~ Regular fiscal reports track poverty reducing spending are produced on a functional or programmatic basis***

*Overall assessment: In-year poverty spending reports are limited by the existing classification structure, which lacks a functional classification (see indicator 6). (C) – Benchmark not met*

A special coding system has been established within the main accounting system to tag poverty spending as defined under the Poverty Reduction Programme (PRP), the Poverty Reduction Strategy (PRS) and the Transitional National Development Plan (TNDP). See indicator 6 for details of the tagging system. This is done so that funding for poverty-reducing programs can be given priority in setting the quarterly expenditure ceilings and monthly cash releases. The monthly expenditure reports (MER), which ministries are required to submit within 15 days of the end of the next month, detail PRP, PRS and TNDP expenditures and commitments whether they are financed from domestic or external resources. However, the current classification system does not support a detailed functional classification, which would enable a more comprehensive and informative reporting of total poverty reducing spending.

***Indicator 14 ~ Routine transactions are entered into the main accounting system(s) within two months after the end of the fiscal year***

*Overall assessment: Valid, journalized transactions can be recorded up to one month after the end of the budget year, after which the accounts are closed. Production of final accounts, based on trial balances, take significantly longer. (A) - Benchmark met*

The Account General (AG) sets a clearly defined timetable for the closure of all GZR accounts for the financial year end. On the last day of the year, 31<sup>st</sup> December, all balances outstanding on control accounts (excepting a limited number) held in the Bank of Zambia (BOZ) are transferred to a single control account to which the Controlling Officers in line ministries have no access. The BOZ is also instructed not to accept any cheques backdated to December presented after the 6<sup>th</sup> of January. Controlling Officers are required to furnish the Office of the Accountant General with their FMS reports within 15 days of the end of the final month, while valid journalized adjustments are acceptable until the end of January. The AG aims to produce the accounts for the Financial Report by the end of February, but significant delays have occurred in the past.

In accordance with the Finance (Control and Management) Act, cap 347, Controlling Officers must prepare their final accounts and submit them to the Auditor general and the Accountant General by 31<sup>st</sup> March after the year-end. No submissions may be included after this date.

***Indicator 15 ~ An audited record of the financial outturn is presented to the legislature within twelve months of the end of the fiscal year***

*Overall assessment: The timely provision of audited financial information has improved markedly in recent years but scope for improvement remains. (B) – Benchmark met*

The Constitution (Article 118) requires that the MFNP produce the Republic's Financial Report for the year end and lay it before the National Assembly within nine (9) months after the end of the financial year. Each Controlling Officer and the Office of the Auditor General (AOG) certify the financial outturn presented in the **Financial Report**, subject to the observations contained in the subsequent Audit Report,. The 'Audit Report' of GRZ, outlines the main qualifications to the Financial Report and should be submitted to the President within 3 months of the Financial Report (i.e. within 12 months of the end of the financial year). The President must past the reports to Parliament within seven days.

For the first time in ten years, the Financial Report was issued before the legal due date in 2000. The FY2002 Financial Report, certified by the AOG, was published in November 2003. The summary information presented in the Financial Report has improved considerably in recent years, although for FY2002 no information was presented on the disbursement of donor funds during the year (see indicator 4). The Financial Report includes: Statement A, which is the consolidation of estimated and actual Revenue, Financing and Expenditure; Statement B, which is comparative statement of Estimated and Actual revenue; and Statement C, which shows the Total Authorized Provisions and Actual Expenditure and the Balance Sheet, which shows the assets and liabilities of the government for the year. The

AOG's certification that, subject to the observations contained in the Audit Report, the accounts presented in the Financial Report reflect moneys expended for the purpose for which they were appropriated and that expenditure conformed to the authority that governed it, is sufficient to meet this benchmark.

The Audit Reports for the FY2000 and FY2001 were tabled to Parliament in March 2002 and August 2003 respectively, in excess of 12 months after the end of the relevant financial year. The President has committed to tabling the 2002 audited report to Parliament by the due date (31 December 2003), but the report has yet to be submitted by the AOG. The PEMFAR also noted several problems concerning the coverage, resourcing and quality of both the Financial Report and the Audit Report but nevertheless welcomed the improvements in timeliness over recent years as an achievement, given the limited capacity available to the OAG. GRZ should strive to comply strictly to the constitutional timetable and to improve the coverage and quality of the Audit Report.

## VI. PROCUREMENT

### *Indicator 16 ~ Efficiency and effectiveness of the public procurement system*

*Overall assessment: The procurement system suffers from a weak legal framework and weak enforcement of rules, enabling inefficient use of public funds and contributing to a lack of transparency and accountability. (B) – Benchmark not met*

Several factors limit effective and efficiency of public procurement. First, a gap between intentions and practice pervades. The system is highly centralized with the Zambia National Tender Board (ZNTB) expected to be involved in policy development, supervision as well as conducting approvals of procurement contracts above certain, relatively low, levels. However, the ZNTB is liberal in permitting exceptions and allowing negotiations to replace clear guidelines.

Current practices that foster corruption and higher prices include using negotiations as an accepted procurement method and misusing the registration system for purchases from short-listed firms. Second, the legal framework lacks robustness and features structural, and content, inadequacies. Aspects that should be in the ZNTB Act are in the regulations or guidelines and vice versa. Third, procurement management is weak. In the few departments where they do exist, procurement files are often incomplete, and procurement planning is largely nonexistent as a tool for conducting efficient and economic procurement. Finally, there has been no progress in setting up a procurement cadre, despite the fact that more than 600 people have been trained at different levels.

## VII. RECOMMENDED ACTION PLAN FOR IMPROVING PUBLIC EXPENDITURE MANAGEMENT

This section proposes a time bound, prioritized action plan for improving Zambia's PEM system. The AAP process may be viewed as establishing a basic framework on which a more

comprehensive program of public finance reforms might be based and partially monitored. Tables 6 summarizes the recently completed and ongoing initiatives of Zambia's development partners to assist in upgrading PEM.

The status of the Action Plan to improve PEM that was proposed during the 2001 AAP exercise is given in Table 7. It should be noted that although a few of the actions recommended in 2001 to strengthen PEM have been completed, these are generally not sufficient for Zambia to have met the benchmark in the related indicators. This mainly reflects the considerable upgrading that was required for the PEM systems and the need to prioritize and pace the reforms to reflect the extremely limited capacity of the GRZ (i.e. an overly ambitious program would not have been feasible and may simply have overloaded what is already a fragile system). Encouragingly, many of the initiatives outlined in Table 7 are well underway and could begin to produce the desired results within the next few years.

The Action Plan presented in Tables 5 and 8 are derived from the assessment of the 16 PEM indicators but the recommended actions are consistent with those contained in the broader Public Expenditure Management and Financial Accountability Review (PEMFAR), produced by the World Bank in 2003—Table 8 summarizes the priority actions that are elaborated in more detail in Table 5. The PEMFAR has been extensively discussed and broadly agreed with government and other development partners.

The suggested timings in the action plan are based on both the mission's assessment of the urgency of any given action and its best judgment on when particular reforms can realistically be implemented, given existing capacity, and the availability of TA to undertake the work. Where TA is already in place to support a specific action, this is noted in the action plan in Table 8.

In September, 2003 the Government presented its public sector reform strategy to cooperating partners in Lusaka. The Government team was led by the Minister of Finance and National Planning, and included other senior Government officials. From the cooperating partners, the EU, IMF, World Bank and bilateral donors (the UK DFID, Norway's NORAD, Sweden, Netherlands, Germany, Ireland, Japan) participated. The Government stated that one of its immediate priorities is to improve public expenditure management and financial accountability. This is also highlighted as a critical area in Zambia's PRSP. At the September meeting, the Government and cooperating partners agreed to:

- Establish a joint Government/donors group to oversee and monitor progress in public sector reforms, including progress in public expenditure management; and
- Establish a joint Government/donors technical team to develop specific action plans and detailed costing of the public expenditure management reforms, based on the World Bank's recently completed PEMFAR. The mission met with this group to discuss the formulation of the PEM reform action plan outlined below.

It is expected that a coordinated approach to public expenditure reforms, which includes a proposal to pool funding by donors, will considerably strengthen incentives for implementation. The initiative also recognizes the importance of regular monitoring and evaluation of progress of the reform program. The mission discussed the potential for integrating the HIPC AAP indicators into the PEM reform monitoring framework with the government/donors technical team. The technical team will consider whether to institutionalize the AAP exercise, on a regular basis, as part of the government's own monitoring and evaluation of the reform program.

The mission largely concurs with the time bound recommendations set out in the PEMFAR action plan, and these are restated below, in Table 5, with some amendments based on the conclusions of the mission. The large number of actions demonstrates the considerable effort, over a prolonged period, that will be required to bring Zambia's PEM system up to an acceptable standard. A number of 'actions' refer to enforcing compliance to existing PEM regulations, rules and systems, and as this has been highlighted in various sections of the report as an area of notable weakness it should be given the highest priority. High priority PEM reforms also include the strengthening and eventual integration of the existing quarterly cash release and commitment control systems, to ensure they are more comprehensive and enforced.

GZR and donors recognize the limited capacity within the public sector to undertake such widespread reforms. The mission recommends that careful consideration be given to the pace and sequencing of the reform program so that current systems continue to be strengthened, not undermined, as new initiatives are introduced.

**Table 5. A Three-Year Program of Priority Actions<sup>5</sup>**

	<b>Recommended Action</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Institutional Responsibility</b>
	<b>Budget Preparation</b>				
Credibility of the Budget	Continue to develop MTEF as basis for more realistic budgeting that links priorities to annual budgets, with realistic program costs and revenue estimates	X	—→		MFNP, Cabinet, Parliament
	Parliament approves all supplementary estimates before spending occurs.	X	—→		MFNP
	Improve comprehensiveness of the budget by reporting on quasi-fiscal activities including, state-owned enterprises, pension funds, and other extra-budgetary funds. Also begin reporting on major contingent liabilities.		X	—→	MFNP

<sup>5</sup> An 'X' denotes the year in which an activity should be taken. Year 1 denotes within FY2004. The arrow denotes the continuation and strengthening of the completed action.

	<b>Recommended Action</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Institutional Responsibility</b>
Classification	Integrate the Activity Based Budgeting (ABB) classification system into the cash release process and accounting system, so that it becomes the primary basis of budget preparation, budget execution, and reporting.	X	→		MFNP
	Enforce the correct functional classification of expenditures under the new ABB and use this to identify and monitor poverty-reducing expenditures.	X	→		MFNP
Presentation	Improve budget presentation by including: (a) columns with comparative expenditure data by head and subhead for the two years prior to the budget year, (b) summary information on the status of capital projects, (c) summary tables of spending by category, and (d) narrative on major policy changes reflected in the budget.	X	→		MFNP, Parliament
<b>Budget Execution</b>					
Cash Management	Review institutional responsibility for cash management within the MFNP.	X			MFNP
	Continue to publish information on cash releases as a means of promoting transparency.	X	→		MFNP
	Implement Quarterly Cash Flow Plans that (a) are based on comprehensive revenue forecasting and an assessment of seasonal expenditure requirements and (b) that provide an assurance to line ministries as to the level of commitments that they can enter into.	X	→		MFNP
	Publish a comprehensive debt management strategy and quantify more detailed information on the quantum and structure of government liabilities (including arrears and contingent liabilities).		X		MFNP, BOZ
Commitment Control	Maintain commitment ceilings for ministries based on the quarterly cash flow plans and enforce compliance with monthly outturn reporting. Apply sanctions in cases of non-compliance.	X	→		MFNP/Budget Office
	Strengthen the Commitment Control System to (a) maintain timely and reconciled information regarding commitments and payments, and (b) to prevent any payments from being made unless commitments were properly recorded in the expenditure ledger. Apply sanctions in cases of persistent non-compliance.	X	→		MFNP/AccG
	Complete and maintain the domestic arrears database, and develop a plan for liquidating past arrears.	X	→		MFNP
CapEx	Assure that recurrent costs of capital projects are adequately planned for in the MTEF, as a pre-condition to the project being started.		X	→	MFNP
<b>Public Procurement</b>					
Procurement	Finalize the plan for delegation of procurement authority to ministries/agencies in 3 years.	X			MFNP, ZNTB
	Enhance the regulatory and supervisory functions of ZNTB.		X		MFNP, ZNTB

	<b>Recommended Action</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Institutional Responsibility</b>
	Revise the legal framework.		X		MFNP, ZNTB
	Introduce an improved registration list system. Improve procurement practices, through greater restriction of negotiation and informing tenders.		X		ZNTB
	<b>Accounting, Reporting, and Auditing</b>				
Accounting & Reporting	Clarify the role and responsibilities of the Accountant General in legislation.		X		MFNP
	Ensure that LPOs and contracts are entered into the FMS at the time the commitment is entered into and not at payment stage.		X		MFNP
	Online connection between AG and BOZ for all GRZ control accounts developed and extend system to all commercial banks by year 2.		X		MFNP
	Continue to reconcile expenditure returns with budget releases and banking information for each ministry to verify compliance with financial regulations.	X			MFNP
IFMIS	Procure hardware and software for the IFMIS, pilot test, evaluate. Ensure that the IFMIS is complementary to the broader PEM reform program and does not undermine existing systems or capacity.	X			MFNP
	Roll out IFMIS to all ministries and train users.		X	→	MFNP
Internal Audit	Increase the capacity of Internal Audit to execute its annual workplans through improved staffing, greater operating resources, and better coordination with the Office of the Auditor General (OAG). Workplans should include materiality audits of capital projects.		X	→	MFNP
	Carry out a comprehensive assessment of the control system and recommend corrective actions.		X		MFNP
	Hold Controlling Officers responsible for reporting on how IA recommendations are being followed-up.	X		→	MFNP
External Audit	Consider place OAG's budget and staffing policies under the responsibility of an independent Audit Board.		X		Parliament, State House

**Table 6: Overview of Technical and Donor Assistance in Public Expenditure Management in Zambia**

Donor/ Provider	RECENT*/ONGOING assistance by major project		PLANNED assistance by major project	
	Description	Dates	Description	Dates
WORLD BANK	Public Sector Capacity Building program 1: IFMIS, MTEF	2000 -	Ongoing	
	Public Expenditure Management and Financial Accountability Review (PEMFAR)	2002 - 03	Joint Government/donors technical team to develop PEM action plan.**	
	Public Service Reform Program	2000 -	Ongoing	
IMF	Resident PEM advisor: Commitment Control system, fiscal reporting, and arrears management	July 2002 - January 2004		
EU	IFMIS and Activity Based Budgeting	2002 -	Ongoing	
			Joint Government/donors technical team to develop PEM action plan.**	
DFID			Joint Government/donors technical team to develop PEM action plan.**	
	Payroll and establishment management	2002 -	Ongoing	
	Zambia Revenue Authority	1999 -	Ongoing	
NORAD	Office of the Auditor General (training and capacity building)	2000 -	Ongoing	
			Joint Government/donors technical team to develop PEM action plan.**	

\* Within the last 12 months

\*\* This joint Government/donors initiative is at the program design stage.

**Table 7: Implementation Status of Actions Proposed in 2001 to strengthen PEM in Zambia**

#	Actions <sup>1</sup>	Relates to Indicator <sup>2</sup>	Timing (S/M) <sup>3</sup>	Status (FI/II/NS)*	Date Achieved**	Comments***
<b>Actions to strengthen budget formulation</b>						
1	Improve reporting on donor activities	4	S	NS		No single action has been taken, although GRZ has worked on an ongoing basis with donors to improve ex ante and ex post reporting of financial flows and activities.
2	Short-term expert to analyze 1999 and 2000 accounts, and 2001 budget; and to establish bridge tables for a functional classification at the 2nd digit level	5	S	II		Bridge table available for social sectors. Activity Based Budget classification, with detailed functional classification, will be introduced in 2004.
3	Component of PSCAP: improve classification to meet requirements of IFMIS	5	M	FI	Nov-03	Activity Based Budget Chart of Accounts approved, 2003. New classification system introduced in 2004 budget.
4	Tag expenditures financed from HIPC resources through previously unused budget code at the level of subhead	6	S	FI	2003	Subhead 4 for Poverty Reduction Programs (PRP) introduced in 2003 budget and reported quarterly.
5	Activity-based budgeting: classification exercises underway for 4 pilot ministries and in the education sector	5	S	FI	2003	2004 budget is being undertaken on an ABB basis (preparation and reporting), alongside existing budget system..
6	MTEF component of PSCAP	7	M	II		A consultative Green Paper outlining the macro-fiscal framework for 2004-2006 was published in October 2003.
N						
<b>Actions to strengthen budget execution</b>						
1	Enforce compliance with regulations on commitments to control better, expenditure path and arrears	8	S	II	Sep-03	Majority of ministries operating commitment control system by September 2003 quarterly arrears audit. But ongoing need to improve system wide compliance.
2	Implement IFMIS	8	M	II		Considerable preparatory work has been done on the system requirements and the design of a new classification system and Chart of Accounts. Hardware procurement is due to commence in 2004.
3	Strengthen internal audit through redirection of resources to system audits, random checks etc. and training	9	S	II		
4	Establish sub-account 49 of main government account in which all monies saved due to the HIPC Initiative are being channeled, and make it operational	9	S	FI	March '03	
5	Improve reporting on resources of departments and appropriations in aid	9	S	II		Appropriations in Aid are reflected in the budget documents as grants. In general there is no detailed breakdown of expenditure.
6	Conduct Public Expenditure Tracking Surveys (PETS)	10	M	NS		An expenditure and service delivery survey (ESDS) was carried out for basic education as part of the World Bank PEMFAR in 2002.
N						
<b>Actions to strengthen financial reporting</b>						
1	Enforce compliance with monthly reporting requirements	12	S	II		Bank reconciliation data is generally submitted on a comprehensive and timely basis. Monthly reporting has improved considerably, although coverage for the Monthly Expenditure Returns (MERs) is still not complete. Sanctions have started to be imposed by the AG in terms of withholding releases for late submission.
2	Strengthen Auditor-General department; improve resources and training	15	S	II		NORAD has begun capacity building program but resources remain severely constrained.
N						

<sup>1</sup>Actions reflect the descriptions held by FAD-PREM in the March 2003 Board Paper and should relate to the earlier action plans developed in prior AAPs.

<sup>2</sup>Show to which of the 16 indicators from the AAP the action chiefly relates.

<sup>3</sup>S=Short term action (within 12 months of action); M=medium term action.

\* FI=fully implemented, II=Implementation initiated, NS=Not started (FI in blue reflects status as FI at the time of March 2003 board paper. Mission team should update the status for all other actions)

\*\*Date achieved for FI reflects the action status in the March 2003 Board Paper.

\*\*\* Comments may explain any changes in the nature of proposed actions or changes to the timing of their implementation.

**Table8. Summary New Action Plan to upgrade PEM capacity in Zambia**

SHORT-TERM MEASURES (Within next 12 months)					MEDIUM-TERM MEASURES (12 months to 3 years)			
	No.*	Action **	Relates to indicator no.	TA Provider***	No.*	Action**	Relates to indicator no.	TA Provider***
<b>FORMULATION</b>								
<b>Comprehensiveness</b>	1	Parliament approves all supplementary estimates before spending occurs.	3	PEMFAR	12	Report on quasi-fiscal activities including revenues and expenditures of SOEs, pension funds, and other extra-budgetary funds. Also begin reporting major contingent liabilities.	1	PEMFAR
	2	Improve budget presentation.	3	PEMFAR				
	3	Enforce reporting systems to ensure donor funding is adequately incorporated in fiscal reports.	4	PEMFAR	13	Comprehensive reporting included in fiscal reports on major contingent liabilities and current extra budgetary funds	2	PEMFAR
<b>Classification</b>	4	Enforce GFS compliant ABB functional classification system.	5	EU, World Bank				
	5	Use ABB classification system to identify and monitor poverty-reducing expenditures in the budget	6	EU, World Bank				
<b>Projection</b>	6	Publish consultative Green Paper linking macro-fiscal aspects of current MTEF 2004-06 with costed sectoral programs.	7	World Bank	14	MTEF clearly links national development priorities to annual budgets, to reconcile the differences between budget estimates and actual program costs, and to engage Cabinet and Parliament earlier in the budget calendar.	7	World Bank
					15	Current costs of capital projects approved by Appropriation only if adequately incorporated into MTEF.	7	PEMFAR
<b>EXECUTION</b>								
<b>Internal Controls</b>	7	Maintain the domestic arrears database and develop a prioritized plan for liquidating past arrears.	8	IMF				
	8	Integrate and enforce a comprehensive and transparent cash release process with the commitment control and accounting systems. Review institutional responsibilities and reduce exceptions.	9	PEMFAR				
	9	Pilot IFMIS in 3 major line ministries, without disrupting existing systems.	9	EU, World Bank	16	Implement a system wide Integrated Financial Management System (IFMIS).	9	EU, World Bank
<b>Reconciliation</b>					17	Online connection between AG and GRZ accounts extended from BOZ control accounts to all commercial bank accounts.	11	PEMFAR
<b>REPORTING</b>								
<b>In-Year Reporting</b>								
<b>Final Audited Accounts</b>	10	Review option of independent Audit Board.	15	NORAD				
<b>NEW</b>								
<b>Procurement</b>	11	Review the legal framework (ZNTB Act) to provide, among others, anti-corruption and fraud provisions in the Act, guidelines and bidding documents.	16	World Bank	18	Progressively raise ZNTB's prior review thresholds for Procurement Support Units, until full devolution of procurement responsibilities to line ministries is achieved in five years (2004-2008).	16	World Bank
		* Actions should be numbered						
		** Actions should describe the process recommended to improve the PEM system's performance in particular areas, such as the "Consolidation of Government Bank Accounts into a Treasury Single Account" or the "Introduction of a GFS compliant accounting system", rather than simply listing individual activities, such as training events, TA missions or the provision of equipment						
		*** List of TA providers in PEM. PEMFAR - provider yet to be identified from PEMFAR technical government-donor group.						