

**Exploring ways of Promoting Effective and Efficient Public  
Resource Management and Service delivery through Transparency,  
Social Accountability and Participation**

**Study to Identify Challenges and Potential  
Success Factors Regarding Public Finance  
Management in Zambia**

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The perspective and views included in this document remain those of the Study Team.

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## List of Acronyms

ABB	Activity Based Budgeting
ACC	Anti-Corruption Commission
CDF	Constituency Development Fund
CSPR	Civil Society for Poverty Reduction
DEMPA	Debt Management Performance Assessment
DMO	Debt Management Office
DSF	Debt Sustainability Framework
EAZ	Economic Association of Zambia
ETC	Economic and Technical Cooperation
FNDP	Fifth National Development Plan
FSP	Fertiliser Support Programme
HIPC	Highly Indebted Poor Countries
IDEA	Interactive Data Extraction and Analysis
IDM	Investments & Debt Management
IFMIS	Integrated Financial Management and Information System
JCTR	Jesuit Centre for Theological Reflection
MDRI	Multilateral Debt Relief Initiative
MMD	Movement for Multi-party Democracy
MPSA	Ministries, Provinces and other Spending Agencies
MTEF	Medium-term Expenditure Framework
NCC	National Constitutional Conference
NDP	National Development Plans
NGOCC	Non-Governmental Organizations Coordination Council
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PBA	Participatory Budget Analysis
PBET	Participatory Budget Expenditure Tracking
PBF	Participatory Budget Formulation
PEMFA	Public Expenditure Management and Financial Accountability
PETS	Public Expenditure Tracking System
PF	Patriotic Front
PFM	Public Finance Management
PMEC	Payroll Management and Establishment Control
PMP	Public management Package
PPEM	Participatory Public Expenditure Management
PRP	Poverty Reduction Strategy
PSCAP	Public Service Capacity-building Programme
PSRP	Public Service Reform Programme
UPND	United Party for National Development

## Executive Summary

While Zambia has recorded positive economic growth in recent years, this has not translated into significant decline in poverty, especially in rural areas. The low impact on poverty has raised growing concern amongst various stakeholders, with many pointing to the need for appropriate reforms in public financial management that can have positive impact on the general population.

This study was commissioned by the Jesuit Centre for Theological Reflection (JCTR) to explore ways of promoting effective and efficient public resource management and service delivery through transparency, social accountability and participation. It was intended to identify challenges and potential success factors regarding public finance management in Zambia. The study builds upon the Debt Management Bill paper by JCTR that suggests reforms in the national loan contraction and management process.

More specifically, the study had the following objectives:

- (a) To analyse, examine and review key public finance management issues in the Zambian context;
- (b) To examine the extent to which the current public finance management framework and laws promote transparency, accountability and participation;
- (c) To review the status and progress made on various reform programmes meant to enhance transparency, accountability, participation and effective public finance management; and
- (d) To set out policy options and provide a synthesis of the main recommendations on the way forward

The study recognises that current challenges in the Zambian public financial management system have a historical perspective that lie in the political economy of the country. Greater state control of the economy particularly during the one-party rule (during much of Zambia's first three decades after independence) had the effect of elevating particular arms of government and reducing citizen participation.

A combination of issues of mind-set and political expediency appear to have fueled the emergence of a scenario where regulation is weak and, even where such is adequate, disregard is not uncommon. Various interest groups have argued that the current failure to significantly impact poverty can be linked to major shortcomings with regard to effectiveness, efficiency, transparency, accountability and participation in public financial management.

The case for reform in public resource management appears to have been clearly made over the years, with specific areas for improvement being well articulated. Key to these reforms has been the need for more integrated approaches to public resource management. This has been viewed as critical to greater transparency, accountability and citizen participation.

In response, the government of Zambia, with the support of various stakeholders, has undertaken a number of steps in the direction of reform with significant progress made in some instances.

There have, for example, been moves towards greater integration of the annual budgeting with the national development planning (NDP, re-introduced in 2002) and medium term expenditure framework (MTEF). Other strategies, systems and process are currently being implemented to improve efficiency and effectiveness in public resource planning and utilization. Notable amongst these are the Integrated Financial Information Management System (IFMIS) and the introduction of an Activity-Based Budgeting approach.

Whilst documenting a number of such reform efforts, the study identifies various success limitations. Many of these are associated with issues such as reforms not going far enough to address the underlying challenges and also lack of political will to follow through with agreed processes. As such, whilst consultations around the NDPs and annual budgeting may have, for instance, been significantly enhanced, the current system does not compel government to necessarily act on input arising from such participation. The proof of participation may need to be seen in the resultant influence.

The study findings point to the need for all major pieces of reform to be woven into a coherent framework that keeps the main goals (such as poverty reduction) in mind, and targets the weakest links in the public financial management system.

It also appears clear that purely technical solutions are unlikely to go far in achieving developmental goals.

Addressing issues to do with human resources, coupled with demonstrable political will, is going to be cardinal for successful reform. Unless there is political will to employ and retain people with the right attitude, right competences and skills, and who are adequately motivated to work with reform tools, the desired results may remain elusive.

## 1.0 Introduction

The Jesuit Centre for Theological Reflection (JCTR) is a faith based organization that works on a number of social and economic issues through research, education, consultancy and advocacy with different stakeholders. Through one of its programmes, the Economic Equity and Development Programme, JCTR contracted Nangoma Consult Limited to conduct a study on Zambia's Public Finance Management Framework.

The study seeks to examine the extent to which the current public finance management framework and laws promote transparency, accountability and participation. It also seeks to review the status and progress made on reform programmes meant to enhance transparency, accountability, participation and effective public finance management, such as decentralization, right-sizing and pay-reforms in the civil service. The other two objectives of the study are to set out policy options and providing a synthesis of main recommendations on the way forward both for government and a social pressure group like JCTR.

This study builds upon the Debt Management Bill paper that JCTR submitted to the National Constitutional Conference (NCC) in 2010, suggesting reforms in the loan contraction and management process.

## 2.0 Background

Zambia has experienced strong economic growth during the period 1999 to 2009 with real GDP growth averaging 5% per annum. The Country has recently been re-classified from a Least Developed to Lower-Middle income status by the World Bank.

However, this growth has not yet reached the historical highs in terms of gains around social indicators that were achieved after independence. These gains were reversed in line with declines in incomes after the mid-1970s. Though many economic commentators will attribute the decline almost wholly to the fall in prices of copper (Zambia's main source of revenue) and rise in oil prices that occurred at that time, this view has, with time, become eroded by the fact that more conducive global economic conditions have not necessarily resulted in the country significantly regaining lost ground. Du Plessis & Du Plessis (2006), for instance, argue that Zambia's economic decline can be explained by weaknesses in its institutional framework.

There is now growing shift beyond the need for high Gross Domestic Product (GDP) and towards ensuring that macro-economic level improvements are felt at the micro level. This requires recognition of the importance of sound public resource management and the role of various public sector institutions in ensuring resource efficiency, economy and effectiveness.

In the particular case of Zambia, GDP growth of recent years has not translated into significant declines in poverty, especially in rural areas. The 2010 Living Conditions and Monitoring survey revealed that 60.5% of the population was below the national poverty line. This is a slight reduction to the 62.8% in 2006 and 58% of 2004. Despite this improvement which saw urban poverty declining in the last few years, poverty levels in rural areas remained high at 78% in 2010 compared to 80% in 2006(CSO 2011).

The disproportionately low impact on poverty has raised growing concern amongst various stakeholders, with many now pointing to the need for appropriate reforms in public resource management that will ensure that poverty is addressed.

While much has been done by the government to improve the functioning of the public financial management system, focus seems to have been on the mechanics of the system, without necessarily keeping the ultimate end in view. There is general consensus that Zambia does need a comprehensive, participatory, transparent and accountable public finance management framework that will ensure prudent, equitable and efficient use of available resources as well as improved service delivery, improved citizen welfare and ultimately poverty reduction.

Public perception is that most of the reforms around planning, execution, monitoring, evaluation and learning processes appear disjointed and also seem not to often clearly connect to the overall need for better economic management systems that facilitate high levels of positive impact.

Many stakeholders, including donors, have observed that the budget has continued to underperform and public funds continue to be misapplied and misappropriated, while the executive arm of government remains in a position to commit the country to debt with little or no consultation and with or without proper oversight from other arms of government or with other stakeholders.

Concerns are particularly pronounced when it comes to investment in infrastructure – an area that is in need of efficiency and quality service delivery, especially in the wake of reduced donor contribution.<sup>1</sup>

*“ . . . this tells us that we must never focus exclusively on macroeconomic stability.*

*A mother in Gwembe is not interested in lower inflation if she can't take her child to school; an unemployed youth in Kaputa is not empowered by songs of praise about stability of the exchange rate but by being provided with skills and job opportunities; our hard working farmers across the country have no interest in real GDP growth if their farm produce lies uncollected, they are not paid on time and they do not receive a reasonable and fair recompense for their labour”*

Chikwanda A, 2011, Finance Minister, presenting 2012 Budget to Parliament, 11<sup>th</sup> Nov. 2011.

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<sup>1</sup> While the donor share of capital expenditure financing was 75% in 2005, the situation becomes reversed in 2009 with donor funding accounted for less than 40% (Minh Le, Raballand & Palale, 2011).



### 3.0 Objectives of the Study

The overall objective of the study is to contribute to existing knowledge on the Zambian Public Finance Management framework, its policy, practice and current public finance management reforms, and make recommendations on the alternative ways of improving management of public resources.

More specifically, the study sought to address the following:

- (a) Analysis, examination and review of key issues and public finance management programmes regarding current public finance management framework in Zambia
- (b) Examination of the extent to which the current public finance management framework and laws promote transparency, accountability and participation – particularly on matters of citizen participation and government accountability to its citizens thereby taking action to correct identified weaknesses and gaps
- (c) Review of the status and progress made on reform programmes meant to enhance transparency, accountability, participation and effective public finance management such as decentralization, right sizing and pay reforms in the civil service
- (d) Setting out policy options and providing a synthesis of main recommendations on the way forward

### 3.1 Study Limitations

The study was undertaken shortly after a change of Government - from that under the Movement for Multi-Party Democracy (MMD) which had been in power for 20 years from 1991 to one controlled by the Patriotic Front (PF) that took office after the 20<sup>th</sup> September 2011 Presidential, Parliamentary and Local Government elections.

The change of Government had an effect on responses, with some, particularly those from the public service, appearing rather guarded. For some others, it was not difficult to detect a partisan tone to their responses, appearing to come out for or against the former ruling party. This may have compromised objectivity of responses so given.

Other challenges included inaccessibility of key individual targeted for the study, either because they were busy or were just not available for the interviews. Last but not least, availability and accessibility of relevant documents, either in hard or soft copies, was also a challenge.

## **4.0 Approach and Methodology**

In order to sufficiently understand the relevant issues at hand, analyse the different dynamics at play and so as to offer informed options on the best way forward, the following approach and methodology was employed.

### **4.1 Review of Relevant Documents**

The team undertook a desk review of the different relevant documents on the subject matter. This included a number of published relevant documents and previous study reports. Amongst others, the relevant documents reviewed included Cap 366 of the Laws of Zambia, the Public Expenditure Management and Financial Accountability (PEMFA), the Integrated Financial Management Information System (IFMIS), the Zambia Public Debt Management Framework, and various Auditor General's Annual Reports.

Previous study reports included the recent JCTR studies such as “Our Money Our Right” and the Debt Management Bill proposal. The study team also relied on other independent studies done by civil society organisations such as the ‘Show me the Money’ report by Transparency International Zambia, budget analyses done by the Civil Society for Poverty Reduction, Caritas Zambia and other organisations.

Copies of presentations made by institutions such as the Economics Association of Zambia where also accessed.

The internet proved to be a helpful source of information on public finance management in Zambia and elsewhere, included good practice cases.

### **4.2 Key Informant Interviews**

Key informant interviews were conducted, principally targeting senior staff in the relevant government ministries/departments. This was out of recognition of the fact that they play a custodial role and are most knowledgeable of the reforms taking place in the area of Public Finance Management (PFM) in Zambia. These institutions included the Ministries of Finance, Office of the Auditor General, and the Cabinet Office. These informant interviews proved very useful as they provided a good perspective of the challenges associated with the study objectives.

While other actors such as heads of Non Governmental Organisations (NGOs) were not targeted for interviews, but instead literature on NGO views concerning PFM was collected and thoroughly reviewed.

## 5.0 Study Findings

### 5.1 Key Public Financial Management Issues

This section provides an overview of issues regarding public financial management in Zambia that have emerged from various studies, presentations and discussions across a broad stakeholder spectrum.

#### 5.1.1 History of Zambia's Political Economy

The study recognised that current challenges in the Zambian public financial management system have a historical perspective that lie in the political economy of the country. A move towards greater state control of the economy coupled with introduction of one-party rule within the first decade of independence had the effect of elevating particular arms of government and reducing citizen participation.

This phenomenon may have become so entrenched that the advent of multi-party democracy in 1991 and economic liberalization that followed may not have necessarily resulted in significant reversal. Indeed, one could even argue that many decisions taken in the 20 years from 1991, whilst intended to respond to popular aspirations, may not have been sufficiently consultative and may have taken advantage of the type of environment created by the previous dispensation.

On one hand, it appears to be a mind-set issue – both the state and citizens have tended to expect that even major decisions around resource mobilization, allocation and utilization, including underlying processes can be the preserve of certain arms of the state. On the other hand, it also appears to be a matter of political expediency – the state may see benefit in retaining greater leverage over decision-making around resource management, even in cases where the existing regulatory system may not permit this. Looking back at the current process of reforms in public finance that Zambia has gone through, which go back to as far as 1993, one could possibly state that the form, nature and choice of what has actually been implemented may have been influenced by the above factors, resulting in what some may deem to be half-hearted attempts to implement reforms in PFM.

Notwithstanding the above perspective, the need for better resource management was an underlying theme behind the re-introduction, in 2002, of National Development Planning (NDP), and was quite prominent in the Fifth National Development Plan (FNDP 2006 – 2010). It was at the time recognised that weak links between FNDP financing estimates and budget execution would make poverty related spending and its effectiveness difficult to monitor and evaluate.

The most recent Medium-Term Expenditure Framework (MTEF, 2010 – 2012) re-emphasizes the direction for improving public spending through better prioritizing of programs and projects and achieving better 'value for money.' However, Minh Le, Raballand & Palale (2011) point out that public investment management remains largely inefficient and certain key functions of project evaluation are missing or are in rudimentary form.

### 5.1.2 Budget Management

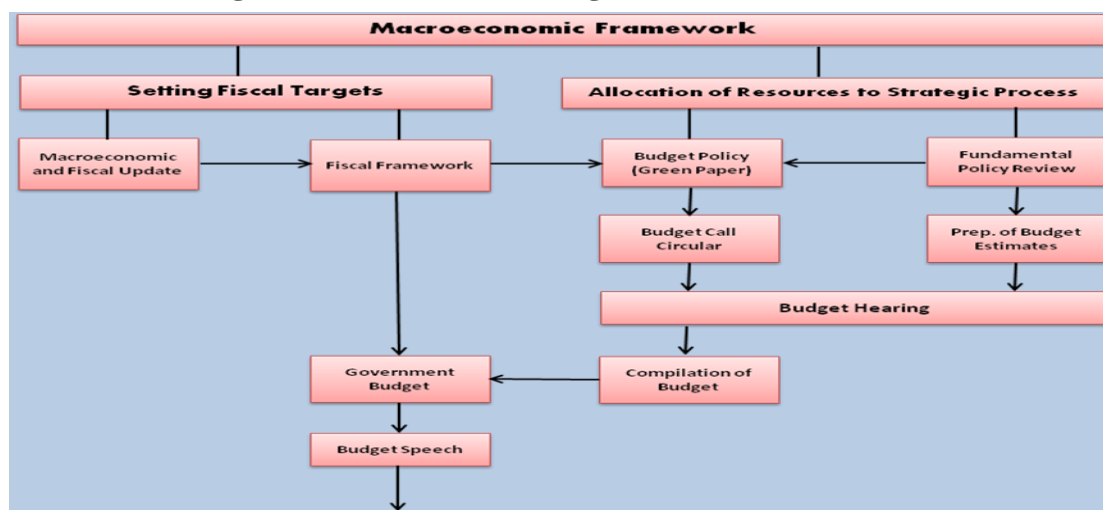
The budget may be viewed as the most important economic policy tool for macroeconomic management and resource allocation for any government. It provides a comprehensive statement of the nation's priorities (Mudenda, Ndulo & Wamulume, 2007).

Although the guidelines and rules of executing the budget by the budget units and the quasi-government institutions are clear, a Parliamentary Study Committee (2000) noted that these are, in practice, not followed. Specific aspects raised included the insufficient reporting on extra-budgetary out-turns, and on the level and the composition of public debt and the changes therein. Thus, the Committee observed that the annual budget figures could not really serve as a guide to the actual spending. It further noted that the disbursement of funds by Ministry of Finance was not combined with effective control mechanisms to establish whether or not the released funds are actually spent on allocated purposes. Such a budgeting system could therefore, based on their view, not act as an incentive to sustainable development.

The World Bank (2003) argues that the Zambian budget system was still not comprehensive because it was largely confined to central government. It lacked information on the state-owned enterprises, pension funds, special funds and local government expenditures. This therefore tended to present a misleading picture of the financial position of the state as a whole.

Figure 1 below shows the budget formulation process leading up to the release of the budget and the budget speech made in parliament by the minister. This process has been criticized for still being predominantly the preserve of the budget office at MoFNP. The extent of citizen participation even after making public calls for submissions remains limited to a few "heavy weight" interest groups with the time and resources to engage. The state has not been making deliberate efforts to engage citizens at district level with the aim of collecting their inputs. Usually, this is restricted to government technocrats with little or no consultations being made with the people who are meant to benefit from budgetary allocations.

**Figure 1: The Zambian Budget Formulation Process**



Additionally, Mudenda, Ndulo & Wamulume (2007) concluded that the Zambian budgetary process is not sufficiently democratic and transparent to ensure good governance and sustainable development. They also point out that Members of Parliament and the Parliamentary Committees have limited access to independent research capacity. This is most noticeable when it comes to dealing with technical and specialised issues on the budget.

A study commissioned by CSPR (2010) did however observe that fiscal reforms instituted in 2003/04 that sought to stabilise and remove discrepancies in revenue and expenditure were progressively more efficient from one year to the next. This could be attested by the less than 15 percent variance between the FNDP budget and the actual expenditure in the year 2008.

CSPR (2010) points out nonetheless that while selection of priority sectors in the FNDP was fully consultative and involved participation of various stakeholders including civil society organisations, selection and variation of budgetary priority sectors and programmes and hence fund releases for fiscal year 2008 by Government was almost unilateral. For instance, releases to infrastructural development in education sector were increased by 300 percent at the expense of programmes such as Teacher Education, Distance Education and Standards and Assessment.

In the midst of a general decline in agricultural sector funding, there was, in the same year, a 300 percent increase in funding to the Fertiliser Support Programme (FSP), again at the expense of what were felt to be other critical programmes.

### **5.1.3 Transparency, Accountability and Participation**

#### **Transparency**

According to Transparency International, ‘transparency’ is defined as a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and processes.<sup>2</sup> Transparency places a duty on civil servants, managers and trustees to act visibly, predictably and understandably. Given this definition, it can be argued that transparency in the area of PFM in Zambia has remained a challenge for a long time.

As noted earlier, PFM decisions have largely remained the preserve of the civil servants who seem to see no obligation to share this information with ordinary citizens. This situation has a historical context but is also exacerbated by a lack of a law promoting freedom of information. Efforts to enact this law were prematurely curtailed in parliament several years ago. Central government and local councils’ financial management and the system of intergovernmental fiscal relations are particularly important in this discussion in the wake of ongoing moves towards decentralisation, implying that greater public financial management responsibility will lie at this level.

These challenges are particularly evident in budget information both at local and national level. While the local government Act gives citizens the freedom to attend full council meetings if they

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<sup>2</sup> [www.transparency.org/news\\_room/faq/corruption\\_faq](http://www.transparency.org/news_room/faq/corruption_faq)

so wish, they have no express right to demand for financial records from council officers over funds which are collected from them in form of taxes and levies. Guidelines, records of disbursements, and other information pertaining to the well publicized Constituency Development Fund (CDF) are not always easily accessed.

At central government level, budget information is made public through the annual estimates of expenditure (yellow book) but copies of this document are both limited and, at K250,000 a copy. This is quite expensive to access by an ordinary Zambian. Beyond the extent of circulation and cost, the content is presented in such a manner that only those with an advanced level of education can easily comprehend. This therefore makes it difficult for members of the general public to question allocations, let alone compare what was budgeted and what was actually received for their area/community.

The 2010 Open Budget Survey conducted by the International Budget Partnership measured and compared government budget practices in a number of countries in the world, 7 of which were from Southern Africa (i.e. Angola, Botswana, Malawi, Mozambique, Namibia, South Africa and Zambia). The following were the findings:<sup>3</sup>

**Table 1: Comparison of Zambia's Performance on the IBP compared to Other Regional Countries**

Major Gaps in Budget Transparency Worldwide – Average level in Southern Africa		Amount of information provided in the Executive Budget Proposal (EBP).	
Country	2010 OBI Score (%)	Country	EBP, Comprehensiveness
Angola	26	Angola	35%
Botswana	51	Botswana	65%
Malawi	47	Malawi	58%
Mozambique	28	Mozambique	41%
Namibia	53	Namibia	72%
South Africa	92	South Africa	92%
Zambia	36	Zambia	39%
<b>Regional Average</b>	<b>48</b>		
<b>Global Average</b>	<b>42</b>		

The findings of this survey clearly point to serious gaps in budget transparency as can be seen above. Zambia (at 36%) was only better than Angola and Mozambique in the region (countries which have been suffering from serious social and political challenges for many years). As for the EBP (yellow book), Zambia (with a score of 39%) again did not do well in terms of the document not being comprehensive enough. **Table 2** below gives further credence to the

<sup>3</sup> **Source:** Open Budget Survey (OBS) 2010 - presentation by Alexander Chileshe to the monthly forum of the EAZ.

argument that Zambia needs to do more to promote budget transparency. The overall assessment is that the Government provides minimal information to the public in its budget documents during the year.

**Table 2: How Zambia fairs on 8 key Budget Documents in terms of Comprehensiveness**

Key Document	Score (%)	Comment / Interpretation
1. Executive Budget Proposal (Yellow Book)	39	Published but not comprehensive, and available only on payment
2. Pre Budget Statement	89	Publishes a comprehensive pre budget statement
3. Enacted Budget	100	Comprehensive
4. Citizen's Budget	0	Does not produce
5. In-Year Reports	0	Produced but not available to the public
6. Mid-Year Report	33	Published but lacks updated revenue estimates for the current budget year
7. End-Year Report	33	Published but not comprehensive
8. Audit Report	29	Published but not comprehensive.
<b>Overall Score</b>	<b>33</b>	<b>The Government provides minimal information to the public in its budget documents during the year</b>

Key aspects that have emerged from literature review relating to transparency in the budget process include the following:

- **Internal Transparency:** The process is characterised by compressed deadlines, thereby reducing the Ministries, Provinces and other Spending Agencies' (MPSA) engagement in planning and expenditure review processes. This, it is felt, undermines the link between MPSAs participation and final plans and ongoing improvements.
- **External Transparency:** Zambia scored 36 out of 100 in the 2010 Open Budget Survey, ranked 60 out of 94 countries surveyed. This falls in the classification of providing minimal information about the budget.

Some specific recommendations to respond to the above have included the following:

- Formally adopting, publishing and implementing an annual planning and budgeting cycle that sets out the key processes, outputs and deadlines,
- Identifying key documentation to be placed in the public domain<sup>4</sup> and establishing deadlines for its publication on the MoFNP website, and

<sup>4</sup> Though respondents did not specify the documents that could be placed on the MoFNP website, a search of the website unveiled the fact that some documents such as the yellow book are not posted while a large number of the other reports (such as debt reports, economic reports, development plans, vision 2030, etc) are not regularly



- Looking into how the format, content and presentation of public documents can be improved to make them less impenetrable and more widely accessible.

## Accountability

Accountability requires that it is possible to identify and hold public officials to account for their actions. This would require that the state be transformed into a *social accountability system* in order for it to be truly responsive to the needs and capabilities of its people. To do so, each social accountability process must institutionalise meaningful civic participation within its workings in line with the right to social accountability. Social accountability has two important obligations that it places on stakeholders. First, it places an obligation on public officials to justify and explain their performance in progressively realising people's rights via the provision of effective public services. Secondly, it places an obligation on community members to monitor the implementation of government programmes in a participatory way in their community.

From a legal and administrative point of view, Zambia has a number of laws and systems intended to promote accountability especially in the management of public finances. These range from constitutional provisions, to specific Acts of parliament and administrative and constitutional offices (watchdog institutions). While there are some gaps in the legal provisions, it has been argued that the country does not so much as lack systems for accountability, but rather that the enforcement of these provisions is the problem. On the whole though, specific provisions guaranteeing social accountability are missing or weak. Further, political interference and selective application of justice have also been pointed out as challenges that continue to negatively impact accountability.

For instance, even though there is an independent Public Accounts Committee (PAC) in the National Assembly, the committee is largely relegated to an academic exercise of calling controlling officers in the different ministries and departments to explain PFM weaknesses noted in the Auditor General's report with often, very little action arising from incidents of what some may perceive as clear cases of abuse. The Auditor General's office too has until recently been severely restricted in terms of resources. There has also been sentiments to the effect that each MPSA to have a budget line for thorough internal auditing to counter the limitation of finances of the Auditor General's Office. However, even when compelling evidence of misappropriation is adduced, the appropriate machinery takes too long or does not react at all to bring culprits to book.

On the political front, both the late president, Levy Mwanawasa and former president Rupiah Banda's administrations have been accused of being selective in prosecuting people alleged to be engaged in public finance misconduct. Some respondents have gone as far as suggesting that political patronage and loyalties have a huge influence on who gets prosecuted. The Rupiah

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posted on the website and those that have been posted cannot be opened in the pdf format they have been saved.



Banda administration in 2010 went as far as to remove the ‘abuse of office clause’ from the Anti Corruption Act. This action was perceived as a signal of lacking commitment on the part of government to uphold accountability.

Other than that, a report of the Parliamentary Accounts Committee released in 2000 stated that the legal framework for public financial management underpinning the implementation of the budget did not promote accountability in the execution of the budget. The report raised the need to reform the legal framework so as to build into budget execution the commitment of the process to handle public funds in a responsible, accountable and transparent manner. Such reform would focus on harnessing principles of good fiscal governance and strengthening the reporting requirements on budget implementation.

Recommendations thus were made that the Finance (Control and Management) Act (Cap 347) should be reviewed to build in automatic disciplinary measures to penalise irregularities, corruption and inefficiency among controlling officers. Further, that the annual report of the Auditor General should automatically trigger off investigations where irregularities and mismanagement have been identified. A new Public Finance Act No.15 of 2004 was subsequently passed. The Act, among other things, provides for the formation of audit committees but it has been a common complaint especially from Civil Society that the Audit Committees do not operate as they should and as such they are largely ineffective.

There have also been calls for the Auditor General to be given power to penalise any individual responsible for unauthorised expenditures, and/or for both the Auditor-General and the Public Accounts Committee (PAC) to have direct working relationships with agencies such as the Anti-Corruption Commission (ACC) in order for individuals linked to impropriety in the Auditor General’s report to be quickly investigated as soon as information is made available by the AG (Mudenda et al 2007). Ultimately, the calls are for mechanisms that ensure a clear and close link between the Auditor General’s reports and legal action in cases of irregularities. This link does not presently exist despite having been highlighted by various stakeholders (World Bank, 2003).

### **Citizen Participation**

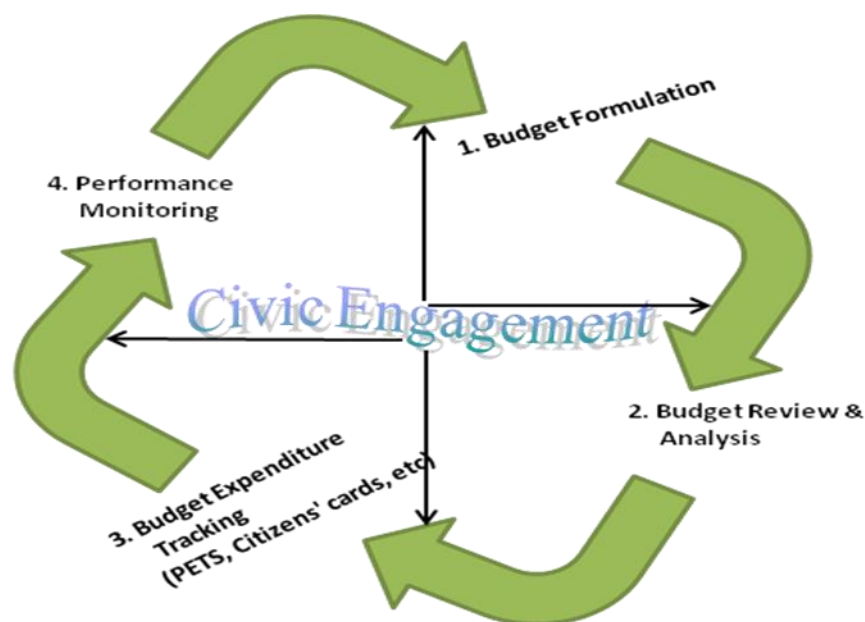
While significant progress has been made in ensuring consultation during preparation of National Development Plans and to some extent, budget preparation, there appears to be very limited participation in on-going expenditure monitoring as well as the post audit phase of national accounts. Key formal processes are often not working effectively (e.g. through the Sector Advisory Groups - SAGs). Consultation around the Budget and/or expenditure monitoring is felt to be often informal and at too late a stage in the process.

In the recent past, there has been a flurry of ‘budget tracking’ initiatives largely undertaken by NGOs with financial support from donors. These efforts are however disjointed and are often restricted to small portions of the budget and specially earmarked funds such as CDF. The only organisation so far that has attempted to bring budget tracking onto the national level is the Civil Society for Poverty Reduction (CSPR) through their budget tracking barometer. Even this tool is

still in its infancy and requires fine tuning to make it truly relevant as a national measure of budget transparency, accountability and participation as well as quality of service delivery. Nonetheless, the barometer for the period January to June 2010 scored the government an overall score of 32% in terms of citizen engagement and participation in the development process.<sup>5</sup>

The Trocaire Civil Society Guide (2004) proposes the introduction of civic engagement into the general process of public expenditure management through what it calls Participatory Public Expenditure Management (PPEM). This approach enables users, clients and citizens to get involved in the process of allocating, reviewing, tracking, and monitoring public expenditures under four components, namely, the Participatory Budget Formulation (PBF), the Participatory Budget Analysis (PBA), Participatory Budget Expenditure Tracking (PBET) and the Participatory Performance Monitoring (PPM). The diagram below illustrates the approach:

**Figure 2: Four Stages of PPEM**



Source: Zulu, 2007, Jubilee-Zambia

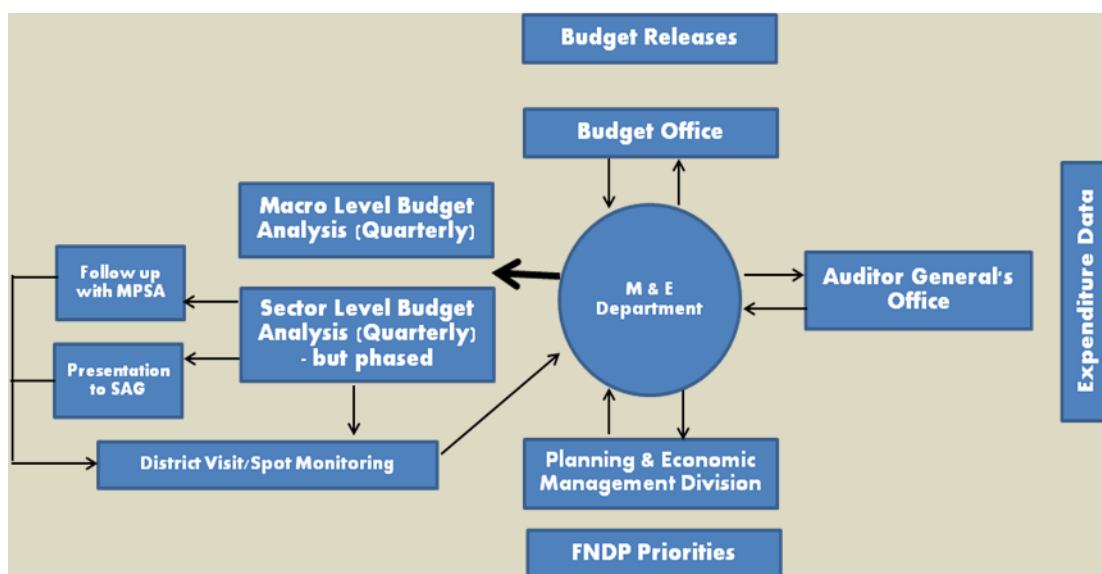
#### **5.1.4 Monitoring and Evaluation of Public Spending**

The rebirth of national planning and the consequential establishment of the M&E Department in the Ministry of Finance represented commendable strides forward in PFM. The Department has been mandated with a wide range of responsibilities regarding project monitoring and evaluation - particularly, tracking 'budget execution with the intention of ensuring the budget releases and expenditure are in line with the priorities of the fifth national Development Plan (FNDP) - and now Sixth national Development Plan (SNDP), ensuring releases achieve outcomes in service

<sup>5</sup> CSPR (2011): Budget Execution and Service Delivery Barometer 2010, CSPR, Lusaka

delivery, and where necessary identifying actions to get the budget back on track' (MoFNP, 2009). To carry out such mandates, it is supposed to coordinate with other major departments in the MoFNP, specifically, the Budget Office, Accountant General's Office, and Planning and Economic Management Division (See Figure 3). In this figure, the SAG would represent an important forum through which citizens' views and concerns would be channeled to the government since the SAG is a multi stakeholder grouping.

**Figure 3: Monitoring and evaluation of public spending**



Source: MoFNP (2009)

It has however been pointed out that the extremely low capacity at the M&E department, the lack of legal foundations for and culture of cross-institutional coordination, the absence of a consolidated database of proposed and completed projects, and the missing central guidelines for project appraisal in general and for ex post evaluation in particular, all contribute to constraints that eventually confine evaluation to a mere ad hoc procedure.

The M&E Department's monitoring reports end up exclusively focusing on measuring and tracking disbursements against the budget allocated to MPSAs; it does not present timeliness of implementation, total cost management, or expected benefits of completed projects.

### 5.1.5 Debt Management

The objective of this component is to highlight key issues affecting the management of Zambia's debt, both Domestic and External, particularly with regard to maintaining debt stock at sustainable levels and ensuring that debt is effectively channeled towards public investments.

Zambia's external debt stock had progressively been increasing reaching US\$815 million in 1970, US\$1.68 billion in 1975, US\$3.2 billion in 1980, US\$4.5 billion in 1985, US \$3.7 billion in 1992, US \$6.4 billion in 1997, US \$7.1 billion in 2002 and US \$6.4 billion by the end of 2003.

Jubilee-Zambia, a coalition of civil society organisations in Zambia, managed a campaign for the cancellation of Zambia's external debts and monitoring the Government on economic and development issues to avoid the country going back into a debt crisis.

With Zambia having reached the Highly Indebted Poor Countries (HIPC) Decision Point, Completion Point and Multilateral Debt Relief Initiative (MDRI), a large part of Zambia's external debt was cancelled, with the balance reducing from about US\$7.1 billion in 2004 to about US\$1.5 billion in 2006.

However, the country's debt management situation poses a number of big challenges that may be expressed through the following questions; how does the country avoid reverting into a debt crisis and how does it continue to put up public infrastructure that would assure both economic and human development without borrowing to unsustainable levels? Another challenge is how to effectively ensure the people of Zambia benefit from debt relief and overall debt resources arising from recent and future debts.

The national debt procurement and management is generally governed by the provisions of Part X of the Constitution of Zambia and Volume 20 of the Laws of Zambia covering Chapter 347 to 379, with the following being particularly noteworthy:

- (i) *CAP 348; Treasury Bills,*
- (ii) *CAP 350; General Loan and Stock Act,*
- (iii) *CAP 353; Local Loans (Registered Stock and Securities) Act,*
- (iv) *CAP 355; Loan (Authorization) Act;*
- (v) *CAP 358; General Loans (Guarantee) Act,*
- (vi) *CAP 366; Loans and Guarantees (Authorization) Act.*

While there is some form of legal and administration framework for the management of national debt, there are some very serious weaknesses such as: Lack of high-level coordination; Lack of a central depository of original loan agreements; Lack of guidelines in terms of borrowing; Absence of basic permanent negotiation teams; Lack of public accountability; and centralization of borrowing powers in one office that is also not adequately overseen by parliament.

There is overall lack of a debt strategy and policy to guide the country in the sectors of borrowing, terms and amounts of borrowing in a particular financial year. This coupled with significant political involvement and poor data management can easily result in uncontrolled debt and litigations (Jubilee Zambia 2007). Currently, the Ministry of Finance and also the Bank of Zambia have been committing the country to both local and international debt.

The establishment of a clear framework is now widely recognized as a major element of a sound economic management strategy because of the crucial link with fiscal and monetary policies as well as overall macroeconomic management. Generally, many countries are moving towards

### **The World Bank's Six Principles of Sound Practice in Public Debt Management**

- (i) Debt management objectives and coordination
  - Ensure that the government's financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk.
  - Develop a common understanding of debt management, monetary and fiscal policy objectives.
- (ii) Transparency and accountability
  - Publicly disclose the objectives of PDM, the relevant measures of cost and risk, and the allocation of responsibilities.
- (iii) Institutional framework
  - Clarify the legal authority to borrow and issue new debt, invest, and undertake other transactions on the government's behalf.
  - Ensure clear roles and responsibilities.
  - Develop accurate and comprehensive debt data.
- (iv) Debt management strategy
  - Monitor, evaluate, and manage the risk structure of public debt.
  - Implement cost effective cash management policies that minimize government liquidity and repayment risk.
- (v) Risk management framework
  - Manage the tradeoffs between cost and risk of government debt.
  - Consider the impact of contingent liabilities on the government's financial position in relation to the budget execution.
- (vi) Development and maintenance of an efficient market for government securities
  - Ensure that policies and operations are consistent with the development of an efficient government securities market

Source: EAZ, 2008

reorganization of their debt offices particularly to strengthen the monitoring capacity of the debt stock and also strengthen the debt strategy and policy.

Emerging best practice is to have in place a comprehensive debt strategy and policy that stipulates when to borrow, at what terms and for what purpose. This is guided by a clear policy on debt that would stipulate the fact that debt should not really finance recurrent expenditure but only capital expenditure due to the need to create sustainable debt repayments.

Some countries such as Nigeria have, as a matter of best practice, set up an Independent Debt Management Office, outside the Ministry of Finance. The aim is to retain specialised debt staff whose turnover and cost of training is very high and also ensure a separation in the operation of general fiscal policy from debt policy, which in most cases is not separated as the case is in Zambia currently.

Currently, the expenditure activities of the budget that Parliament approves do not fully capture those financed by loans, as most loans are contracted outside the budget presented to parliament. However, Parliament is requested to approve expenditure on loan repayment once the loan falls due for repayment. This is one of the clear mismatches in the system that has brought about the current demand by key stakeholders that all Government borrowings should be approved by Parliament. This is premised on the fact that parliamentarians represent constituents whose money will be used to repay the

loans. The debate has gone even further by calling for the use of a select committee of Parliament to approve loans which should later be tabled before parliament for ratification. Another alternative argument is for the use of a select committee of Cabinet, based on the view that legislative roles of parliament should be kept separate from those of the executive.

The state has in the past been criticized for inadequate disclosure of the debt service costs. The Yellow Book merely gives the total amounts for constitutional and statutory expenditures, reflecting the overall cost of servicing internal and external debt. Given that total debt servicing costs has in the past constituted as much as 27 per cent of the budget estimates (fiscal year 2000), it is argued that Parliament and the general citizenry have a right to be informed about the composition, management and the likely impact of the debt portfolio on the economy. For instance, the issuing of Treasury Bills and Bonds by the Bank of Zambia can absorb a significant proportion of the investment capacity of commercial banks and thereby crowd out the private sector.

## **5.2 Reforms in Public Sector Finance Management**

The study looked at the various reforms that the government has undertaken to date in order to determine the adequacy (or lack) of policy, legal and system issues with regard to public finance management and control.

While it is a known fact that the government has implemented various public service reforms since independence, the study concerned itself with the reforms that are currently on stream, viz; the Public Service Management (PSM), the Public Expenditure Management and Financial Accountability, the Integrated Financial Management and Information Systems (IFMIS), Decentralization and the Payroll Management and Establishment Control (PMEC).

These and other reforms are offshoots of the Public Service Reform Programme (PSRP) that was launched in 1993 whose primary objective has been *to improve the quality, delivery, and efficiency and cost effectiveness of public services* to the citizens through the right-sizing of the public service. The reforms involved developing and reviewing ministries/institution strategic plans; organizational structures, job descriptions and the development of and implementation of performance strategies such as the Performance Management Package (PMP).<sup>6</sup>

Few years into the implementation of the PSRP, government's reform emphasis shifted to the building of individual and institutional capacity. Capacity building was seen as the key to addressing issues of efficiency and effectiveness in the public service, and therefore to improving service delivery to the public. This gave birth to the Public Service Capacity Building Project (PSCAP) in 2000.

Along the way, however, it was the view of government that while PSCAP was delivering the goods, it was nonetheless inward looking. It did very little to identify itself with the general population.

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<sup>6</sup> Public Service management Project Guide, 2010 – Cabinet Office



In order to fully address public concerns of efficiency and effectiveness, transparency and accountability, it was decided to tackle the reforms in a three pronged approach; (i) the Public Expenditure Management and Financial Accountability programme (PEMFA), (ii) the Public Service management (PSM) and (iii) Decentralization. All the three pillars are under the coordination and supervision of the PSRP Steering Committee. This study reviewed each of the three pillars, albeit briefly, but focusing more on PEMFA.

### **5.2.1 PEMFA**

The Government of Zambia embarked on PEMFA with the aim to improve the way in which public finances are managed (i.e. how public resources are effectively and efficiently mobilized and utilized), and to strengthen overall financial accountability. PEMFA essentially aims to help government make better use of taxpayers' money so as to provide real benefits to the citizens. PEMFA actually started under PSCAP supervised from Cabinet Office, but was later placed under the supervision of the Ministry of Finance as one of the three pillars of PSRP. The overall objective was (i) to improve efficiency, effectiveness and accountability in the management and utilisation of public financial resources to support the implementation of Zambia's FNDP, and (ii) to ensure that public resources are effectively and efficiently channelled to priority areas in accordance with the national development plans.

Key components of the PEMFA programme include:

1. Integrated Financial Management Information Systems (IFMIS)
2. Reformed Budget Preparation and Budget Execution
3. Improved Debt Management
4. Enhancing Parliamentary Oversight
5. Public Procurement reform.
6. OAG's Restructuring and Institutional Development

The study reviewed progress on each of the above components.

#### **5.2.1.1 IFMIS**

The key objective of IFMIS is to promote efficiency, security of data management and comprehensive financial reporting. IFMIS aims to provide an integrated computerized financial package that enhances the effectiveness and transparency of public resource management by computerising the government budget management and accounting system. A well designed IFMIS can provide a number of features that may help detect excessive payments, fraud and theft. In this way, it is every government's expectation that implementing IFMIS would help deter corruption by increasing the risk of detection.

IFMIS was launched in Zambia in 2007 but actual work started in 2008. Zambia's IFMIS has 13 modules including Budget and Appropriation Management, Revenue and Accounts Receivable,

Receipting and Reconciliation, and Financial Reporting, interfaced with Debt Management, tax, and such other components.

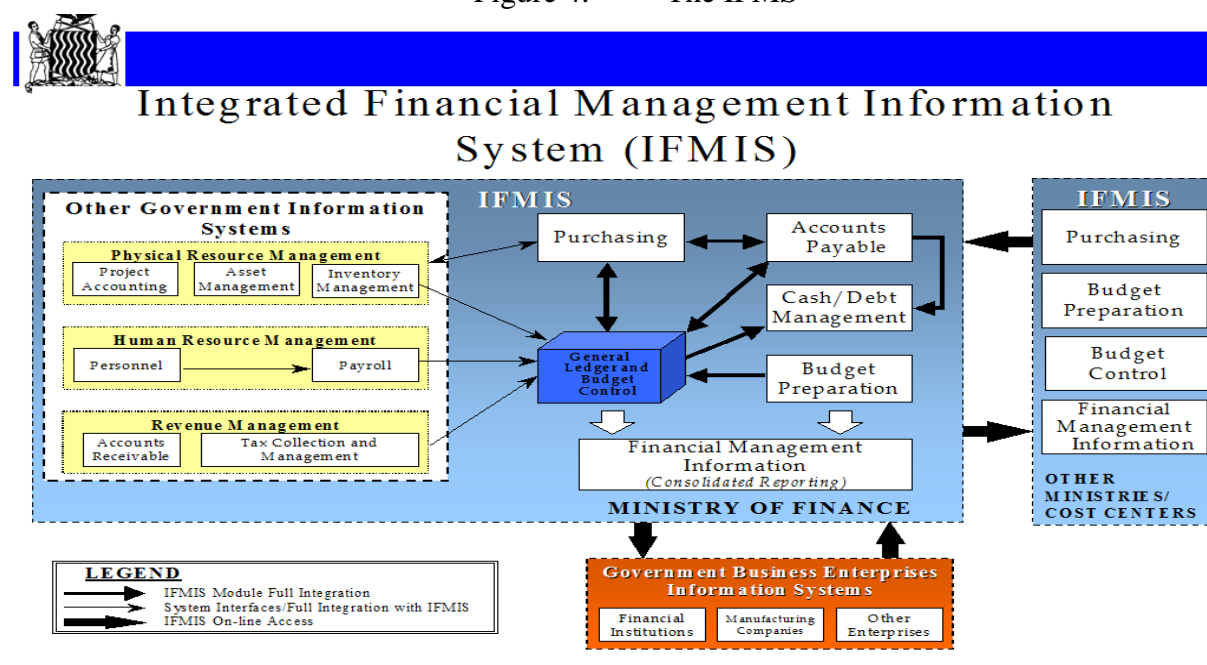
IFMIS processes financial management transactions on a single software platform and a single database, resulting in:

- standard data classification for recording events,
- common processes for similar transactions,
- consistently applied internal controls over data entry, transaction processing and reporting,
- control framework for revenue, expenditure, asset and liability management.

In addition, IFMIS facilitates sharing of common data and the flow of information amongst different functions and processes of an enterprise and allows users to track and analyze trends in a wide range of events in an integrated fashion to plan for future performance improvements across the enterprise.<sup>7</sup>

With 13 modules, the Zambian IFMIS programme is a model in Africa, particularly in the region. In comparison, for example, Mozambique has only 2 modules, Tanzania 3 and Malawi 4.

Figure 4: The IFMS



**Achievements:** To date, a total of 16 government's ministries and departments are implementing IFMIS. These include the Ministry of Finance, the first to pilot implementation in January 2010, the ministries of Communication and Transport (Jan 2011), Education (Jan 2011) and Works and

<sup>7</sup> IFMIS Benefits Realization - a World Bank presentation at the ICGFM Conference, Washington D.C., 2007: Gert van der Linde



Supply (Jan 2011), the Office of the Auditor general (Jan 2011) and the two provinces (Eastern and North-Western) (Jan 2011). Other include ministries of Agriculture (Jul 2011) and Health (Jul 2011). The target is to connect all government operations to the Data Centre (Accountant General's Office) and interface with the Bank of Zambia and the Zambia Revenue Authority for the Treasury Operations.<sup>8</sup>

It is reported that for the ministries implementing IFMIS, encouraging results are already showing in improved transparency, financial management and control.

**Challenges:** While the implementation of IFMIS is making steady progress, a number of challenges have been expressed. These include:

- Change of management. Since inception, the senior managers of the programme have been replaced 3-4 times, making steady progress difficult as new people have to learn what the programme is all about thus slowing progress.
- Differing views about how the IFMIS reforms should be implemented by the different stakeholders (i.e government ministries/departments, donors and civil society)
- Tendency of some cooperating partners to micro-manage the project. It has been felt that this has slowed down the pace of implementation.
- MoFNP not playing a commensurate role as the lead institution in the implementation of the reform programme.
- Lack of appropriate legislation to support the system.
- Lack of IT policy. It is reported that although we are now living in an electronic age, there is currently no regulatory framework for e-business

### 5.2.1.2 Reformed Budget Preparation and Budget Execution

Ideally, reforms in budget preparation and execution should aim to achieve the following:

- *Aggregate fiscal discipline:* establishing total revenues due and fitting the expenditure requirements within that resource envelope,
- *Allocative efficiency:* the process of ensuring that resources are allocated in accordance with strategic priorities within and between departments, and
- *Operational efficiency:* ensuring that the resources allocated are utilised in the most efficient and effective manner to produce the required outputs at the least cost.

Under this component, the objective is to establish a credible budgeting process and a transparent and clear presentation of the budget document, and to implement the budget in a more efficient and predictable fashion and reduce variance between budget and actual spending.

This is the component of the reform process that rests with the key arm of the Ministry of Finance – the Budget Office. It is one of the components in which the public has much interest,

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<sup>8</sup> For most of these reforms, they have had moving targets – meaning that after a review in the successive year, the end would be shifted accordingly. For this particular one, the end-target was 2013.

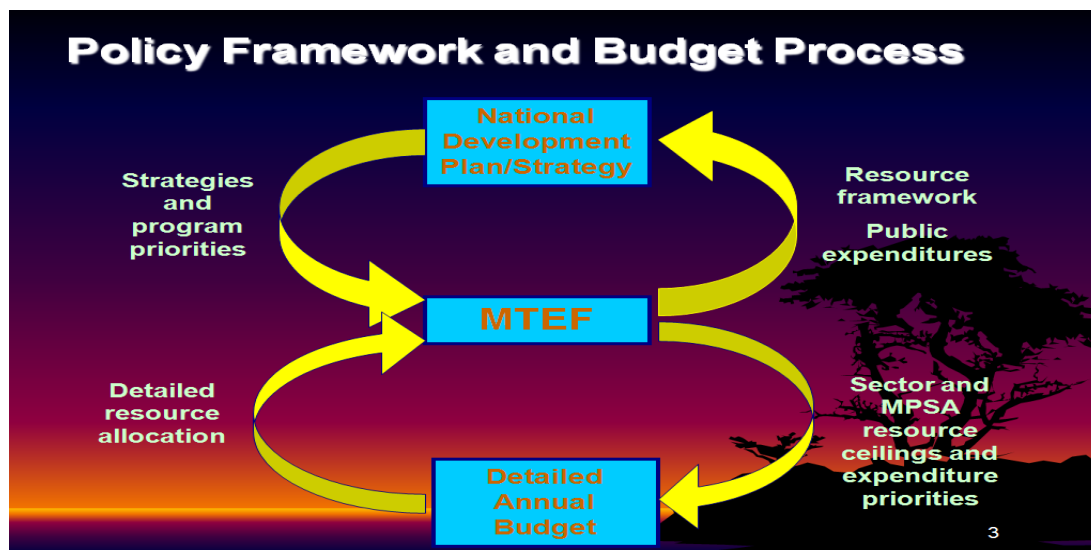
to promote transparency and accountability of public financial resources, with greater say by the public in budget preparation and management. Unfortunately, it is also one component where progress is slower than would be desired.

On the positive side, it is reported that consultation with the general public is increasing. For example, the creation of Sector Advisory Groups (SAGs) has enhanced public participation in the budget process. On the negative side, the level of participation is still seen to be very limited in terms of influencing outcomes.

To make the budget process more transparent, a “green paper” has been introduced for discussions by the Estimates Committee of Parliament, civil society and donors about the broad policy directions Government would pursue.

Below is a figure that depicts how the process would ideally work, integrating NDP, MTEF and annual budget processes (Based on recommendation by Bird, 2010).

**Figure 4: Link Between Policy Framework and Budget Process in PFM**



### Activity-Based Budgeting

Activity-Based Budgeting (ABB) was introduced in 2000 to replace the previous line-item budgeting process. ABB is intended to provide a detailed functional classification as a basis for budget management. After piloting for several years (from 1996 - 2003) the government rolled it out to all MPSAs from the 2004 budget. It has now also been integrated into the funding system and also the accounting system

ABB provides the link between resource inputs and specific activities or outputs, utilising a two tier classification that breaks down spending allocations by program and activity. Outputs are identified at program level and included with targets in the budget estimates.

Government has completed a corresponding restructuring of the chart of accounts to that of the ABB and this has been incorporated into the computerised Integrated Financial Management information System (IFMIS). With such improvement, the system is able to generate accounting reports that are consistent with the budget structure, and so improving the monitoring of budget performance.

Overall, ABB has been presented as leading to the following outcomes:

- Improved transparency of the budget and greater insight to stakeholders on resource allocation.
- Reduced risk of funds being diverted to other unplanned activities particularly because ABB provides useful controls right at budget preparation phase in that MPSAs have to justify why they require the proposed level of funding based on previous implementation of budget.
- More informative debates and decisions. For example the 2004 budget debate saw a lot of activities cancelled that were said to be misplaced and funds reallocated to the rightful ministries.
- More effective framework for translation of policy objectives into the budget instrument

It needs to be borne in mind that ABB is a tool for improved financial management and not an end. A strategic orientation therefore becomes critical in the utilisation of ABB to ensure that it is applied appropriately to addressing weaknesses identified in the previous system.

**Challenges:** The following challenges have been identified under this component. They include, but not limited to:

- The budget is micro managed. The cash budget system gave more power to Budget Office and not Parliament
- Supplementary expenditures have become an accepted norm and are a source of additional budgetary allocations by MPSAs.
- Budget ceilings are merely cosmetic as MPSAs know that they can persuade Budget Office for more funding during budget execution
- The Constitution being flouted with impunity - supplementary expenditures are incurred and approved contrary to the provisions of the Zambian Constitution
- Lack of legislation to harmonise budget expenditure classifications between the NDPs, MTEF and Annual Budgets

### 5.2.1.3 Improved Debt Management

In earlier efforts to control and manage the national debt and investment, the Government created the External Resource Mobilization (ERM) Department through the Loans and Guarantees (Authorization) Act; Cap 366 of the Laws of Zambia in 1996 after merging two departments, namely Economic and Technical Cooperation (ETC) which was under the former National Commission for Development Planning and the Department of Loans and Investment which was under the Ministry of Finance and Economic Development.

The purpose of the merger was to streamline and rationalise the functions of the two departments. As a result of the merger, three units were established namely Bilateral, Multilateral and the Debt and Aid units. The bilateral and multilateral units were responsible for designing, developing and implementation of an efficient development co-operation policy of the Government whereas the Debt and Aid Unit was responsible for management of Government investments as well as accounting for Aid and Debt.

In November 2001, the External Resource Mobilization unit was restructured such that two new departments were created namely Investment and Debt Management (IDM) and Economic and Technical Co-operation (ETC). This largely amounted to complete reversal to the earlier scenario.

The IDM is responsible for the effective monitoring and evaluation of Government investment and management of Government debt stock and its involvement in the capital markets to satisfy the cash flow requirements of Government's annual work plans. It is also responsible for maintaining an up-to-date database of foreign and domestic debt and its servicing requirements liaising with the Bank of Zambia to ensure timely servicing of external and domestic debt. In view of the country's qualification to HIPC, it is also responsible for capturing debt written off and re-scheduled and ensuring adherence to conditionalities.

The ETC is responsible for mobilizing resources from Zambia's co-operating partners and to monitor and evaluate how such resources are being utilized. Most of the resources mobilized are in form of grants for project financing, balance of payment support, technical expertise and equipment.

With technical assistance from IDA and other cooperating partners, government has prepared a public debt management reform program. This follows an assessment on Zambia's debt

*“ . . . the Government is aware that even as we spend more on socio-economic infrastructure, our ability to meet our debt obligations should not be ignored.*

*. . . this Government will ensure transparent and accountable use of loans by strengthening parliamentary oversight. Further, the capacity to appraise projects in the Ministry of Finance and other ministries implementing major projects will be strengthened. The Government will also review the existing legal framework in order to strengthen debt management.”*

Chikwanda, A, Minister of Finance, 2012 Budget Speech to Parliament, 11<sup>th</sup> Nov 2011

management undertaken by the World Bank in 2004 using the Debt Management Performance Assessment (DEMPA) tool. The assessment revealed a number of shortcomings in the management of the country's debt. Key among these were issues around (i) legislation - relating to contraction and management of debt, (ii) institutional set up, and (iii) capacity (both human and institutional) to manage debt.

The recommendations from this assessment gave rise to reforms for improved debt management, which were largely to address the identified shortcomings so as to improve debt management in Zambia. The recommended reforms were later subsumed under PEMFA.

Two key follow up actions were undertaken which could count as achievements in the debt management reform. The first was the development of a layman's draft of appropriate legislation, by the Ministry of Finance, to replace the current one which has come under constant criticism from various stakeholders. One of the key components of the proposed draft legislation was to explicitly empower Parliament to ratify any external borrowing initiated by the Government before the actual signing is done by the Minister of Finance. The second was the development of a debt management strategy to guide debt contraction and management in Zambia. The debt management strategy received a lot of praise and acceptance from key stakeholders, both local and foreign.

The down side is that in spite of the good intentions and actions from MoFNP, none of the two reforms has been completed and implemented. The one on legislation got 'marooned' in the consultation chain, and its future is no longer clear. While the debt management strategy was approved by Cabinet, and widely accepted by all key stakeholders (both local and foreign) its implementation has stalled largely owing to the change of leadership in 2008. In either case, however, it is reported that the lack of political will has played a very big role in the lack of progress with the two reforms; from resistance to change and/or lack of political will.

#### **5.2.1.4 Enhanced Parliamentary Oversight**

On the Legislature, IFMIS aims to develop the capacity of the Parliament to play its oversight role in public resources management in order to promote accountability, transparency and a culture of democratic governance. Reform under this component started with PSCAP.

Parliamentary reforms aimed at enhancing parliamentary oversight are now in the third phase – Parliamentary Reforms Phase III (PRPIII). Phase III of the Parliamentary Reforms is building upon the achievements of PRPII whose goal was to achieve a "REAL" Parliament whose over-arching intended result was increased responsiveness to stakeholders so that Parliament could fulfill its roles of representation and oversight. PRPIII is largely to support capacity building, and runs from 2008 to 2011. It aims to achieve the same goal as PRPII - to increase the independence and effectiveness of the National Assembly as a representative agent of oversight, change and reform in the democratic governance system of Zambia.

PRPIII has four outputs, viz; (i) improved member-constituent relations; (ii) increased autonomy and transparency of Parliament as the Legislature, including its capacities in Bill drafting, budgeting and legislative oversight and foresight; (iii) improved Committee System for increased effectiveness of oversight of Parliament; and (iv) enhanced efficiency and effectiveness of the National Assembly and support services to Parliament and its Members.

**Achievements:** Key achievements that have been recorded to date include: <sup>9</sup>

- A total of 99 motorcycles have been procured for use by constituencies to start to improve their mobility as they facilitate the work of Members of Parliament in their constituencies (Output 1)
- Furniture, public address and recording systems have been procured for the new Committee Rooms, and installed. This has significantly improved the ease with which Committee meetings are held and record thereof kept.

The establishment of Parliament Radio between 2003 and 2004 whose coverage extended from 20 km to 50 km radius, and broadcast the parliamentary debates to all towns along the line of rail.<sup>10</sup>

The next phase of development in as far as Parliament Radio is concerned is to extend coverage to all the provincial centres of the country.

- A budget monitoring tool, in the form of a manual, has been developed for use by Members of Parliament and staff. The manual's objective is to standardise approaches to monitoring implementation of the National Budget after it is approved by the House (Output 3).
- The document retrieval system in the library has been successfully automated using what is called the In-Magic System. The system has enabled the library to catalogue and retrieve documents in the shortest possible time meaning that Members of Parliament can now access information they are looking for faster (Output 4).
- The process of digitisation of library materials (i.e. Debates, Acts, Committee Reports, Bills, etc) has commenced. This entails creating soft copies of all documents in the library. The fundamental objective of the digitisation is to preserve and maintain the original collection of Parliament papers and archives as a unique and rare collection, and at the same time provide access by Members of Parliament and other stakeholders (Output 4).

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<sup>9</sup> Report of the Parliamentary Reforms and Modernisation Committee for the Fifth Session of the Tenth National Assembly appointed on 22<sup>nd</sup> September 2010

<sup>10</sup> The FM frequencies at which the radio is broadcast in the different towns are as follows: Lusaka, Kafue – 92.6 Mhz, Copperbelt – 94.0 Mhz, Choma, Monze, Pemba – 105.5 Mhz and Kabwe, Kapiri – Mposhi – 100.5 Mhz

- While all 150 Constituencies have Constituency offices, 4 have actually been constructed under PRP III, with works under way in another six constituencies

**Challenges:** Key challenges include; (i) slow pace of the reform, (ii) inadequate financial support for the reforms, (iii) some areas of reform are on-going with no clear distinction of a beginning or an end.

#### 5.2.1.5 Public Procurement Reforms

It is widely acknowledged that corruption in most developing countries is rooted in the procurement of public goods and services. To this end, any meaningful fight against corruption, should essentially start with reforming public procurement. In the face of shrinking budgets and the need to fight corruption, governments are increasingly realizing that significant savings can be gained by a well-organized procurement system. Many developing countries have also realized that a well-organized procurement system contributes to good governance by increasing confidence that public funds are well spent. Many developing countries, Zambia included, have therefore instituted reforms aimed at making the procurement system more transparent and efficient and increasing the accountability of public officials.

In Zambia, the Public Procurement reforms were based on the recommendations of the Country Procurement Assessment Review (CPAR) of 2002. The CPAR found that there were several factors that limited effective public procurement in Zambia under the Zambia national Tender Board (ZNTB).<sup>11</sup>

First, there was a gap between intentions and practice. While the ZNTB was expected to enforce procurement rules, in practice, it was liberal in permitting exceptions and allowing negotiations to replace clear procurement guidelines. The ZNTB's role was not limited to oversight and policy functions, as it also managed public procurement through the Central Tender Committee (CTC). As a result some oversight functions were neglected. These included: (a) monitoring and gathering statistics on public procurement, (b) developing procurement capacities and capabilities, and (c) implementing public procurement reform. It is also noted that selective tendering was used in place of open competitive tendering due to time constraints which reason is not provided for in the regulations.

Public procurement reforms under PEMFA have therefore the objective of “*Promoting and institutionalizing a transparent, accountable and efficient public procurement system in order to improve expenditure management.*” The main outputs of the reforms are: (i) Revised legal and regulatory framework; (ii) Enhanced procurement procedures and practices; (iii) Decentralised procurement system; (iv) ZNTB transformed into a more effective and transparent oversight body; (v) Independent Procurement Appeals Tribunal established; and (vi) Sensitisation of stakeholders.

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11 OECD-DAC JV for Procurement Country Pilot Programme Zambia - Assessment of Public Procurement System, August 2007



In the recent years, some steps have been taken in order to improve public investment efficiency, such as:

- The Planning and Budget Act has been drafted in 2008 and was discussed by Cabinet. The planning and Budget Act is intended to legislate the planning and budget process for the public service
- Revised development strategies were published and used as basis for project screening
- PFM reform, in particular, the introduction of Medium Term Expenditure Framework (MTEF) and Activity Based Budgeting (ABB) has laid the ground for linking capital planning and budgeting.
- Procurement reform has been launched. New Public Procurement Act has been enacted, creating the legal foundation for enhancing quality of procurement to achieve value for money and to mitigate fiduciary risks.
- Efforts are being made to streamline facility management – with the first critical step toward full accounting and registering state assets, regardless of sources of funding.

#### **5.2.1.6 OAG's Restructuring and Institutional Development**

The Zambian public audit system is based on the Westminster System, in which the Auditor General's Office is an independent body that reports to Parliament.

Reforms in the OAG also started under PSCAP. The key objective is to enhance external auditing function for improved accountability and transparency in the utilization of public resources.

Key achievements have been in the area of capacity building, increasing the establishment of the OAG and in infrastructure improvements. The OAG has undertaken continued training of its cadre to improve efficiency and motivation. Its establishment has been increased from 104 positions to over 500. As a result, there is presence of the OAG in all the provinces. With the procurement of more computers and vehicles, and the general infrastructure improvements, the OAG is now able to perform its work in a timely manner.

The Internal Audit department of the Ministry of Finance has a critical role to play in maintaining the pre-audit controls on expenditure, as well as in assessing the overall adequacy of the financial management systems and procedures in place. The Internal Auditors are said to have been effective in diagnosing problems in the financial management procedures, but their potential impact has in the past still been severely limited by the lack of adequate human and financial resources to carry out their work and insufficient follow-up on their recommendations by Controlling Officers (World Bank 2003). To overcome this challenge, some stakeholders have suggested adequately funded audit budget lines within the sector budgets to ensure all sectors are audited & this mitigate the problem of poor funding



While the OAG was linked to IFMIS from July 2010, the Office has been using a specialized package for its audit work – the Interactive Data Extraction and Analysis (IDEA).

Key challenges include lack of autonomy, inadequate budgetary allocations and equipment. As a result, the office is still unable to audit all public institutions. For example, there are still some government ministries and departments that are audited only once every other year. For other smaller public spending agencies, the frequency is even lower.

Finally, it is unclear whether the OAG has moved to performance audit which enhances accountability in the areas of economy, efficiency and effectiveness, and from the traditional way of auditing<sup>12</sup> which checks for regulatory and procedural compliance.

### 5.2.2 PSM<sup>13</sup>

The PSM, launched in 2006, is being coordinated by Cabinet Office. The overall objective of the PSM was to enhance the delivery of services to the people of Zambia and create an appropriate institutional environment for reducing poverty. Initially with 4 sub-components, the PSM has now been re-organised into two sub-components, one focusing on improving service delivery through the Institutional Appraisal and Organisation Development (IA/OD) approach, while the second seeks to carry forward Government efforts on Pay reforms and Payroll Management and Establishment Control (PMEC).

Performance contracts were introduced in the Zambian public service in 2003. But due to politicization of civil service, the sanctioning system is weak and collusion between auditors and controlling officers occurs rather frequently (Mwangala, 2010). Governance challenges that have come to light over the years with the most recent being in the health sector, also explain the lack of progress in implementing changes or reforms that improve service delivery to the public or the failure over the years for the executive to follow through on public policy implementation (Minh Le, Raballand & Palale, 2011).

#### 5.2.2.1 PMEC

The key objectives of PMEC are to facilitate remote data capture (entry) and eventually, payroll management and establishment at MPSAs, and to integrate the PMEC and IFMIS systems with a view to achieving cost savings and efficiency in shared modules.

**Achievements:** PMEC has recorded significant and appreciable achievements. These include, but not limited to-

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<sup>12</sup> In simple terms, the traditional way of auditing focuses more on whether a particular spending Agent has over/under-spent on its approved budget allocation. In the case of the former (i.e. over-expenditure), focus is on whether the additional amount was spent with authority or not, and for what purposes. Performance audit on the hand will look at “value for money” – was the amount allocated produce the expected output or not? In performance audit, even over-expenditure may not necessarily be a bad thing.

<sup>13</sup> Public Service Management – PSM’s Contributions to Service Delivery Improvements in the Public Sector (2006 – 2010), Cabinet Office, July, 2011.

- Decentralized payrolls – 100% to provincial centres and 3% for Lusaka based Ministries/institutions (Police HQ, PSMD, PSC and MHA HQ). There are currently 258 payrolls. This means, for example, that District Education Officers or District Medical Officers are now able to manage their respective payrolls at the sub-national level, thereby saving time and money.
- Less than 1% of the payroll constitutes “ghost workers”, reduced from 10% before PMEC.
- Real time data maintenance for transactions such as staff introductions, promotions, and separations. There is an improvement in the data maintenance on the system from 3 months to within one month.
- GRZ savings of about K2.58 billion per month, for expenditures on lodging and fuel for data capture and payroll collection.

**Challenges:** They include, but not limited to:

- Human failure to manage the payroll. While the system is automated, it still requires the human input in order to function properly. As they say “Garbage in, garbage out”.
- Legislation to support the automated system
- Sustainability. Currently, PMEC is almost wholly supported by cooperating partners, putting its sustainability in question if donor support was to dry up.
- Human interference. Because of automation of the payroll, all public service positions have standardized salaries and salary progressions. The system will, however, fail to handle appointments with Personal-to-holder salaries attached to them.

#### **5.2.2.2 Right Sizing and Pay Reforms**

Rightsizing is to ensure that all Government ministries and institutions have staffing complements which are appropriate to their agreed mandates and affordable in relation to the MTEF ceilings. Over the past few years, emphasis was placed on getting the composition of the workforce right in individual ministries, institutions and service delivery outlets within the projected financial resource constraint. It is recognized, however, that the “right size” is a moving target and ministries need to adapt the size and composition of their workforce in response to changes in technology and client needs.

Pay Reforms, on the other hand, aim to (i) relate employee remuneration to the job and performance, (ii) enable the public service to attract and retain essential technical, professional and managerial staff; (iii) ensure that pay arrangements support and reinforce service delivery, and (iv) ensure that increases in pay levels are consistent with the resource envelope. Under the Medium Term Pay Reform Strategy (2003 – 2007) salary scales were rationalized, salary structures decompressed and some allowances merged with the salary.

**Achievements:** The following are some of the key achievements from the Rightsizing and Pay Reforms:

- IA/OD approach to restructuring government institutions has been refined, approved and adopted
- IA/OD manual, tools and templates have been developed and adopted for use in restructuring public service institutions and improving the quality of public service delivery
- Piloting of the IA/OD commenced in three targeted institutions (i.e. Ministries of Education, Labour and Social Security and Energy and Water Development)
- 72 proposed Council structures have been developed and the determination of financial implications for implementing the proposed council structures is underway
- The Public Service Pay Policy developed and approved by Cabinet in 2009
- The pay policy implementation plan was revised and updated. Implementation commenced in December 2010.

*“ . . . the public service has been under-performing largely as a result of a demotivated workforce arising from heavily politicized appointments and poor conditions of service.*

*In order to strengthen the public service the PF government shall ensure that appointments and promotions to all public service positions are made on merit.”*

Sata, M C, Zambian President making maiden speech to National Assembly, 14<sup>th</sup> Oct 2011

**Challenges:** These include, but not limited to:

- Unresponsive management systems, work processes, procedures and values in the ministries/institutions
- Insufficient institutional capacity to operationalise Performance Management Package (PMP)
- Erratic funding to ministries/institutions to facilitate implementation of work plans
- Appointments to the public service of staff with personal-to-holder salaries

### 5.2.3 Decentralization

A simple definition of decentralization refers to a broad-based institutional reform aimed at improving governance through the transfer of responsibilities, authority functions, as well as power and appropriate resources, from central government to other levels of governance (i.e. to provincial, district and sub-district levels).

The third pillar of the Zambia’s public service reform process aims at decentralising a selection of functions, authority and control of resource allocation and utilisation from Central Government to democratically elected Councils. The objective is to make the local government system more efficient and responsive to local demands. The aim is to achieve a fully decentralized system of governance characterized by open, predictable and transparent policy making and implementation processes, effective local community participation in decision-

making, development and administration while maintaining sufficient linkages between central government and the periphery.

In order to achieve the foregoing, Government set itself a number of Policy Objectives, including; (a) empower local communities by devolving decision-making authority, functions and resources from the centre to the lowest level with matching financial resources in order to improve efficiency and effectiveness in the delivery of services; (b) design and implement mechanisms to ensure a “bottom-up” flow of integrated development planning and budgeting from the District to the Central Government; (c) promote accountability and transparency in the management and utilization of resources, and (d) develop the capacity of Councils and communities in development planning, financing, coordinating and managing the delivery of services in their areas.

Additionally, another aim of the decentralization policy is to link the grass roots to the national budget through the established institutions of Area Development Committees (ADC), District Development Coordinating Committees (DDCC), Provincial Development Coordinating Committees (PDCC) and National Development Coordinating Committees (NDCC).

Government’s commitment to decentralisation has been reaffirmed through several related programmes, including the just ended Fifth National Development Plan (2006-2010).

To attain this vision, Government will review and streamline the current organisation structures; and outline the functions to be performed at each level. Comprehensive legislation to back the implementation of the Decentralisation Policy will be enacted.<sup>14</sup> Decentralisation was defined as “Transfer of responsibilities, authority functions, as well as power and appropriate resources, to provincial, district and sub-district levels.”

**Achievements:** Key achievements include the development of the Decentralisation policy, and its adoption by Cabinet, and the creation of the office of the District Commissioner (DC), formerly the District Administrator (DA).

*“... government appreciates the critical role local government plays as an engine for delivering services, infrastructure and development to the local communities*

*... government is therefore, committed to establishing a system of local government which will promote local economic development, improved delivery of essential infrastructure and services through local self government.*

*... to promote decentralisation and active involvement of traditional leaders in the governance of the country below the district council level my government will introduce ward village councils, district chiefs councils and provincial chiefs councils.”*

Sata, M C, Zambian President making maiden speech to National Assembly, 14<sup>th</sup> Oct 2011

<sup>14</sup> The National Decentralisation Policy - Towards Empowering the People: Cabinet Office, January 2003.

In spite of the well meaning policy guidance and pronouncements, the implementation of the decentralization reform process has, for all intents and purposes, remained on the drawing boards.

**Challenges:** A number of challenges have been identified in the Decentralization reform. The key ones include:

- Lack of political will to decentralize. Over the years, it has become clear that Government has been reluctant to devolve power to the local authorities, for one reason or another. For example, towards the end of the MMD rule, the original concept of decentralization appeared to have been lost. Instead, decentralization was talked more in terms of de-concentration (rather than devolving) of power to the local authorities/communities.
- Making the key stakeholders and actors understand the content and meaning of the Policy, how it will change the way Zambia is governed, and their role in the implementation of the Policy
- Ability and capacity to mobilize adequate technical and financial resources for the implementation of the decentralization policy, and to guarantee sustainable financing of district mandates from both local and central government sources
- Lack of clear and strong support from cooperating partners to move forward the decentralization agenda. In part, this could be because of the lack of political will on the part of the Government.

Indeed it has been stated that decentralization should not be viewed as being similar to most other sectoral/system reforms such as PEMFA or PSM because, unlike these reforms which primarily focus on improving efficiency and accountability in the use of public resources, decentralisation entails a fundamental shift in the governance structure of the country involving the transfer of power, authority and resources to levels below the Central Government. Consequently, decentralisation is essentially a political process that requires concerted political will, which no line ministry, let alone a department or unit in a ministry, has the capacity or sufficient authority to drive.<sup>15</sup>

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<sup>15</sup> Decentralization Implementation Plan 2009 - 2013

## 6.0 Conclusions and Recommendations

Multiple factors, including the absence of necessary institutions, unclear institutional mandates, weak capacity, lack of vertical and horizontal coordination, and misaligned incentives, drive the inefficiencies being observed in the reform process and in the operations of the public financial management system. As Minh Le, Raballand & Palale (2011) argue that, to succeed, all the pieces of reforms have to be woven into a coherent framework targeting the weakest links in the public financial management system.

It appears clear that pure technical interventions are not likely to lead to desired ends. In the current political and institutional setting, a gradual pragmatic approach to reforms, including improving the challenging function of the Ministry of Finance, appears necessary to make impact.

The PMEC and Decentralisation programmes are clear examples with contrasting results, largely because of the way they are being implemented (or not at all). In the former, the study findings revealed that even before the reform programme is fully completed, it is already saving government about K2.58 billion per month. On the other hand, owing to the lack of political will, the decentralization programme has stalled, even when it is clearly key to a lot of the challenges currently besetting government (i.e. transparency, accountability, citizen participation and enhancing service delivery to the people).

From the study findings, the following conclusions and recommendations can be made:

- There is need to review and, where appropriate, amend legislation affecting key components of public financial management, with specific attention needing to be paid to the budget process, M&E, and the contraction of public debt. The direction may need to be towards giving Parliament oversight powers.
- Adequate legislation exists regarding the management and control of public finances. What is lacking is vigorous enforcement of these laws. Reform would therefore need to focus on increased linkages between planning, execution, audit and law enforcement
- The reforms, policies and systems put in place can produce the desired results. However, these are merely tools which can be abused. There is therefore need for all stakeholders to have greater awareness of the existing and emerging legal framework. Following this should be enhanced vigilance in raising “alarms” around breaches of the law.
- Decentralization is the key to a successful public service and efficient public service delivery. Without the political will to decentralize, no reform will produce the desired results. With seemingly renewed commitment to decentralization being shown by the new government, there will be need for well-organised advocacy for speedy implementation, keeping in mind need to link this to other public sector reform processes

- Zambia will not succeed to contain the debt situation as long as there is no prudent use of, and discipline in the management and control of public finances. A key first step will be to resuscitate earlier efforts to introduce a clear debt strategy and also enact appropriate legislation.
- Most importantly, the human element is key for any reform to be successful. Unless people with the right attitude, right competences and skills, and who are adequately motivated are employed to work with these tools, no reform agenda will succeed. There will be need to move towards a more professional civil service that is able to work under suitable conditions and with minimal political interference.

It is our view that the study has been timely, because of the recent change of government. It is therefore hoped that the new PF government may use this study as an important source of knowledge on public resource management, and thereby assist them in moving quickly to intervene and produce the results that the electorate may be expecting. Important in this regard will be to learn lessons from past efforts and build on the positive aspects of the reform process, whilst re-engineering aspects that have not worked well.

Emerging out of the study are three key pillars around which the reform process would need to rest if success is to be achieved: (1) Review of current legal reform coupled with clear enforcement mechanisms; (2) Implementation of appropriate mechanisms for recruitment and retention of a cadre of civil servants able and capable of executing desired reform processes; and (3) Following through with the decentralization process.

The hope and view of the study team is that the findings of the study, including conclusion and recommendations, will provide a useful guide to both state and non-state actors in mapping a clear way forward with regard to successful reforms in public financial management and poverty reduction.



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## **ANNEXTURE**

### **1. TOR**

*Exploring ways of Promoting Effective and Efficient Public Resource Management and Service delivery through transparency, social accountability and participation*

Contact: **Economic Equity and Development Programme**

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### **Introduction**

The Jesuit Centre for Theological Reflection (JCTR) is a research, education and advocacy team that promotes study and action on issues linking faith and social justice in Zambia. The mission of JCTR is to foster from a faith inspired perspective a critical understanding of current issues and promotion of justice for all especially the poor. It seeks to promote faith and justice through three programmes namely: Faith and Justice, Social Conditions and Economic Equity and Development Programme.

The Economic Equity and Development Programme of the JCTR is commissioning a study to understand the Public Finance Management Framework in Zambia with the aim of informing recommendations on how to improve it with regard to the regulatory framework of debt contraction, use and management of debt resources and public resources in general. This is in line with JCTR belief of carrying out well informed advocacy based on sound research.

### **1. Background**

Zambia is a low income country ranked among some of the world's poorest countries. According to the United Nations Development Programme (UNDP) 2010 Human Development Index, Zambia is ranked number 150 out of 164 countries. This is further compounded by the range of competing development needs that the country has for development programmes and essential public services and the leakages in Public Finance Management. This effectively emphasizes the great demands facing Zambia to provide and finance essential public services and key development programmes and to manage public resources prudently. In as much as significant amount of resources is required to ensure that the development needs of the people are met, the

situations of poverty are alleviated, infrastructure is developed and government is able to operate and provide key services, the country needs to put in place a comprehensive, transparent and accountable public finance management framework to ensure prudent and efficient use of available resources. This will ultimately improve on service delivery and reduce on the incidence of poverty.

The government has over the years implemented public expenditure management programmes such as the Medium Term Expenditure Framework (MTEF) to improve on planning and resource allocation through multi-year planning leading to implementation of government policies and programmes in a coherent and consistent manner. MTEF uses Activity Based Budgeting which provides for programme and output based budgeting thereby seeking to strengthen the impact of economic growth and poverty reduction by improving sustainability, efficiency and equity of public financial management.

Public Expenditure Management and Financial Accountability (PEMFA) is one of the three major government public sector reforms to be implemented between 2005 and 2009. It is an effort to improve the quality of service delivery by improving capacity to effectively and efficiently mobilize and utilize public resources. The other two programmes also related to PEMFA are:

- Right sizing and Pay reform and
- Decentralization

This programme is linked to other public institutions such as the Ministry of Justice, Zambia National Tender Board, the Bank of Zambia, the Auditor General Office, National Assembly and the Zambia Institute of Chartered Accountants. Integrated Financial Management Information System (IFMIS) and strengthening of the Audit Office in an effort to improve public finance management and service delivery.

Despite these efforts, the budget continues to underperform. Public funds continue to be misapplied and misappropriated, information on public funds and expenditure continue to face accuracy challenges and comprehensive availability and funds for the budget are sometimes released late or not released at all. Under targeting of revenues is another problem which prevents more resources to be available to public services and ultimately poverty levels remain

very high i.e. overall incidence of poverty at 64% and rural poverty at 78% (LCMS, 2006). The performance of these programmes should therefore be reviewed to assess their effectiveness in as far as improved public resource management and service delivery is concerned.

### **JCTR work on Public Finance Management**

In an effort to promote transparency, accountability and participation in the use of public resources that are raised through external debt, the JCTR carried out a legal review of the Public Debt Management and hence came up with a debt management strategy in the form of a Debt Management Bill proposal to the National Constitutional Conference. To ensure that Zambia does not fall back into a debt trap and that debt/public resources are used for the intended purpose, JCTR through its Debt Resource Monitoring project came up with a comprehensive, transparent and accountable debt management strategy. This strategy, presented in the form of a proposed Debt Management Bill seeks to among other things:

- Give parliament oversight powers in debt contraction, use and management.
- Establish a National debt and Grants Account through which all loans and grants with repayment requirements will be monitored.
- Establish the Office of State Debt Management within or outside the Ministry of Finance to manage, monitor and plan state debt to ensure that the debt contraction process and management is free of political influence and ensure maintenance of debt at sustainable levels.
- Establish a Debt Advisory Committee to play the advisory role to the Ministry of Finance on debt strategy and management.
- Limit External State Debt and External State Guarantees to be contracted per budget/financial year and the total amount of external state debt that can be outstanding during such a year.

The JCTR also embarked to a study titled “Our Money Our Right” on the Zambian Budgeting process to ascertain the level of transparency, accountability and participation. This was in an effort to promote and advocate for a more transparent, accountable and participatory institutional, policy and legal budget framework. The study recommended the following:

- Completion of the Decentralisation process to ensure citizen participation in the budgeting and development process through the Development Committees is enhanced.
- Decentralise distribution of the budget and production of a Citizen's budget to increase access and understanding of the budget by all citizens.
- Reduced time lag in producing the Financial and the Auditor General's reports to ensure to ensure effective budget monitoring, expenditure tracking and timely corrective action.

The aim of both studies conducted is to inform our advocacy work for a strengthened Public Finance Management Framework to ensure transparency, accountability and participation from the citizens in the management of public resources.

## **2. Problem Statement/Scope/ Purpose of the Research**

The Auditor's General Report has consistently over the years revealed irregularities in the management of public funds by the various ministries, provinces and other Spending Agencies through misallocations, misappropriation, unaccounted for revenue, un reconciled balances and unretired imprest. This is despite government implementing public finance management programmes. The budget process as evidenced by the Open Budget Index by the International Budget Partnership (IBP 2010 report) is lacking in terms of transparency, accountability and participation to ensure efficiency and effectiveness. The complete lack of a Budget Act also compounds the whole problem. Furthermore, the debt contraction process and management continues to be subjective with no stakeholder participation such as parliamentary oversight as the Minister of Finance and National Planning under Cap 366 of the Laws of Zambia has all the powers to contract loans on behalf of the Zambian people. Loan funds are part of public funds under revenue and should therefore, be subjected to parliamentary scrutiny and approval and they should be accounted for. The Debt Management Framework therefore lacks transparency, accountability and participation to ensure efficient and effective use of debt resources and to maintain sustainable debt stock.

## **3. Hypothesis**

Zambia can efficiently and effectively manage its public funds and thus ensure efficiency and effectiveness through transparency, accountability and participation. This can in turn help address the pressing needs of the poor. It can also help translate the economic gains achieved

into poverty reduction, improved wellbeing of citizens and development of the country in general.

#### **4. Aim and Objectives**

Contribute to existing knowledge on the Zambian Public Finance Management Framework, its policy, practice and current public finance management reforms, and make recommendations on the alternative ways of improving management of public resources/funds.

#### **5. Expectations**

The research report will generally be expected to provide an outline and identification of the key challenges and critical potential success factors regarding public finance management in Zambia.

The research consultant will specifically be expected to do the following:

- (e) Analyse, examine and review key issues and public finance management programmes regarding current public finance management framework in Zambia, i.e. Medium Term Expenditure Framework, Debt Contraction, Public Expenditure Management and Financial Accounting, Integrated Financial Management Information System, etc.
- (f) Examine to what extent, the current public finance management framework and laws promote transparency, accountability and participation i.e. Does it allow citizens to demand for explanations and justifications on how public resources are used and does it mandate the government to give these explanations and justifications and to provide effective corrective measures to address any abuse of public resources.
- (g) Review status and progress made on the other reform programmes meant to enhance transparency, accountability, participation and effective public finance management such as Decentralization and right sizing and Pay Reforms.
- (h) Set out policy options and provide synthesis of main recommendations on the way forward.

#### **Conclusion**

Given the prevalence of poor public resource management as revealed by the Auditor General's reports amid high levels of poverty facing many Zambians today, it is imperative to explore ways in which Zambia can ensure prudent management of public resources coupled with increased domestic resource mobilization. According to the central statistics office (2006), 64% of

Zambians are poor with 51% living in absolute poverty (i.e. under the poverty line of US\$1/Day) without access to the daily basic needs of life. This calls for urgent need of prudent management of public resources to enable government increase resource allocation to poverty reduction programmes and to ensure efficient and effective budget performance, service delivery and ultimately significant reduction of poverty levels.



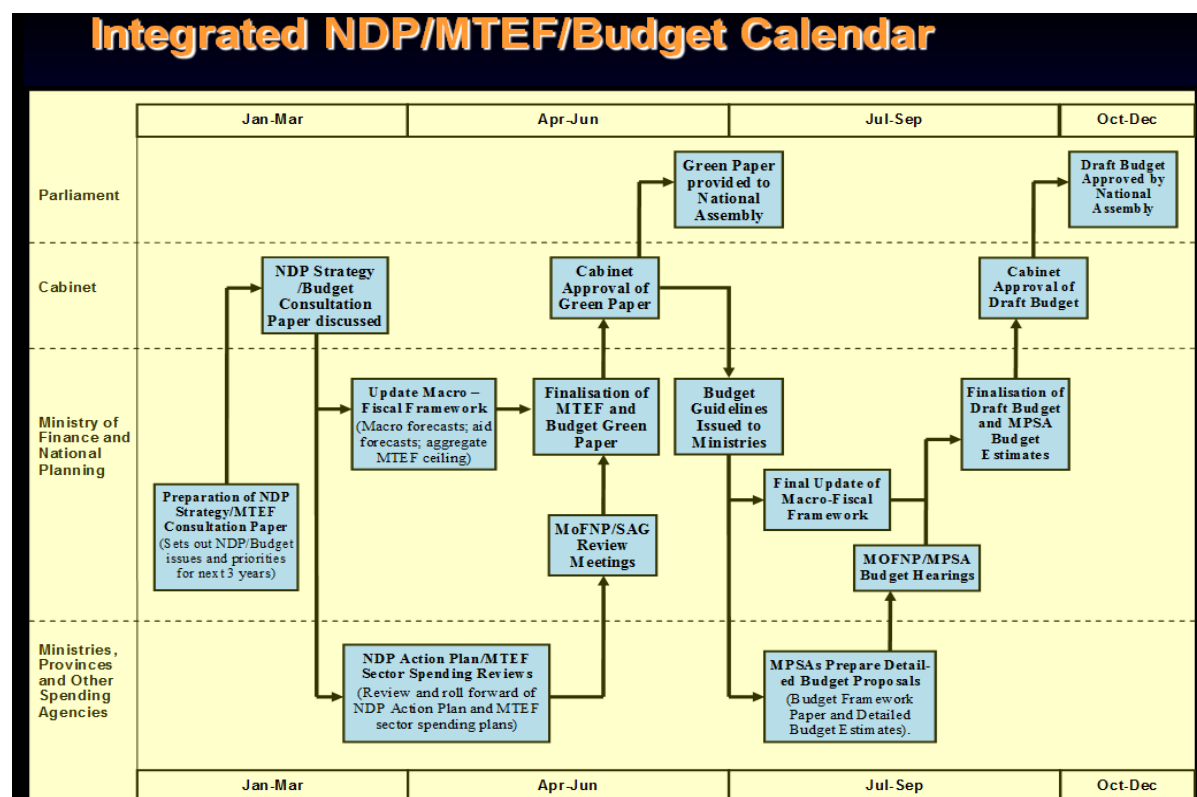
## ANNEX 2: ZAMBIA BUDGET TRANSPARENCY, 2010

How does Zambia Compare with other countries in the region with regard to the 8 key Budget Documents?

	Pre-budget statement *	Executive's Budget Proposal	Enacted Budget	Citizens Budget *	In-Year Reports	Mid-Year Review *	End-Year Report	Audit Report
Angola	IU	P	P	NP	IU	NP	P	IU
Botswana	IU	P	P	NP	IU	IU	P	P
Malawi	NP	P	IU	P	P	IU	P	IU
Mozambique	NP	P	P	NP	NP	NP	P	P
Namibia	NP	P	P	NP	P	NP	P	P
South Africa	P	P	P	P	P	P	P	P
Zambia	P	P	P	NP	IU	P	P	P

2. **Note:** IU – Document prepared for Internal Use only; NP – Document not prepared; P – Document made available to the public

## ANNEX 3: PROPOSED INTEGRATED NDP/MTEF/BUDGET CALENDAR



THE POST, Thursday October 27, 2011

HOME NEWS • 3

# Zambia will need to borrow more, says Chikwanda

By Gift Chanda

**FINANCE minister Alexander Chikwanda says Zambia will need to borrow more and at a faster pace to develop.**

Speaking when officials from the World Bank paid a courtesy call on him yesterday, Chikwanda said the country's internal resources were not sufficient to support a sustainable development strategy.

"We have had to rely on under the table development programmes," Chikwanda said. "We also have a task to work hard to reduce dependence on external charity."

He said the country had a long way to go before achieving satisfactory development.

He said that poverty and unemployment levels were still high despite the country receiving recognition from international community for making economic

strides.

"We have not made much progress in putting the economy on an even keel and let alone even preparing conditions for a sustainable development," take-off," Chikwanda said.

"At a time of our independence our population was seven million around these shores and the formal sector employment was 483,000. Recently the population has been put at 13 million and our formal sector employment has increased to a level of 800,000. This means that our formal sector employment has only increased by 25 per cent whereas our population has increased by more than 400 per cent. It is this sort of disparity which is a problem for Zambia."

He also said the new government had taken a zero tolerance stance on corruption because the vice was robbing the country of the much-needed resources to develop.

"Corruption can never be controlled at all. It has very heavy costs to the economy and one of the costs is that it is a disincentive to performance," he said. "The president himself has set a very high bar on

the fight against corruption. Because it is robbing development the resources.

And visiting World Bank executive director for Africa Group 1, Dr. Ahmed Taba, praised Zambia for its economic resilience during the economic crisis.

He also revealed that the World Bank had embarked on a post-crisis strategy with emphasis on consistent growth and economic resilience to external shocks in a bid to maintain sustainable growth globally.

He said the bank would focus on economic growth, fighting poverty and supporting agriculture infrastructure development.

"The strategy for Africa focuses on competitiveness and resilience to external shock," he said.

And World Bank alternate executive director in the African Group, Denny Kalyalya urged Zambia to take advantage of the relationship it had with the World Bank.

He said his visit together with the executive director of the African Group 1 gave the Zambian government an opportunity to spell out priority areas that needed the bank's assistance.

By Gift Chanda

THE government risks embarking on projects that are not economically beneficial to the country if it borrows at a fast pace without clear and transparent guidelines, warns the Jesuit Centre for Theological Reflection.

And Zambians for Empowerment and Development (ZED) president Dr Fred Mutesa says the government needs to borrow cautiously because countries currently in financial distress are in their situation because of over borrowing.

Commenting on finance minister Alexander

Chikwanda's statement on Wednesday that Zambia will need to borrow at an increased and fast pace to develop, Jesuit Centre for Theological Reflection (JCTR) programme officer in charge of economic equity and development Sydney Mwansa said the country could find itself in problems if it borrowed at a fast rate

without having clear guidelines. "With the levels of infrastructure development we are commencing ourselves and announcements that we will upgrade certain colleges into universities, it appears we will need to borrow. But the main question is that under which framework?" Mwansa asked.

He said the government should, in the first place, address the legal framework on debt contraction.

Mwansa said people need to be involved in every loan contraction and this could only be done if there was a provision to allow parliament to ratify decisions to borrow.

"We need to know which

# JCTR cautions on borrowing

sectors they intend to push the funds to because at the moment we borrow for different reasons and some reasons are not justified," he said. "Some roads which were being developed [by the MMD government] did not have any economic value. And this is what we risk borrowing at a fast pace and without proper guidelines."

Mwansa further said it was not enough for Chikwanda to assert that domestic resources were not enough to develop the country.

"What should be done is telling us how they are going to expand domestic revenue," said Mwansa. "They have been talking about increasing the tax base but they need to tell us what they are doing to fulfil this...they should be telling us how much they project to raise in the next three years for example."

And Dr Mutesa warned that the country could face

challenges the Greek government was facing if caution is not taken on external debt.

"We know we were external borrowing has landed us before, in a debt ditch were servicing debt took precedent over investment into social sectors and other needs of the people," he said. "External debt was a major contributor to the poverty we find ourselves in as a nation today because the government became preoccupied with servicing debt."

He said also advised the government to put in place a proper debt monitoring mechanism that allows citizens to ensure that loans are restricted to amounts which the country was able to pay back.

"Countries that are in distress today like Greece is because they over borrowed. This is something we should avoid by all costs because once the financial system in a country collapses, all economic activities get affected and instability gets in," said

Dr Mutesa. "We have to be very cautious how we move forward. We need to ensure that a transparent loan contraction process that sees to it that whatever we are borrowing is going into sectors that will generate more wealth so that we don't find ourselves in a debt crunch where we cannot pay back or we can pay back but at an expense of other vital sectors of the economic such as education and health."