REPUBLIC OF ZAMBIA

ZAMBIA

PUBLIC FINANCIAL MANAGEMENT PERFORMANCE REPORT

AND PERFORMANCE INDICATORS

PEMFA PROGRAMME EVALUATION

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Acronyms and Abbreviations

ABB	Activity Based Budget
AGA	Autonomous Government Agencies
BEA	Budget and Economic Affairs
BOZ	Bank of Zambia
FMS	Financial Management System
CFAA	Country Financial Accountability Assessment
CG	Consultative Group
CPAR	Country Procurement Assessment Report
FNDP	Fifth National Development Plan
GDP	Gross Domestic Product
GIR	Gross International Plans
GFS	Government Financial Statistics
GRZ	Government of the Republic of Zambia
HIPC	Highly Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
MoFNP	Ministry of Finance and National Planning
MoLGH	Ministry of Local Government and Housing
MPSAs	Ministries, Provinces and Spending Agencies
MTEF	Medium Term Expenditure Framework
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PEMFA	Public Expenditure Management and Financial Accountability
PFM	Public Financial Management
PFM-PR	Public Financial Management Performance Report
PMEC	Payroll Management and Establishment Control
PRBS	Poverty Reduction Budget Support
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Service Capacity Building Project
PSMD	Public Service Management Division
PSRP	Public Sector Reform Programme
SN	Sub National
TNDP	Transitional National Development Plan
ZICA	Zambia Institute of Chartered Accountants
ZNTB	Zambia National Tender Board
ZRA	Zambia Revenue Authority

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Summary Assessment

The purpose of this Evaluation has been to assess the current status of the Zambia Public Financial Management (PFM) system based on the Public Expenditure and Financial Accountability (PEFA) indicators in order to set a baseline for the continued use and assessment of these indicators. It is important to underline that the purpose of this evaluation has not been to evaluate and score different institutions or responsible individuals in the Government but the focus is on benchmarking the PFM systems themselves.

(i) Integrated assessment of PFM performance

Zambia's Public Financial Management (PFM) system is centred on a set of basic budget and accountability structures around a clear legislative framework. These include: (i) responsibility and accountability for public funds delegated to individuals through the system; (ii) appropriate oversight by the legislature; (iii) clear statement of the powers and duties for the Ministry of Finance and National Planning (MoFNP) and for the Auditor-General; and (iv) clear and well-documented roles and responsibilities for all stakeholders.

In recent years, there has been an increased focus on accountability through the operation of Parliamentary committees and the work of the Office of the Auditor General. Budget presentation has been clearer, with the advent of activity-based budgets (ABB), and there has been greater Cabinet involvement earlier in the budget process to discuss expenditure priorities and approve/issue ministry ceilings

Despite these strengths, effective PFM is challenged by a number of institutional and capacity constraints which potentially undermine the efficient fulfilment of these systems and procedures. Weaknesses exist in the extent of compliance with internal controls both because of inadequate information flows (including poorly integrated databases), and because of capacity constraints. These lead to poor predictability of the budget, and the original budget (particularly in line ministries) is not a good predictor of actual expenditures. Further moves towards more strategic budgeting will require significantly greater analytical capacities, particularly in line ministries. It will also require greater budget management capacities.

Measured against the six main PFM principles examined by the evaluation, it is clear that whilst there have been significant improvements in recent years, further PFM reforms will be needed to achieve better budget outcomes to deliver more efficient public services. Specifically,

- ***Credibility of the budget***: With the high level of variance between budgeted and actual expenditures, the original budget tends not to be an accurate predictor of budget outturns, particularly when it comes to individual line ministries. Whilst outturns of revenues have on aggregate exceeded original budget projections, outturns of expenditures on aggregate have diverged to a fair degree from the original budget projections. There have been more significant differences amongst ministries/agencies over the past 3 years and reflect the extensive use of redeployments and supplementary budgets to varying degrees across ministries. Whilst new arrears continue to be accumulated, the rate of increase has decreased since 2003/2004, particularly with the introduction of the commitment control system. Overall, the stock of arrears has been stable over the past two years, at around 12% of total expenditure. Finally, credibility of the budget is undermined by weaknesses in budget preparation by line ministries, particularly; whilst there have been improvements in the budget formulation process in recent years, the development of realistic budgets could be strengthened.

- ***Comprehensiveness and transparency of the budget.*** The budget documents are reasonably transparent, although the comprehensiveness of budget coverage could be improved. Significant fiscal information is available to the public (through the Government printer), although, in practice, the numbers of copies of reports printed are limited. The budget is focussed only on central government, giving a partial fiscal picture and leading to potentially significant future liabilities for central Government.

- ***Policy-based budget***. The introduction of the MTEF (the Green Paper), providing an overall medium-term macro/fiscal resource framework and expenditure policies, and the issuing of Cabinet-approved ceilings at the beginning of the budget preparation process have been very positive developments. Other improvements have included the inclusion of external finance and the bringing together of recurrent and capital expenditures, although more work will be required to incorporate on-going recurrent expenditures. Improvements in the use of forward estimates and the linking of the bottom-up planning and budgeting with the top down resource framework will be required in order to make the budget an effective tool for government policy.

- ***Predictability and control in budget execution***. The implementation of a commitment control system during the past two years has improved budgetary discipline. Nonetheless, effective expenditure controls are potentially undermined by: (i) inaccurate and non-timely information (e.g. a lack of comprehensive information on actual staff numbers results in the existence of ghost workers; (ii) retroactive adjustments in expenditures (ex-post regularisation, or the process of regularising previously unauthorised expenditures, including additional in-year expenditures for individual budget heads above their original budgeted amounts), indicating weaknesses in expenditure control; (iii) weak links between commitment ceilings and cash flow projections/monitoring and lack of communication of in-year expenditure authorisation (monthly or quarterly commitment ceilings) to line ministries; and (iv) capacity constraints, particularly with accounting and budget analysis. These capacity constraints can lead to inaccurate accounting and reporting and ineffective accountability mechanisms in some areas, potentially leading to breaches in controls.

- ***Accounting, recording and reporting***. Whilst there have been improvements in the efficiency of accounting, capacity constraints and weaknesses in the accuracy and availability of financial information hinder the effectiveness of financial management. Specific weaknesses include fragmentation in databases (e.g. payroll management), and manual and paper-based elements of some systems, resulting in the lack of real-time information for MoFNP and line ministry oversight.

- ***External scrutiny and audit***. External oversight has improved through the more timely preparation and submission of Auditor-General reports to Parliament and the clearance of the backlog of outstanding reports. Parliament has taken a more active role in scrutinising the budget. However, it is not clear how effective is the follow-up by the Executive

(ii) Assessment of the impact of PFM weaknesses

Weaknesses in the Zambian PFM system constrains the achievement of greater budgetary outcomes through:

- Under-targeting of revenues, which undermines budget credibility and prevents greater resources from being available to direct to public services. As part of PEMFA, attention will be paid to building more accurate macro/fiscal analyses.

- Improvements needed in budgetary planning, to enable budgetary allocations to be better linked to meeting Government policies. Further developments in the programmes and activities in the activity-based budgets, and bottom-up planning and budgeting process within the overall macro/fiscal resource framework, are expected as part of PEMFA reforms.

- Weaknesses in budget execution, with the practice of ex-post regularisation undermining the legitimacy of original budget plans.
- Non-comprehensive budgetary reporting to Government and the legislature, particularly on budget outcomes, constraining its ability to monitor the achievement of its budgetary aims. There is, as yet, no monitoring of, and reporting on, budget performance or the efficiency of service delivery and flows of external finance which are not channelled through the Treasury Account are not shown in the financial reports. At the same time, as the analysis of budgetary deviations across line ministry shows, ministries differ in their ability to obtain their full resource allocation, or to gain greater resources, through supplementary allocations. The process behind these decisions is not completely transparent.
- Capacity constraints, leading to potential compliance issues and affecting budget management.
- Improvements required in oversight and follow-up, particularly by the public and civil society. There is a need for greater external pressure, e.g. from civil society, for concerted action. Whilst the Auditor-General prepares comprehensive reports and makes significant recommendations, these recommendations may have not be followed-up by the executive agencies in a systematic and conclusive manner.

(iii) Prospects for reform planning and implementation

As indicated in the rest of the report, the PFM reform measures planned over the medium term are intended to improve the performance of PFM systems. Strengthened commitment controls, improvements in the financial management system, a stronger analytical basis for the macro/fiscal framework and budget proposals, and greater capacities for improving in-year monitoring and management of fiscal aggregates and budget operations should assist in the achievement of better budgetary outcomes.

In order for these reforms to be effective at strengthening budget performance, it is important for the Government to ensure that appropriate systems are in place and appropriate analytical capacities exist to implement and manage the reform process. At the same time, it will be very important to sequence the reform measures appropriately, focussing on the most urgent weaknesses first, particularly in those areas which if unchecked threaten to undermine progress in other areas. The importance of appropriate sequencing is underscored by the fact that it will be very difficult for the Government to move forward on all of the 12 reform measures at the same time and to the same degree. This will require significant management capacities and potential trade-offs for staff between implementing reform measures and the carrying out of normal budget operations.

Recommendations for prioritisation and sequencing of PEMFA

Currently, the Government's PFM reform programme, PEMFA, has 12 components, each of which tends to be considered separately. It will be difficult and inappropriate to address all PFM measures at the same time. In addition to capacity constraints and issues of absorption, in some PFM areas, prior actions will be required in order to address the priority issue and strengthen PFM. This has implications for the sequencing of reforms. The PEFA analysis in this report should assist with addressing the reform programme as a whole, i.e. across all components. It can assist in guiding the sequencing and further elaboration of such reform measures.

The key priorities for Government should be those areas which have scored a D or a D+, as these are the areas where the PFM system shows the greatest room for improvement. This report recognises that, in some cases, raising the score from one level to another requires Constitutional or other changes which go beyond the Government's own mandate (e.g. the change to the Constitution required to ensure that the budget is approved before the beginning of the fiscal year). Nonetheless, these areas should remain priorities.

This evaluation report has identified areas of greatest PFM concern, and these have led to recommendations for a more appropriately sequenced work programme for PEMFA (see below). Specifically, the indicators showing the greatest need for attention are those associated with the enforcement of expenditure controls. Thus, the recommendations of this evaluation are for the Government to: (i) focus on strengthening expenditure controls before further developments in strategic budgeting; (ii) ensure better information flows through the system; and (iii) work on building greater analytical capacities at all levels, particularly in accounting and budget analysis. Each of these areas is discussed briefly in turn below.

First, establish better financial control through strengthening and enforcing existing procedures and processes. Without addressing underlying weaknesses in expenditure control, improvements in budgetary planning will be futile. These include:

- Enforce commitment controls;
- Improve payroll controls through reduced fragmentation of the systems and responsibilities for managing payroll;
- Improve cash projections and communicate revised monthly/quarterly expenditure ceilings to MPSAs; and
- Enforce procurement procedures.

At the same time, it will be important to strengthen external audit in these areas, including the follow-up by executive agencies and the oversight of this follow-up by the legislature, to the OAG's recommendations.

Secondly, strengthen information flows throughout the system. It will be important to obtain more timely information on budget execution (accounting and accounts reconciliation, recording and reporting) to assist in budget management and the control of expenditure. The proposed new IFMS system should help improve the availability of real-time financial management information.

Finally, build greater analytical capacities at all levels, particularly in accounting and budget analysis. These are required at all levels of the system, but will need to be supported by active management to use these strengthened resources effectively.

Annex 4 provides a more detailed analysis of PFM prioritisation and sequencing in conjunction with the results of the PEFA assessment. Taking the PFM measures in PEFA as the basis, the analysis in the annex prioritises the PFM areas, as measured by this baseline assessment, and relates these to their relevant PEMFA reform areas. It also identifies reforms or activities, e.g. changes to legislation, which will be required before the relevant PFM improvement may take place.

Implications for timing and sequencing of next evaluations

Monitoring of PFM should take place each year. However, a full-scale update of the performance indicators each year would not be appropriate, since it is unlikely that significant changes would be evident. Instead, regular monitoring should be undertaken on a subset of the PFM areas, particularly the areas of greatest concern. In line with the focus on the control on expenditures, as set out in the report, the initial focus of more regular monitoring should be on expenditure control measures. Annex 3 suggests a number of sub-indicators on which the monitoring could concentrate.

More comprehensive updates/reviews of PFM systems should take place in years 3 and 5. Specifically, a mid-term review would be carried out at the end of the 3rd year of PEMFA implementation, and a final review at the end of the programme. A joint team of GRZ and PEMFA Cooperating partners should carry out both reviews.

The focus in the mid-term review should be on movement within, rather than across, the scoring categories in the PFM indicators (i.e. focus on areas within the C score categories, rather than on the requirements to move from a C to a B). The mid-year evaluation is expected to be carried out during 2007; this is likely to provide limited changes in indicators as there would have been only one full budget cycle (i.e. the 2006 budget). The sub-indicators in Annex 3 can identify relevant areas of investigation within the indicator categories.

Table SA1: Summary of PFM Performance Scores[1]

PFM Performance Indicator	Score
A. Credibility of the Budget	
1. Aggregate expenditure out-turn compared to original approved budget	C
2. Composition of expenditure out-turn compared to original approved budget	D
3. Aggregate revenue out-turn compared to original approved budget	A
4. Stock and monitoring of expenditure payment arrears	D+
B. Comprehensiveness and Transparency	
5. Classification of the budget	C↑
6. Comprehensiveness of information included in budget documentation	B
7. Extent of unreported government operations	D+
8. Transparency of Inter-Governmental Fiscal Relations	D+
9. Oversight of aggregate fiscal risk from other public sector entities.	C
10. Public Access to key fiscal information	B
C(i) Policy-Based Budgeting	
11. Orderliness and participation in the annual budget process	B
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+
C (ii) Predictability and Control in Budget Execution	
13. Transparency of taxpayer obligations and liabilities	B
14. Effectiveness of measures for taxpayer registration and tax assessment	C+
15. Effectiveness in collection of tax payments	D+
16. Predictability in the availability of funds for commitment of expenditures	D+
17. Recording and management of cash balances, debt and guarantees	C
18. Effectiveness of payroll controls	D+
19. Competition, value for money and controls in procurement	D+
20. Effectiveness of internal controls for non-salary expenditure	C
21. Effectiveness of internal audit	D+
C (iii) Accounting, Recording and Reporting	
22. Timeliness and regularity of accounts reconciliation	C+
23. Availability of information on resources received by service delivery units	C
24. Quality and timeliness of in-year budget reports	C+
25. Quality and timeliness of annual financial statements	C+
C (iv) External Scrutiny and Audit	
26. Scope, nature and follow-up of external audit	B+
27. Legislative scrutiny of the annual budget law	C+
28. Legislative scrutiny of external audit reports	C+
D. Donor Practices	
D-1 Predictability of Direct Budget Support	D
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	D+
D-3 Proportion of aid that is managed by use of national procedures	D

1 See Annex 1 for explanations of scores and Annex 2 for details of the calibration of the scores.

1. Introduction

1.1.1 Zambia has embarked on a process of substantially reforming the Public Financial Management (PFM) system. A comprehensive Public Expenditure Management and Financial Accountability (PEMFA) reform programme is currently being implemented between the Government of Zambia (GRZ) and the donors. The five-year programme (2005-2009) comprises 12 components[2], addressing all aspects of PFM. The programme is centred on the Ministry of Finance and National Planning (MoFNP) but other agencies and institutions are also involved.[3]

1.1.2 PEMFA is one of the three pillars of the GRZ Public Sector Reform Programme (PSRP), with the overall aim to improve the quality of service delivery. The overall objective of the PEMFA programme is to improve efficiency, effectiveness and accountability in the management and utilisation of public financial resources to support the implementation of Zambia's Poverty Reduction Strategy (PRS), and the National Development Plan (NDP). PEMFA should contribute to an improved and strengthened PFM system, ensuring that public resources are effectively and efficiently channelled to priority areas in accordance with the PRSP priorities.

1.1.3 The report set out below represents an important element of the monitoring and evaluation (M&E) framework, and is the result of the first annual evaluation of the PEMFA programme. The stakeholders agreed that the indicators developed under the World Bank-led Public Expenditure and Financial Accountability (PEFA) initiative should be used to set the baseline for the PEMFA programme, and this baseline analysis should take place during the first year of the programme, as part of the first Annual Evaluation[4]. The baseline analysis would also be used to provide recommendations for an appropriate sequencing of the 12 elements of the reform programme. The scoring in Section 3 and summarised in Annex 1 follows closely the PEFA Guidelines (see Annex 2 for a description of the calibration of scores for each indicator).

1.2 Objective of the Public Financial Management Performance Report (PFM-PR) Process

1.2.1 The purpose of this Evaluation has been to assess the current status of the Zambia PFM system based on the PEFA indicators in order to set a baseline for the continued use and assessment of these indicators.

1.2.2 It is important to underline that the purpose of this evaluation has not been to evaluate and score different institutions or responsible individuals in the Government. The focus is on the PFM system as such, and the results of the evaluation should serve, not only as a baseline for coming evaluations, but also as an important input in the process of steering the PEMFA Programme and prioritising within it.

1.3 Methodology for the Evaluation

1.3.1 The evaluation was carried out during the period 3-14 October 2005 and was conducted as a joint exercise between the GRZ and the donors supporting the PEMFA programme. The GRZ led the evaluation process and was assisted in completing the evaluation by independent monitoring consultants appointed by the co-operating partners.

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2 1) Commitment control and FMS; 2) IFMIS; 3) Fiscal policy and planning; 4) Budget preparation and execution; 5) Improved debt management; 6) Enhanced internal audit and control; 7) Better external financing; 8) Legal and regulatory framework; 9) Strengthened external audit; 10) Enhancing parliamentary oversight; 11) Accounting training and regulations; 12) Public procurement reforms.

3 Ministry of Justice, Bank of Zambia, Zambia Revenue Authority, Zambia National Tender Board, the Parliament, Zambia Institute of Chartered Accountants, Office of the Auditor General.

4 This PEFA PFM Performance Measurement Framework was developed in conjunction with a group of co-operating partners as a tool for the measurement and monitoring of PFM systems performance. It incorporates a PFM performance report, and a set of high-level indicators covering all aspects of public financial management.

1.3.2 The evaluation involved:

- Collecting and analysing existing documentation on the Zambia PFM
- Collecting data and information from interviews with key stakeholders and individuals with key responsibilities within the PFM system
- Quality assurance by seeking independent confirmation on data and information either from complementing interviews or from available recent reports
- Discussions within the team for reaching and consolidating a common approach and interpretation of data and also presentation of information.
- Roundtable discussions with stakeholders on scoring of the PEFA indicators

1.3.3 Two stakeholder workshops were conducted to discuss key issues and build consensus. The first workshop was an initiating workshop to discuss the methodology, whilst the second presented the initial results from the evaluation.

1.4 Scope of the Assessment

1.4.1 The assessment of Zambia's PFM covers all public expenditures and the institutions responsible for such. The public sector comprises the central government (including deconcentrated provincial and district administrations), local councils, and state-owned public enterprises and statutory authorities. Public expenditure in Zambia is highly centralised, and the central government's budget covers more than 95% of budgetary resources.

1.4.2 Whilst the evaluation includes a discussion on the implications of the evaluation for the sequencing of the PFM reforms in PEMFA, it does not include a comprehensive list of recommendations on the sequencing of *individual* PEMFA components (see TORs in Annex 5). The evaluation team felt that this was beyond the scope of the current evaluation, and instead was the role of the PEMFA Secretariat, once it is established.

1.4.3 The structure of the rest of the evaluation report is as follows:

- Section 2 provides background information for the evaluation;
- Section 3 explains the scores for individual performance indicators;
- Section 4 describes the implications of the evaluation for the government's reform programme; and
- A series of annexes provides more detailed reference information, including a summary of the scoring of the performance indicators (Annex 1), a summary of the PEFA scoring calibration (Annex 2), a list of potential sub-indicators for PFM areas (Annex 3), recommendations on sequencing of PFM measures (Annex 4), the TORs for the evaluation (Annex 5), and a list of the stakeholders visited by the team (Annex 6).

2. Background

2.1 Description of Country Economic Situation

2.1.1 This section provides background to the macroeconomic position attained by Zambia in the past three years (2002 – 2004). A positive trend has been exhibited as evidenced by real GDP growth rates attained (4.9% in 2002, 5.1% in 2003 and 5.4% in 2004).

2.1.2 Zambia's poor growth in the past was exhibited by macroeconomic instability, in particular high interest rates, which deterred private investments; the lack of structural reforms aimed at reducing the cost of inefficient public enterprises; and the quick pace at which privatisation was engaged. As a result, the majority of Zambians are yet to feel the benefits of privatisation.

2.1.3 The Government in the past years have made attempts to reduce poverty, with assistance of the Poverty Reduction Strategy Paper (PRSP), a Government planning tool for reducing poverty in the period 2002 -2004. According to the results of the 2002/2003 Living Conditions Monitoring Survey, the incidence of poverty was estimated at 67 percent with extreme poverty estimated at 46 percent. Areas of high incidence of poverty are predominantly concentrated in the rural areas. It should be noted that the Fifth National Development Plan currently under preparation is being designed to reduce poverty levels by individual sectoral and district plans being prepared by the respective sectors/districts.

2.1.4 The Government identified key structural reforms which involved the restructuring of the public service, financial sector reforms and initiatives formed to enhance private sector development. In areas of parastatal reform, significant improvements have been made in the area of commercialising ZESCO. These measures included the settlement of GRZ outstanding electricity bills and water utilities.

2.1.5 Fundamental changes have brought about improvements to growth of the economy. Zambia in its economic recovery programmes identified sectors other than mining as possible engines for economic growth. Main sources of growth have been in agriculture, mining, manufacturing and tourism. Areas of intervention in agriculture by Government has been in the form of input support to small scale farmers under the Fertiliser Support Programme (FSP) and support to irrigated agriculture by commercial farmers coupled with tax measures aimed at improving the sector.

Table 1: Gross Domestic Product at constant 1994 Prices, (K billions)

	2002	2003	2004	% change, 2002-2004
Primary Sectors	**624.6**	**652.7**	**698.7**	**11.9%**
Agriculture, forestry and fishing	411.7	432.5	450.8	9.5%
Mining and quarrying	212.9	220.2	247.9	16.4%
Secondary sectors	**529**	**586.5**	**630**	**19.1%**
Manufacturing	289.4	311.4	327.6	13.2%
Electricity, gas and water	77.8	78.3	76.9	-1.2%
Construction	161.8	196.8	225.5	39.4%
Tertiary sectors	**1,554.30**	**1,607.30**	**1,660.30**	**6.8%**
Wholesale and retail trade	505.4	536.4	565.2	11.8%
Restaurants and hotels	62.9	67.2	71	12.9%
Transport, storage, and communications	165.1	173.3	184.2	11.6%
Financial intermediation and insurance	212.7	220	227.7	7.1%
Real estate and business services	257.4	267.6	278.2	8.1%
Community, social, and personal services	207.3	210.5	211.7	2.1%
Other	**143.5**	**132.3**	**122.3**	**-14.8%**
Taxes	271.6	263.6	256.9	-5.4%
FISIM	-128.1	-131.3	-134.6	5.1%
GDP at market prices	**2,707.90**	**2,846.50**	**2,989.00**	**10.4%**

Source: Economic Report 2004

2.1.6 The attainment of growth in the past three years was based on the recovery of agricultural sector as well as favourable performance in mining, manufacturing, tourism and service sectors. Following the 2002 drought, agricultural output rose with efforts made both by Government and by the private sector. Annual inflation fell from 27.6 percent at end 2002 to 17.23 percent at end 2003, owing mainly to the fall in food prices following a favourable agriculture season.

2.1.7 Government's macroeconomic policy in 2004 was principally focused at restoring fiscal discipline, especially containing government borrowing. This was in the wake of excessive borrowing in 2003 that reached 5.1 percent of GDP, thereby causing a steep rise in domestic debt, interest payment and interest rates. The macroeconomic environment improved in comparison to 2003 with interest rates edging downwards and relative stability exhibited between the Kwacha and the United States dollar.

Table 2: Key Macroeconomic Indicators

	2002	2003	2004
Real GDP Growth rate	3.0	5.1	5.4
Inflation Rate (end period)	26.7	17.2	17.5
Nominal GDP (K'Billions)	16,202.2	20,479	25,916
Current Account Deficit Incl. grants (% of GDP)	(6.5)	(7.5)	(4.8)
GIR months of Import Cover	2.2	1.3	1.2

Source: Economic Report 2004

2.1.8 The year 2005 has been characterised by improvements; however preliminary data indicate the recent fuel crisis that rocked the country will have a negative impact on the country attaining its economic targets. The major highlight during the period under review was the country's attainment of the HIPC Completion Point in April 2005. This has and will continue to result in reduced debt-service payments, thereby giving Government the fiscal leverage to direct resources to growth enhancement and poverty reducing areas.

2.1.9 Inflationary pressure remained the major challenge with annual inflation at 19.2 percent as of end-June 2005, above the overall inflation projection of 15.9%. In addition, there was a 28.6 percent decline recorded in maize production owing to unfavourable weather conditions.

2.2 Budgetary Outcomes

Fiscal performance

2.2.1 Public spending in Zambia has averaged just under 25% of GDP in recent years (Table 3).[5] Government policy aims to contain public expenditure, although in practice it has proved difficult to moderate expenditure levels. Personnel expenditure accounts for nearly 40% of all public spending, and 55% of non-statutory recurrent expenditure. Since 2002, the budget deficit has been less than 3% of GDP with a falling trend in recent years.

Table 3: Overall Budgetary Trends, 2001-2004

	% of GDP		
	2002 Actual	2003 Actual	2004 Actual
Total Revenues and Grants	**17.3%**	**23.7%**	**24.0%**
Own revenue	17.3%	17.5%	17.6%
Grants	0.0%	6.2%	6.5%
Total Expenditures[3]	**20.2%**	**23.4%**	**23.2%**
Non-interest expenditure	16.5%	17.6%	19.3%
Interest expenditure	3.7%	5.8%	3.9%
Aggregate Deficit[1]	**-2.8%**	**0.3%**	**0.8%**
Primary deficit[2]	0.8%	6.1%	4.7%
Net Financing	**3.0%**	**2.2%**	**5.1%**
External	0.0%	2.2%	5.1%
Domestic	3.0%	0.0%	0.0%

Note: 1. Including grants
2. Excluding net interest payments.
3. Excludes external expenditures not channelled through the Consolidated Fund
Source: Annual Financial Statements, MoFNP

Allocation of resources

2.2.2 As shown in Table 4, spending on social services represent just over one-quarter of total budgetary expenditures. In line with the Government's priority on front-line services, the share of education and other social services have increased in recent years, but at the expense of a drop in the share for health spending.

5 Refers to expenditure by MPSAs.

Table 4: Actual Budgetary Allocations for Selected Sectors		
	% of Total Expenditures[1]	
	2003	2004
Education	14.2%	15.9%
Health	8.7%	8.1%
Water and sanitation	0.3%	0.4%
Other social services	0.9%	1.5%

Note: 1. Central Government
Source: MoFNP

2.2.3 The relatively high levels of public spending on the wage bill, relatively low levels of capital expenditure, and quasi-fiscal activities in relation to public enterprises suggest that there is scope for achieving greater effectiveness and efficiency in public spending programmes (Table 5).

Table 5: Actual Budgetary Allocations by Economic Classification			
	% of Total Expenditures[1]		
	2002	2003	2004
Current expenditures	**88.1%**	**92.0%**	**88.9%**
- Wages and salaries	39.5%	37.3%	39.0%
- Goods and services	12.5%	14.2%	16.1%
- Interest payments	17.0%	25.1%	19.2%
- Transfers	11.8%	7.7%	8.1%
- Others	7.3%	7.9%	8.2%
Capital expenditures	**11.9%**	**8.0%**	**11.1%**

Note: 1. Central Government
Source: MoFNP

2.3 Legal and Institutional framework for PFM

The legal framework

2.3.1 The legal framework that governs the management and control of public finances in Zambia is made up of the Constitution, The Public Finance Act 2004, The Zambia National Tender Board Act, Local Government Act, and the Financial Regulations. The roles of the executive, legislature and judicial branches of government are clearly set out in the Constitution. Part VII of the Constitution deals with public finances and Article 107 of the Constitution deals with the appointment and the duties of the Auditor General. The Public Finance Act 2004 and the supplementary Instructions issued by the Minister of Finance and National Planning sets out the management and control of public finances, including the following:-

- The functions of the Minister of Finance and National Planning
- The functions and powers of the Secretary to the Treasury
- The duties and responsibilities of the Controlling Officers
- The appointment of the Accountant General and duties of accounting officers for a ministry, department or statutory corporation
- The appointment and the powers of the Internal Auditor

- The establishment of audit committees for all ministries, departments and statutory corporations
- The establishment of a consolidated fund for all general revenue and other public monies.
- The appropriation and releases of funds
- The penalties for controlling officers who fail to perform any financial duties assigned
- The control of statutory corporations

2.3.2 Currently the legal framework relating to the management and control of public finances is undergoing reform in order to improve on financial management, accountability and transparency. The 2004 Public Finance Act is being strengthened. The Zambia National Tender Board Act is also being revised, while the Financial Regulations are also being updated.

2.3.2 The Institutional Framework for PFM

The Executive

2.3.3 The Republican President is the head of state. The President is chosen through a general election for the period of five years but is eligible to stand for elections for two terms only.

2.3.4 The president appoints the Vice-President and selects Cabinet Ministers and Deputy Ministers from among the Members of Parliament. The Cabinet Ministers head ministerial portfolios. The Secretary to the Cabinet is also appointed by the President to head the civil service while the Secretary to the Treasury is appointed to be in charge of the National Treasury. In addition, Permanent secretaries are appointed by the president as the most senior civil servants in each ministry while the Secretary to the Treasury appoints the Controlling officers in charge of public finances in their respective Ministries, Provinces and Spending Agencies (MPSAs). Below the Permanent Secretaries are Directors heading ministerial departments as warrant holders.

2.3.5 The Ministry of Finance and National Planning is in charge of managing the economy, national treasury, cash management and external and internal debt management and co-coordinating the national planning processes including Medium Term Expenditure Planning and Annual Budgeting. To undertake these functions, the ministry operates through two divisions namely Budget and Economic Affairs (BEA) division and the Financial Management and Administrative division (FMA) each of which is headed by a Permanent Secretary. The Ministry of Finance and National Planning performs some of the functions through the statutory bodies under its portfolio such as Bank of Zambia, Pensions and Insurance Authority, Zambia Revenue Authority.

Legislative

2.3.6 The Zambian Parliament consists of 150 elected Members of Parliament with the tenure of five years. The Republican President is allowed by the constitution to nominate up to 10 members of Parliament.

2.3.7 Parliament is the source of all legislation and custodian of democratic ideals of a representative and participatory government. Through Parliament the doctrine of separation of powers is provided by performing the oversight functions of checks and balances. These functions are performed through departmental related committees, select or *Ad ho*c Committees, general purpose committees and House keeping committees which monitor policy implementation of the executive in various portfolios. The general purpose Committees such as the Estimates and Public Accounts Committees examine Bills and scrutinise Government Financial Administrations and expenditures. The Government Assurances Committee follows up on resolutions passed in Parliament as well as on recommendations arising from the Audit reports.

2.3.8 Select or *ad hoc* committees on the other hand are appointed by parliament from time to time to deal with specific and urgent issues such as scrutiny of appointments before they are ratified by the house. Among the legislations passed by parliament are those related to Public Finance Management. The Auditor General's office performs functions the oversight functions in the Public Financial Management and reports to Parliament through the President.

3. Assessment of PFM Systems, Processes and Institutions[6]

3.1 Budget Credibility

3.1.1 A comparison of outturns against the original budget over the past three years indicates that, in aggregate, the budget is an inaccurate measure of actual expenditures due to weaknesses in fiscal discipline, expenditure control, and budgetary planning. Table 6 shows the execution of primary expenditures for the 2002-2004 period. As shown, the average variance between actual expenditure and the original budgeted amounts was just under 15% for the past three years. Higher than planned revenue receipts in two out of the past three years have allowed for additional expenditure to be authorised during the year under the Supplementary Budget.

Table 6: Comparison of Original Budgeted and Actual Expenditures, 2002-2004

	2002	2003	2004[2]
Budgeted primary expenditure[1] (K bn)	2,656	3,062	5,610
Actual primary expenditure (K bn)	2,849	3,741	4,947
Difference btwn actual & budgeted primary expenditure (K bn)	193	679	-663
Difference as % of budgeted primary expenditure (%)	7.3%	22.2%	11.8%

Notes: 1. Primary expenditures exclude deficit servicing payments and externally-financed project expenditures. 2. Data refer to budget releases.

Source: Budget documents, MoFNP

3.1.2 A more detailed analysis of budget deviations between budgeted amounts and actual out-turns by budget head shows that average deviations have been more than 15% of budgeted amounts in recent years (Table 7). Variances across individual budget heads have been significant, averaging 33% of total expenditures. Whilst specific reasons for the deviations for institutional heads differ, in general they have been caused by one or more of the following: (i) differences in the capture of donor inflows; (ii) in-year emergency needs; and (iii) the discretionary release of funds to different institutions.

6 The measurement of the scores in this section follows closely the PEFA Guidelines (see Annex 2 for a description of the calibration of scores for each indicator). For indicators with more than one dimension, a separate score is given for each dimension, and the overall score for the indicator is shown in bold and box-framed.

Table 7: Comparison of Deviations in Original Budgeted and Actual Outturns for Principal Budget Heads, 2002-2004			
	Deviations (% of original budget)[7]		
	2002	2003	2004
Ministry of Education	47.6%	82.7%	4.1%
Ministry of Finance and National Planning	13.6%	22.8%	62.5%
Ministry of Defence	6.9%	6.8%	25.5%
Ministry of Health	21.2%	36.9%	14.6%
Ministry of Agriculture and Co-operatives	35.6%	4.1%	0.8%
Ministry of Works and Supply	48.4%	28.6%	8.0%
Ministry of Foreign Affairs	3.9%	21.6%	3.2%
National Assembly	26.8%	181.0%	25.5%
Ministry of Home Affairs	26.6%	7.0%	1.0%
Ministry of Community Development	60.8%	36.2%	6.4%
Total deviation as % of primary budgeted expenditure[1]	29.5%	39.2%	30.3%

1. Refers to the sum of the absolute value of the deviations of all budget heads as a proportion of the total budgeted allocation for primary expenditure.

Source: Budget documents, MoFNP

3.1.3 Table 8 compares actual revenue receipts with the original budgeted estimates over the last three years. A comparison of actual receipts against the original budgeted figures indicates that, in aggregate, the budget tends to underestimate actual revenue receipts due to the conservative setting of revenue targets by MoFNP. As data in the table show, in two of the past three years, actual revenues have been greater than those budgeted. As indicated below, if the totality of non-tax revenues were included, it is likely that actual reported receipts would have been even higher.

3.1.4 Large variances in budget releases for ministries/agencies undermine budget credibility and good budgetary discipline. This results in line ministries failing to implement their activities within the original budget limit, thereby relying instead on requesting additional resources when they find that the original budget is deemed insufficient for their needs.

Table 8: Comparison of Original Budgeted and Actual Domestic Revenue Receipts, 2002-2004			
	2002	2003	2004
Budgeted receipts (K bn)	2,872	3,481	4,627
Actual receipts (K bn)	2,810	3,555	4,686
Difference between actual and budgeted receipts (K bn)	-61	74	58
Difference as % of budgeted receipts (%)	-2.1%	+2.1%	+1.3%

Note: Data refer to total domestic receipts (excluding external grants and exceptional revenues) from the Central Government budget.

Source: Budget documents, MoFNP

[7] As provided for in the PEFA guidelines, the deviations in Table 7 were measured in relation to the original budget, which exclude supplementary budget allocations.

3.1.5 The conservative planning of revenues has not helped prevent the build-up of arrears in the past, since the flow of cash has been unpredictable, budget releases have not matched expenditure commitment ceilings, and overspending has been permitted. In particular, significant arrears were built up prior to 2003 due to weaknesses in commitment control; MoFNP has consolidated these outstanding arrears and is implementing a plan to reduce them over a five-year period. More recently, stronger commitment controls have contained the accumulation of new arrears. At present, expenditure arrears (including both old and new stock) represent around 12% of total expenditure.

Indicator	Score	Brief Explanation
A. Credibility of the Budget		
PI-1. Aggregate expenditure out-turn compared to original approved budget	C	The percentage deviations between actual and budgeted primary expenditures as a proportion of the original approved budget were: 2002 7.3% (actual expenditures) 2003: 22.2% (actual expenditures) 2004: 11.8% (releases)
PI-2. Composition of expenditure out-turn compared to original approved budget	D	The variances in the composition of primary expenditures across budget heads were: 2002: 22.2% (actual expenditures) 2003: 17.0% (actual expenditures) 2004: 18.5% (releases)
PI-3. Aggregate revenue out-turn compared to original approved budget	A	Nominal domestic revenue receipts have been higher than the budgeted amounts for the last several years due to conservative revenue targets.
PI-4. Stock and monitoring of expenditure payment arrears	D+	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	*D*	Expenditure arrears comprise approximately 12% of total expenditure. MoFNP is implementing a five year plan to reduce the stock of outstanding arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	*B*	Detailed information is available on the size and composition of arrears

3.2 Transparency and Comprehensiveness

3.2.1 The Annual Budget (Yellow Book) is presented with four supporting documents: the Minister's Budget Speech; the Economic Report; the Estimates of Revenues and Expenditure, Appropriations Bill and the Establishment Register. The Medium Term Expenditure Framework, is presented in its draft form as the Green Paper, prior to Budget presentation and is used as a consultative document in the budgetary process. The Green Paper shows the aggregate fiscal forecasts and the aggregate budget ceilings for the budget year plus the two following years.

Classification of the budget

3.2.2 The detailed budget estimates are presented mainly by administrative classification, with a summary presented according to budget head, and by broad economic item (personal emolument and other); there is a budget summary of revenues and expenditures according to international standards. More detailed estimates according to the economic classification (including capital expenditures by budget head) are not available in the Yellow Book.

3.2.3 Beginning with the 2004 Budget, the Government provided its budget on an activity basis. Estimates were presented by programme and activity for each budget head and sub head. This is intended to provide more detail on the purpose of budgetary spending.

3.2.4 With the 2006-2008 Green Paper, forward estimates have been presented by the GFS2001 functional classification. It is expected that the 2006 budget will be summarised according to the functional classification.

Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-5. Classification of the budget	C↑	The budget is presented by administrative and economic classification. Since 2004, the Budget has been presented by budget head and sub-head, programme, and activities and includes external finance by programme and donor. However, budget execution reports do not mirror budget presentation since the former exclude expenditure financed by external funds which are not channelled through the Treasury Account (although the budget proposals in the Yellow Book do include these types of funds). The result is that an analysis of budget execution (both regular in-year reports and annual financial statements) shows relatively low levels of budget implementation for those ministries. An upward arrow has been recorded since the draft 2006-2008 MTEF includes forward estimates according to the 10 GFS functions, and budget reports from the 2006 Budget are intended to include a summary according to the functional classification. As the introduction of activity-based budgeting is relatively new, improvements to the system are planned, including additional training on the functional and programmatic classifications. In addition, the programme definitions will need to be further developed: in some cases, they show a mix of economic items (e.g. personal emoluments) and activities. There will also be the need to increase the accessibility (comprehension) of the budget information to the public and civil society.

Comprehensiveness of the budget

3.2.5 The information contained in the budget documents is reasonably comprehensive; however, there are a few elements that are not included in the documents. This is in line with current legislation. The budget documents do not include the previous year's actual outturns by individual budget heads (as in the 2005 budget presentation), since activity-based budgeting was only introduced with the 2004 budget. These are expected to be included in the 2006 Budget document. The previous year's actual outturns (from the Audited Financial Statement) by individual budget heads are not yet presented as in the 2005 budget presentation; these are expected to be included in the 2006 Budget document. As indicated above, summarised revenue and expenditure data according to the detailed economic classification are not included in the Yellow Book. A full list of Government's financial assets is not included in the budget documents. Whilst the Minister's Budget Speech provides details of the fiscal implications of revenue policy changes and sets out the allocations provided for priority policy areas, detailed analyses of the budgetary implications of new expenditure policy initiatives are not set out. In other words, whilst the amounts allocated for major expenditure areas are set out in the Budget Speech, they are not analysed in detail.

Indicator	Score	Brief Explanation
PI-6. Comprehensiveness of information included in budget documentation	B	The Budget documents comprise: (i) the Yellow Book; (ii) the Economic Report, (iii) the Minister's Budget Speech and (iv) the Establishment Register. The MTEF (Green Paper) should also be considered as supplementary to the budget documents, although it is not sent to Parliament with the Budget. Included within the budget documents are: 1. Macroeconomic assumptions (Economic Report) 2. Fiscal deficit, defined according to the GFS (Economic Report) 3. Composition of deficit financing (Economic Report) 4. Details of the debt stock for both domestic and external debt (Economic Report) 7. Current year's budget, covering both the original budget and the revised (supplementary) budget (Yellow Book) Currently not included in the budget documentation are: 5. A list of Government's financial assets 6. Previous year's actual outturns by individual budget heads. 8. Summarised revenue and expenditure data according to the economic classification; what is included is a summarised form of the economic classification (split between personal emoluments and non-personal emoluments) 9. Detailed analyses of expenditure implications for new expenditure policies; the fiscal implications of revenue policy measures are included in the Budget Speech. Whilst the amounts allocated for major expenditure areas are set out in the Budget Speech, they are not analysed in detail.

Extent of unreported government operations

3.2.6 The budget is concentrated on central government operations. Activities not covered by fiscal reports include the activities of local government, extra-budgetary funds, some ministries' own-source revenues, parastatals and other quasi-fiscal activities. The Economic Report contains a single estimate of Government's contingent liabilities.

3.2.7 The Pension Fund is the main extra-budgetary fund. For the former, only Government pension contributions for its employees, and payments for early retirees, for example, are included in the budget. In terms of information on parastatals, the Economic Report contains a list of contingent liabilities, and, in the case of the payment of dividends, these are shown as revenue in the budget. Whilst revenues earned by ministries and departments, such as user charges and fees, are not required to go through the Consolidated Fund, they are supposed to be shown in the budget, as are the related expenditures. Whilst a significant proportion is shown, it is likely that not all such non-tax revenues are shown. Reliable estimates of the extent of unreported expenditure are difficult to obtain.

3.2.8 The introduction of activity-based budgets has improved the presentation of external financing. The majority of external loans are separately identified in the budget Yellow Book by programme and by co-operating partner; information on grants is included for the major programmes. In practice, the budget incorporates only known commitments for programmes covered by underlying government/co-operating partner-to-government agreements. Actual disbursements vary considerably from planned commitments, and major revisions are made during the year. As indicated below, reports on expenditures, including in-year budget execution reports and the Financial Statements, do not include all external finance shown in the budget, specifically, the portion of external finance which does not go through the Treasury Account, including project grants and project loans which are not channelled through Government systems.

Indicator	Score	Brief Explanation
PI-7. Extent of unreported government operations	$\boxed{\text{D+}}$	
(i) Level of unreported extra-budgetary expenditure	*D*	Comprehensive and conclusive information is not available on the level of unreported extra-budgetary expenditure.
(ii) Income/expenditure information on donor-funded projects	*C*	Budget incorporates only known commitments for programmes covered by underlying government/co-operating partner-to-government agreements. Actual disbursements vary considerably from planned commitments, and major revisions are made during the year

Inter-governmental fiscal relations

3.2.9 Sub-national government, in the form of 72 local councils, is small and largely independent of central government transfers.[8] In 2004, spending by local authorities accounted for less than 5% of general government spending, and less than 10% of sub-national government spending is financed from central government transfers. Local councils are responsible primarily for local services, such as water and sewerage services,[9] feeder roads, waste management, and fire protection services. Sub-national governments may borrow from commercial banks, with these loans being guaranteed by central government, but in practice they rarely do.

3.2.10 Transfers from the central government constitute only a very small part of local government revenues. No consolidated picture of central and local fiscal activity (general government) is prepared. Transfers to local government are given in the form of block grants, intended to be in lieu of rates on government property, rather than to provide funding for particular services of priority for central government. However, the grants to individual councils are not made on the basis of the likely amount needed for such compensation or on any other criteria. Separate grant amounts are determined for each of the three types of councils as a group (cities, municipalities, and district), and then the grants are allocated in equal instalments within the three groups.

3.2.11 In terms of budget preparation, local councils are given an idea of the probable size of their grant amounts at the time that the Call Circular is distributed (i.e. generally between August and October), when they are preparing their budgets. Approved grants are usually similar to those predicted. Occasionally, as occurred with the 2005 budget, Parliament authorises significantly higher grant amounts, and local councils have to prepare new budgets after the beginning of the fiscal year.

[8] Sub-national government refers to local councils which themselves comprise city councils, municipal councils and district councils. Departments at provincial and district level are deconcentrated representation of central government.

[9] Although these services have been commercialised and are largely the responsibility of state-owned commercial enterprises.

3.2.12 Although the Ministry of Local Government and Housing (MoLGH) is given the Constitutionally-mandated responsibility for oversight of local councils, active monitoring of local councils' fiscal position, particularly by MoFNP, is not undertaken. Better co-ordination between MoLGH and MoFNP would assist in this process.

Indicator	Score	Brief Explanation
PI-8. Transparency of Inter-Governmental Fiscal Relations	D+	
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	*D*	Transfers from the central government constitute only a very small part of local government revenues. Transfers to local government are made in the form of block grants, largely to compensate for rates on government property, rather than to provide funding for particular services of priority for central government.
(ii) Timeliness and reliable information to SN governments on their allocations	*C*	Central government usually provides local councils with their likely transfer amounts when the central government Call Circular is disseminated (i.e.. August, September, or October), at the beginning of the local councils' budget preparation process. At least once in the last three years, Parliament has made substantial changes in the size of the transfers in the first quarter of the fiscal year, necessitating a reworking of the budget.
(iii) Extent of consolidation of fiscal data for general government	*D*	No consolidation of general Government (e.g local authorities, parastatals, donor projects) expenditure is done.

Oversight of aggregate fiscal risk

3.2.13 There is limited active oversight of aggregate fiscal risk. Some information on fiscal risks is presented with the budget, but there is no analysis of risks to the medium term fiscal situation. In particular, as indicated above, information is presented on government guarantees and some other contingent liabilities, but there is no assesment made of the likely fiscal impact. Central Government receives regular financial statements and audited year-end statements from many, but not all, state-owned enterprises, but it does not monitor performance against targets, nor produce a complete consolidated overview in order to facilitate a general financial oversight of these enterprises. With limited liability for Central Government from sub-national government budgets, oversight by Central Government is restricted to the relatively small amount of transfers provided to sub-national government levels.

Indicator	Score	Brief Explanation
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	C	
(i) Extent of central government monitoring of AGAs/PEs	*C*	Whilst most major AGAs/PEs submit fiscal reports to MoFNP, MoFNP does not produce a consolidated report.
(ii) Extent of central government monitoring of SN governments' fiscal position	*C*	MoLGH receives fiscal reports from local councils but it does not produce a consolidated report. MoFNP does not monitor local councils' fiscal position.

Public access to fiscal information

3.2.14 Key fiscal information, including the Public Finance Act 2004, the full set of budget documents,[10] year-end financial statements, and reports of the Auditor General, are made available to the public, primarily through the Government printer. They are generally made available when they are presented to Parliament (e.g. in January 2005 for the 2005 Budget), with the exception of the audited Financial Statements (see below). The Green Paper (MTEF) is publicised in the press after it has been approved by Cabinet. The Appropriation Bill is published when it is passed, usually in March. In addition, most monthly budget execution reports are available through the MoFNP's website, with some gaps. In terms of procurement contract awards, the winning contractors for tenders over K 200 million are published in the Government Gazette each week.

3.2.15 Although much of the budget documentation is available to the public for purchase, in practice, the public has shown little interest in acquiring the documents. Publication on the MoFNP website and sensitisation of the documents to the public would make it more widely available. At the same time, the understandability of the information could be improved for the public and civil society.

3.2.16 The following are either not available or do not meet the ideal timing[11] given in the Guidelines:

- In-year budget execution reports (monthly), whilst published on the MoFNP websites, are not always available within 1 month of their completion (latest available is August 2005)
- Year-end Financial Statements (available for purchase from the Government printer; available to the public when Parliament has endorsed the audited Financial Statements) – The 2004 accounts were completed in October 2005, and are due to be sent to Parliament by the end of the year, with approval by Parliament expected in the last session of 2006.
- Information on resources available to primary service units are not readily available to the public. An initial expenditure tracking analysis, with limited coverage, was conducted in the education sector, but more comprehensive information is needed.

[10] Between the Economic Report and the Yellow Book, the first six items listed in Indicator 6 are available publicly.
[11] As set out in the PEFA Guidelines.

Indicator	Score	Brief Explanation
PI-10. Public Access to key fiscal information	B	Budget information available to the public include: (i) Annual Estimates of Revenue and Expenditure (Yellow Book) and the Economic Report (published by Government printer when it is sent to Parliament, i.e. in January 2005 for the 2005 Budget). The Green Paper (MTEF) is publicised in the press after it has been approved by Cabinet. The Appropriation Bill is published when it is passed, usually in March. Between the Economic Report and the Yellow Book, the first six items listed in Indicator 6 are available publicly. However, in practice, since there are relatively few copies of the Yellow Book and the Economic Report printed, it would be difficult for significant numbers of the population to get hold of copies, particularly of the Yellow Book; publication on the MoFNP website would make it more widely available. (iv) external audit reports (other than end-year Financial Statements) are available when they are tabled in Parliament (v) procurement contract awards (the winning contractors for tenders over 200 million Kwacha are published in the Government Gazette each week The following are either not available or do not meet the appropriate timing: (ii) in-year budget execution reports (monthly), whilst published on the MoFNP websites, are not available within 1 month of the month-end (latest available is August 2005) (iii) year-end Financial Statements (available for purchase from the Government printer; available to the public when Parliament has endorsed the audited Financial Statements, which is typically not within 6 months of the completed audit) (vi) information on resources available to primary service units are not readily available to the public. An initial expenditure tracking analysis, with limited coverage, was conducted in the education sector, but more comprehensive information is needed

3.3 Policy-based Budgeting

3.3.1 With the introduction of activity-based budgeting and the Medium Term Expenditure Framework, including budget ceilings, the Government has moved towards introducing more strategic budgeting principles and sees this as essential to improving budget outcomes. The process is currently largely concentrated on the top-down analysis, focussing on medium-term targets for the broad macro-fiscal aggregates (e.g. expenditures, debt and debt servicing as a share of GDP).

3.3.2 The Government intends to further develop these initiatives over the medium term, including closer links between medium-term plans and budgets. As indicated above, these include the preparation of the Fifth National Development Plan, currently under way, which sets out the Government's expenditure priorities for the 2006-2010 period. Currently, the Government is undertaking a consultation process, through the Sector Advisory Groups (SAGs), to develop costings for the priority programmes and activities in the sector. With further developments of the MTEF, including training for those in ministries/agencies, these plans should be reflected in both annual and forward ceilings at line ministry level, so that ministry/agency budget submissions are consistent with the overall resource framework and are clearly linked to meeting achievable policy objectives and outputs. However, the ability of line ministries to meet these requirements is hampered by limited analytical capacities.

3.3.3 Improvements in financial management systems have accompanied these initiatives and have enabled improvements in budget presentation, for example, through including detailed information on activity-based budgets, such as budget plans by programme and activity, split between their recurrent and capital elements. Whilst these innovations are concentrated at this stage at the budget planning stage, and shown in the budget, further planned improvements in financial management systems, including the introduction of the new IFMIS, currently at the tender stage, should assist in the availability of similar information throughout the budget system, including information on actual expenditures.

Orderliness and participation

3.3.4 The budget timetable is framed by the Constitution, which stipulates that the Budget is to be tabled in Parliament within three months following the beginning of the fiscal year. The more detailed timetable for budget preparation is set out in the Call Circular. The budget process begins with the preparation of the Green Paper, and the issuance of the Call Circular, containing budget ceilings for budget heads. The Call Circular is issued between August and October each year, and ministries/agencies submit their budget proposals to MoFNP by the end of November, with budget hearings held soon thereafter. Both MoFNP and ministries/agencies appear to adhere to the timetable. The draft Budget is usually finalised by January, and submitted to Parliament by the end of January, when the Minister's Budget speech is given. Approval of the Budget usually takes place in March.

3.3.5 As indicated above, political involvement in the budget process starts with the consideration and approval of the MTEF, at the beginning of the budget preparation process by ministries/agencies. The MTEF contains broad expenditure policies and forward estimates of resource allocations to ministries/agencies generally in line with these policies. The resulting Call Circular includes the budgetary ceilings and is intended to guide the annual budget process. However, at present, not all ministries/agencies respect the ceilings, with budget submissions in some cases being significantly higher than their agreed amounts.

3.3.6 Whilst some aspects of the budget calendar is in line with good PFM principles, such as the amount of time given to Parliament to consider the draft budget, the fact that it is not approved by the start of the fiscal year, requiring the issuance of a Presidential warrant for the first quarter of the year, contravenes good PFM principles. Draft changes to the Constitution have been proposed to require that the Budget be approved before the beginning of the fiscal year.

3.3.7 Also of concern is the relatively limited amount of time given to ministries/agencies to prepare their activity-based budgets; this also undermines the ability of ministries/agencies to restructure their budgets in order to be consistent with the resource framework. The entire budget preparation process should be moved forward by four to five months, with detailed budget preparation beginning in the second quarter of the year; the MTEF should begin preparation in the first quarter.

C(i) Policy-Based Budgeting		
PI-11. Orderliness and participation in the annual budget process	$\boxed{\textbf{B}}$	
(i) Existence of, and adherence to, a fixed budget calendar	*B*	The Budget Circular includes a timetable for budget preparation by all stakeholders. Although this timing may change year to year, in general ministries/agencies adhere to it. The budget calendar allows line ministries and agencies approximately 4 weeks for preparation of their submissions. For example, for the 2005 Budget, the ceilings (through the Circular) were distributed in October 2004; submissions from line ministries/agencies were submitted by the end of November 2004.
(ii) Guidance on the preparation of budget submissions	*A*	The Cabinet approved the 2005-2007 Green Paper, which included the budget ceilings by budget head, in October 2004, prior to the start of the budget preparation process by line ministries/agencies.
(iii) timely budget approval by the legislature	*D*	The budget is usually approved in March, 3 months after the beginning of the fiscal year (and has been so for 2003, 2004 and 2005 budgets). This is in line with the Constitution, which requires the Minister of Finance to lay the budget before Parliament within three months *after* the start of the fiscal year. Draft changes to the Constitution have been proposed, to require that the Budget be approved before the beginning of the fiscal year.

Multi-year perspective

3.3.8 As indicated above, multi-year budgeting is in its early stages and, at present, is focussed primarily on the overall budget aggregates. The 2005-2007 Green Paper contains a statement of medium-term fiscal policy and macroeconomic objectives, covering fiscal targets, and covers forward estimates for the fiscal aggregates, including macro/fiscal indicators and the economic classification, and ceilings for the main budget heads for the three-year period. The 10 GFS functions are expected to be included in the 2006-2008 Green Paper. It is too early to determine the stability and strength of the links between the forward estimates and the subsequent annual budget ceilings, in that the 2005-2007 Green Paper was the first to include ceilings for budget heads.

3.3.9 At the ministry/agency level, the focus is on preparing detailed activity-based estimates for the next budget year. However, as part of the national planning process, work is under way to improve bottom-up planning and the link with resources. Sector strategies have been prepared as part of the national planning process (through the Transitional National Development Plan [TNDP]). However, these will need to be updated in line with the FNDP and appropriately costed. At present, a number of sector strategies include plans and costings which go significantly beyond the scope of the resource framework.[12]

3.3.10 Significant progress has been made in recent years in strengthening the integration of capital and recurrent expenditures. The activity basis of the budget shows recurrent and capital expenditures together, and the budget integrates GRZ and external resources. Further analysis will be required to improve the planning of recurrent and capital expenditures over the medium term, in line with the FNDP. Whilst investment decisions come broadly from the sector strategies, the on-going recurrent costs of many of these decisions have not yet been calculated and included in the forward estimates. Through the current work on the MTEF, the issue of costing on-going recurrent implications is being addressed.

12 In many cases, the costings include a financing gap, which was intended to be presented to co-operating partners for funding.

Indicator	Score	Brief Explanation
PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	$\boxed{C+}$	
(i) multi-year fiscal forecasts and functional allocations	*C*	The 2005-2007 Green Paper (the MTEF) covers forward estimates for the fiscal aggregates, including macro/fiscal indicators and the economic classification, and included ceilings for the main budget heads. Beginning with the 2006-2008 Green Paper, ceilings for 10 GFS functions will also be included. It is too early to determine the stability and strength of the links between the forward estimates and the subsequent annual budget ceilings, in that the 2005-2007 Green Paper was the first to include ceilings for budget heads.
(ii) scope and frequency of debt sustainability analysis	*A*	Debt sustainability analyses, covering both domestic and external debt, have been carried out annually for the past three years.
(iii) existence of costed sector strategies	*C*	Sector strategies have been prepared as part of the national planning process. However, several sector strategies include plans and costings which go significantly beyond the scope of the resource framework.
(iv) linkages between investment budgets and forward expenditure estimates	*C*↑	Whilst investment decisions come broadly from the sector strategies, the on-going recurrent costs of many of these decisions have not yet been calculated and included in the forward estimates. An upward arrow has been recorded since, currently, on-going work on the MTEF is addressing the issue of costing recurrent costs.

3.4 Predictability and Control in Budget Execution

Transparency of taxpayer Obligations and Liabilities

3.4.1 An effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system and is dependent on the direct involvement and cooperation of the taxpayers. In Zambia, overall compliance with tax policy is encouraged and facilitated by a high degree transparency of tax liabilities, including clarity of legislation and administrative procedures and the ability to contest administrative rulings on tax liability.

3.4.2 The tax law and administrative procedures are clearly stated. Taxpayer education measures have been put in place and there are a lot of widely distributed guidelines and pamphlets. These are also posted on the Zambia Revenue Authority (ZRA) website.

3.4.3 A complaints and appeals mechanism exists within the revenue administration. A Revenue Appeals Tribunal has also been established with its members appointed both from the public and private sector. The Tribunal sits four times in a month and cases are disposed within an average of three months. However, the Tribunal relies on part time members, and, at the moment, only the large tax payers make use of it.

Effectiveness of measures for taxpayer registration and tax assessment

3.4.4 The effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Penalties that may vary with the seriousness of the fault encourage taxpayers to comply with their procedural obligations of taxpayer registration and tax declaration. Currently the audit selection process is not refined enough to identify taxpayers and taxable activities that involve the largest potential risk of non-compliance.

3.4.5 Taxpayer registration is not linked with other government registration systems such as the Registrar of Companies. Therefore, it is not possible for ZRA to collect revenue from such institutions until they voluntarily register with ZRA. The revenue administration has high penalties in place but lacks an effective mechanism to ensure compliance.

3.4.6 The revenue administration has established an audit department that looks at all classes of taxes. Tax audits are carried out according to clearly set out risk assessment criteria.

Effectiveness in collection of tax payments

3.4.7 The accumulation of tax arrears can be a critical factor undermining high budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of taxpayers. The prompt transfer of the collections to the Treasury is essential for ensuring that the collected revenue is available to the Treasury for spending, and aggregate reporting on tax assessments, collections, arrears and transfers to Treasury must take place regularly and be reconciled.

3.4.8 In Zambia, revenue collections are transferred to the Treasury at least weekly and complete reconciliations of the collections and transfers to the Treasury are done monthly. It was not possible to obtain comprehensive information on the extent of tax arrears.

Indicator	Score	Brief Explanation
PI-13. Transparency of taxpayer obligations and liabilities	**B**	
(i) Clarity and comprehensiveness of tax liabilities	*B*	The tax law and regulations are clearly spelt out and there are limited discretionary powers for the tax authorities. Tax payer education seminars are conducted
(ii) Taxpayer access to information on tax liabilities and administrative procedures	*B*	Tax payer education seminars are conducted and information on tax liabilities and procedures are available on the ZRA website. Tax payers have comprehensive information on the major tax liabilities (e.g. Income Tax, VAT)
(iii) Existence and functioning of a tax appeals mechanism	*B*	A clear existing and functioning tax appeals mechanism is in place. The Revenue Appeals Tribunal sits four times a month. Cases are disposed within an average of three months.
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**C+**	
(i) Controls in taxpayer registration system	*C*	Tax payer registration is not linked with other government registration systems such as the Registrar of Companies and the Registrar of Societies
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	*C*	Penalties exist but no effective mechanism to ensure compliance with registration
(iii) Planning and monitoring of tax audit and fraud investigation programs	*B*	A fully fledged department is in place to audit all classes of taxes ZRA conducts surveys to arrive at standard tax rates for various imports.
PI-15. Effectiveness in collection of tax payments	**D+**	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	*D*	No information was available on this dimension

Indicator	Score	Brief Explanation
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	*B*	Transfers of collections to the Treasury are done at least weekly. MoFNP and BOZ meet twice a week in which monitoring of tax collections is discussed.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	*A*	The reconciliations with the Treasury are done regularly on a monthly basis within one month of end of previous month

Predictability in the availability of funds for commitment of expenditures

3.4.9 The effective execution of the budget, in accordance with the work plans, requires that the spending ministries, departments and agencies receive reliable information on the availability of funds within which they can commit expenditure for recurrent and capital inputs. In Zambia, quarterly funding profiles are the basis upon which resources are released by the Treasury. The MPSAs prepare and submit quarterly funding profile to the MoFNP. Although the MoFNP matches these funding profiles to revenue projections and makes adjustments, it does not communicate the revised quarterly ceilings back to MPSAs. Consequently the budget releases do not match the funding profiles, and therefore MPSAs can not predict the resources they would get during the year. On a positive note, improvements have arisen in the area of cash flow forecasting and monitoring by MPSAs.

Recording and management of cash balances, debt and guarantees

3.4.10 Debt management, in terms of contracting, servicing and repayment, and the provision of government guarantees is a major element of overall fiscal management. An important requirement for avoiding unnecessary borrowing and interest costs is that cash balances in all government accounts are identified and consolidated. In Zambia, the calculation and consolidation of bank balances take place at least monthly. A system exists through the Accountant General's office for consolidation of cash balances. However, there appears to be a lack of coordination between the Accountant General's office and the Investment and Debt Management department.

3.4.11 In terms of managing data on debt, the records on foreign debt are complete, updated and reconciled quarterly. However, some work needs to done on domestic debt data, which is incomplete and in fragmented databases.

3.4.12 The Treasury contracts loans within the overall limit for total debt by Government; this official limit is stipulated by CAP366 of the laws of Zambia under the Loans and Guarantees Authorization Act. However, although criteria exist for issuing government guarantees, these are currently not being applied, as Government has not issued any guarantees for the last two years.

Indicator	Score	Brief Explanation
PI-16. Predictability in the availability of funds for commitment of expenditures	D+	
(i) Extent to which cash flows are forecast and monitored	*C*	Quarterly forecasts of cash flows have been made. However, these have not been used extensively as a basis for funding, are not updated, and are rarely used for monitoring.

Indicator	Score	Brief Explanation
(ii) Reliability and horizon of periodic in-year information to MPSAs on ceilings for expenditure	*D*	Revised quarterly commitment ceilings, in line with the availability of cash, are not effectively communicated by MoFNP to MPSAs, leading to significant unpredictability in the availability of budget releases to MPSAs.
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MPSAs	*C*	Budget variations are done frequently within same head with Treasury approval. However, these variations once above approved budget are approved by Parliament retrospectively as supplementary budgets. In the last three years, this has occurred once a year.
PI-17 Recording and management of cash balances, debt and guarantees	**C**	
(i) Quality of debt data recording and reporting	*C*	Foreign debt records are complete, updated and reconciled quarterly. However, some work needs to done on domestic debt data, which is in fragmented databases and not consolidated. The Economic Report include analysis of debt stock and debt servicing
(ii) Extent of consolidation of the government's cash balances	*C*	Calculation and consolidation of bank balances take place at least monthly. A system exists through Accountant General's office for consolidation of cash balances
(iii) Systems for contracting loans and issuance of guarantees	*C*	Contracting of loans is done within the overall limit for total debt by Government; this official limit is stipulated by CAP366 of the laws of Zambia under the Loans and Guarantees Authorization Act. However, although criteria exist for issuing government guarantees and contracting loans, these are currently not being applied, as Government has not borrowed or issued any guarantees for the last two years.

Effectiveness of payroll controls

3.4.13 The wage bill is usually one of the biggest items of government expenditure and could be susceptible to either weak control or corruption or both. In Zambia, the payroll represents a value of 8% of GDP; therefore, the importance of a correct and well functioning payroll can not be exaggerated.

3.4.14 Government has installed a new SAP/R3 payroll system through the Payroll Management and Establishment Control (PMEC) Project. The personnel data and payroll data are directly linked to ensure consistency and monthly reconciliation. However, only 68% of the payroll is on the new system and the Ministries which are not yet restructured, such as the Ministry of Health, are still on the old payroll. Some ministries, like the ministry of education, have decentralised payrolls, in this case 73 different payrolls reflecting the district level where each district is feeding in data that later is consolidated on the national level. The problem, however, does not seem to be the integration but the reliability of the input and the timeliness. The quality of the data feeding into the system, both the old and the new, is not yet properly secured.

3.4.15 Controls of changes to records are deficient and facilitate payment errors. The payroll system has inbuilt controls but the problem is that of data entry and validation. For example, although Office of Accountant General checks the payroll data from the user departments before it is entered into the system, it is the same user department that enters the data. The overall assessment is that internal controls of the system are only partially functioning and in other cases either deficient or lacking.

3.4.16 There are delays in processing changes to personnel and payroll which lead to retroactive adjustments because of the long procedures such as approvals, for example a teacher will require approval from the Teaching Service Commission which seats only at specified times, and then PSMD will write to the Controlling Officers. These delays can sometimes take more than three months.

3.4.17 Partial payroll audits or staff surveys have been undertaken within the last 3 years. Physical audits are undertaken every year and these are initiated by PSMD at Cabinet Office but Controlling Officers in each Ministry or Spending Agencies also undertake specific audits. It is however unsure if these payroll audits are conducted in a uniform way and if they add up to a full payroll audit or if it remains selective and partial. The payroll system as such has not been subject to systemic external audit by OAG.

Indicator	Score	Brief Explanation
PI-18. Effectiveness of payroll controls	D+	
(i) Degree of integration and reconciliation between personnel records and payroll data.	*C*	In the new PMEC systems, personnel data and payroll data are directly linked. These data are reconciled monthly. However, only 68% of the payroll is on the new system (PMEC) and the Ministries which are not yet restructured such as the Ministry of Health are still on the old payroll. Reconciliation for data not on the new PMEC system takes place at least twice a year.
(ii) Timeliness of changes to personnel records and the payroll	*D*	There are delays in processing changes to personnel and payroll. These delays can sometimes take more than three months.
(iii) Internal controls of changes to personnel records and the payroll.	*D*	The payroll system has inbuilt controls but the problem is that of data entry and validation.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	*C*	Partial payroll audits or staff surveys have been undertaken within the last 3 years. Physical audits are undertaken every year and these are initiated by PSMD at Cabinet Office but Controlling Officers in each Ministry or Spending Agencies also undertake specific audits.

Competition, value for money and controls in procurement

3.4.18 Effective and efficient public procurement systems are essential to the achievement of sustainable development. Public procurement systems are at the centre of the way public money is spent since budgets get translated into services largely through the government's purchase of goods, works, and services.[13]

3.4.19 Indeed, public procurement plays an important role in the Zambian economy. The total volume of public procurement in 2001 was estimated at USD 485 million, equivalent to 15% of GDP – this is a higher proportion than the 10% estimated for most countries in Africa.

3.4.20 For use of open competition, the ZNTB regulation provides that goods and services of values above K200 million should be advertised for open tender. However, sometimes ministries and spending agencies split the tenders or request for waivers in cases of procurement where only certain suppliers provides a particular service.

3.4.21 Other less competitive methods, when used, are justified in accordance with clear regulatory requirements. The regulations require the Ministry or Spending Agencies to request for ZNTB authority with clear justification.

[13] OECD/DAC guidelines for Strengthening Procurement Capacities in Developing Countries

3.4.22 The rules and regulations that are in place are very detailed and to a large extent the rules are followed. There is no comprehensive data immediately available to confirm the degree of compliance. However, given the lack of pertinent information and the weaknesses of the internal control system in general and the problems in the rural areas, it is doubtful that the rules are completely complied with.

3.4.23 The 2003 HIPC report observed that the procurement system suffers from a weak legal framework and weak enforcement of rules, enabling inefficient use of public funds and contributing to a lack of transparency and accountability.

3.4.24 3.4.25 The ZNTB regulation provides that for goods and services of values above K200million should be advertised to open tender. However, sometimes ministries and spending agencies split the tenders and request for waivers in cases of procurement where only certain suppliers provides a particular service. The 2004 National Governance Baseline Survey indicates that unofficial payments to get governments contracts are quite widespread and managers report forfeiting up to 32% of the invoice value to public officials in order to expedite contract payments from the government. The Anti-Corruption Commission also confirms that they have a number of cases where they are prosecuting for violation of procurement rules.

3.4.25 A process exists for submitting and addressing procurement complaints, but it is designed in such a way that a supplier with a complaint against ZNTB decision has to appeal to ZNTB. This seems to discourage some suppliers. It is being proposed in the new Act on procurement that an independent body will be constituted to deal with complaints against procurement decisions.

Indicator	Score	Brief Explanation
PI-19. Competition, value for money and controls in procurement	**D+**	
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	*D*	No comprehensive information is systematically compiled on the percentage of contracts above the threshold that are awarded on the basis of open competition
(ii) Justification for use of less competitive procurement methods	*C*	MPSAs request for authority from ZNTB to use less competitive methods with clear justification in accordance with the regulations. However, there are weaknesses and these weaknesses are highlighted in the Auditor General's report.
(iii) Existence and operation of a procurement complaints mechanism	*C*	A mechanism exists for submitting and addressing procurement complaints, but it is designed poorly because it is not time bound and a supplier with a complaint against ZNTB decision can only appeal to ZNTB.

Effectiveness of internal controls for non-salary expenditure

3.4.26 The concept of internal control has a number of dimensions. An effective internal control system is one that is relevant (i.e. based on an assessment of risk and the control required to manage the risks), incorporates a comprehensive and generally cost effective set of controls, (which address compliance with rules, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting) which are widely understood and complied with, is circumvented only for genuine emergency reasons, and for which top management takes full responsibility. Evidence of the effectiveness of the internal control system should come from regular audits, both internal and external.

3.4.27 The Government has implemented a commitment control system which is integrated to the Financial Management System (FMS) and in principle no payment can be made without commitment. The internal controls provide for segregation of duties. Expenditure commitment control procedures exist and are effective when complied to, but there is evidence about the lack of enforcement and the violation of rules in the Auditor General's report.

3.4.28 Government has a comprehensive set of internal control procedures and new officers are inducted into these procedures. Rules are complied with in the majority of transactions; however the use of simplified/emergency procedures in some situations is a major concern. The OAG in the audit report indicates those who flout the rules. The OAG is auditing the internal control, but as they do not have the resources to audit all areas every year there could be a long time before some entities are audited in that respect.

3.4.29 Although control procedures are in place, they may not necessarily be totally consistent or completely adhered to, particularly given capacity constraints. This may lead to errors in the accounts, particularly in terms of financial reporting. Another problem is the understanding of the rules and lack of enforcement from the upper level in the ministries, who should be responsible for the enforcement. This is a major concern as lack of enforcement undermines the function of the system however well it might be constructed.

Indicator	Score	Brief Explanation
PI-20. Effectiveness of internal controls for non-salary expenditure	$\boxed{C}$	
(i) Effectiveness of expenditure commitment controls.	*C*	Expenditure commitment control procedures exist and are effective when complied to, but there is evidence about the lack of enforcement and the violation of rules in the Auditor General's report
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	*C*	Government has a comprehensive set of internal control procedures and new officers are usually inducted into these procedures. However, the problem is the understanding of the rules and lack of enforcement from the upper level in the ministries, who should be responsible for the enforcement. This is a major concern as lack of enforcement undermines the function of the system however well it might be constructed.
(iii) Degree of compliance with rules for processing and recording transactions.	*C*	According to Internal Audit reports/Auditor General reports, rules are complied with in a majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.

Effectiveness of internal audit

3.4.30 Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function that is appropriately structured, has adequate independence, mandate and power to report, utilizes appropriate professional standards, and reports on significant systemic issues. Specific evidence of an effective internal audit would also include assessment and monitoring of error rates, a focus on high risk areas, reporting on correction rates, use by the OAG of the internal audit reports, and action by management on internal audit findings.

3.4.31 The 2003 HIPC report states that the internal audit function faces severe resource constraints and is hampered by the predominance of manual systems and the difficulty in enforcing the compliance of controlling officers in line ministries. The PEMFAR concluded that "internal auditors have been effective in diagnosing problems in the financial management procedures, but their impact is still severely limited by the lack of adequate human and financial resources to carry out their work and insufficient follow-up on their recommendations."[14]

3.4.32 Internal audit is operational for all central government entities, and is working according to the audit manual. However, there is inadequacy of resources, both human and logistics for covering regions and districts. As a result of lack of resources and internal audits preoccupation with pre-audit, there is no room for post-audit and focus on systems audit. This preoccupation of pre-audit may indicate a lack of effective internal controls.

3.4.33 The Internal Audit employs about 180 persons of which about 15 are qualified accountants while the rest of the rest of the staff have varying levels of professional education. Internal training is disseminated and a few staff are also sent for professional training. Internal Audit has adapted, and included in its manual, international auditing standards. Internal Audit is lacking sufficient resources for computer audits (training, hardware and software) and resources to strengthen the professional competence of the staff.

3.4.34 Reports are issued as they are finished for most audited entities and are distributed to the audited entity, Ministry of Finance and the Auditor General. The response from the management on recommendations from internal audit varies across MPSAs, but there are weaknesses in the degree of response, with some of the controlling officers not taking prompt action.

Indicator	Score	Brief Explanation
PI-21. Effectiveness of internal audit	**D+**	
(i) Coverage and quality of the internal audit function	*D*	Internal audit covers all central government entities, and is working according to the audit manual. The internal audit is working on improving its professionalism through training of staff and developing computer assisted methods. However, inadequate resources and focus on pre-audit undermines the quality of the internal audit function. There is no information on the percentage of staff time dedicated to systems audit which according to the PEFA guidelines justifies a D score.
(ii) Frequency and distribution of reports.	*B*	The reports are issued regularly as they completed and distributed to the audited entities, MoFNP and the OAG.
(iii) Extent of management response to internal audit findings.	*C*	Management response varies across MPSAs. Action is taken by Controlling Officers on major issues but with delay.

3.5 Accounting, recording and reporting

Timeliness and regularity of accounts reconciliation

3.5.1 Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. This is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. High quality bank reconciliation requires that large differences are not left unexplained. Two critical types of reconciliation are (i) reconciliation of fiscal data, held in the government's books, with government bank account data held by central and commercial banks. (ii) reconciliation of suspense accounts, and advances.

[14] "Zambia: Public Expenditure Management and Financial Accountability Review," World Bank, November 2003.

3.5.2 The Government has in the past had over 1000 bank accounts but these have now been reduced considerably to more manageable numbers. Regularity of Bank reconciliation has improved much during the last years and they are now able to do it monthly on a regular basis even if a complete reconciliation is not always possible. Sometimes Bank of Zambia and commercial banks delay submitting bank statements and this delays the process of bank reconciliation. Nevertheless, bank reconciliation for all Treasury managed bank accounts takes place at least monthly, usually within 4 weeks from end of month.

3.5.3 Clearance of suspense accounts and advances take place annually in general, within two months after year end. The major problems occur with advance or imprest retirement which should be retired within 24 hours as indicated in the financial regulations, but is not in most cases adhered to. This results in delayed reconciliation.

Indicator	Score	Brief Explanation
PI-22. Timeliness and regularity of accounts reconciliation	C+	
(i) Regularity of bank reconciliations	*B*	Bank reconciliation for all Treasury managed bank accounts takes place at least monthly, usually within 4 weeks from end of month.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	*C*	Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months after year end.

Availability of information on resources received by service delivery units

3.5.4 Data routinely received by Accountant General generally gives information about the expenditure by either primary schools or primary health clinics across most of the country that comes from the state budget, but is not detailed enough to show what is reaching final end users, and there are problems with the quality of the data. Resources in cash or kind from donors which are not channelled through the budget, are not routinely reported. Nevertheless, the Ministry of Education has started to discuss plans for more regular tracking of these expenditures.

Indicator	Score	Brief Explanation
PI-23. Availability of information on resources received by service delivery units	C	Information about the expenditure by either primary schools or primary health clinics across most of the country that comes from the state budget is compiled and available. Resources in cash or kind from donor which are not channelled through the Budget, are not routinely reported.

Quality and timeliness of in-year budget reports

3.5.5 The ability to follow up the budget requires timely and regular information on actual budget performance to be available both to the ministry of finance, to monitor performance, and if necessary to identify new actions to get the budget back on track, and to the sector ministries for managing their own affairs for which they are accountable. The division of responsibility between the ministry of finance and sector ministries in the preparation of the reports will depend on the type of accounting and payment system in operation. The role of the MoFNP may simply be to consolidate reports provided by sector ministries from their accounting records.

3.5.6 The classification of budget data allows direct comparison to the original budget. As indicated earlier, budget execution reports do not mirror budget presentation exactly since the former exclude expenditure financed by external funds which are not channelled through the Treasury Account (although the Yellow Book do include these types of funds). The result is that an analysis of budget execution (both regular in-year reports and annual financial statements) shows relatively low levels of budget implementation for those ministries with significant amounts of these resources and gives a misleading picture.

3.5.7 In year budget execution reports are prepared monthly and quarterly and issued within 4 weeks of end of period. The monthly expenditure returns are submitted to the MoFNP by the 15-day for the previous month. Compared with the 2003 HIPC report, there has been a considerable improvement. There are however some delays from the ministries for meeting the Accountant Generals deadlines but the quality are finally acceptable.

3.5.8 There are, however, some concerns about accuracy in certain cases for input from decentralised ministries, for example for the Ministry of Education which is decentralised up to the school level.

Indicator	Score	Brief Explanation
PI-24. Quality and timeliness of in-year budget reports	C+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	*B*	Although classification of data allows direct comparison to the original budget, the exclusion of external funds not channelled through the Treasury Account from budget execution reports do not allow a complete comparison to the original budget.
(ii) Timeliness of the issue of reports	*A*	Reports are prepared on monthly and quarterly and issued within 4 weeks of end of period. The monthly expenditure returns are submitted to the Ministry of Finance by the 15-day for the previous month.
(iii) Quality of information	*C*	Most of the data is fundamentally secure but there are some concerns about the accuracy of information from decentralized ministries, such as data from schools which do not have qualified accountants/auditors.

Quality and timeliness of annual financial statements

3.5.9 The Government prepares a consolidated government financial statement annually. This includes, with few exceptions, full information on revenue, expenditure and financial assets/liabilities. The report includes what was spent on all grant-aided institutions, parastatals and local councils but not their financial statements. The use of cash accounting by the Government, therefore, excludes fixed assets. Furthermore, there are other important exceptions; local government entities and parastatals are not included, except as grant sums of the budget contributions. Another concern is the practice of ex post regularisation of expenditure whose approval can take up to 30 months.

3.5.10 There has been great improvements in recent years and the Government, since 2002 has been meeting the statutory requirement of submission of the financial statement (within 9 month of the end of the fiscal year) to the OAG. These statements are prepared according to international accounting standards, however, implementation of IPSAS is not complete.

Indicator	Score	Brief Explanation
PI-25. Quality and timeliness of annual financial statements	C+	
(i) Completeness of the financial statements	*B*	Government Financial statement is prepared annually, and includes, budget estimates, full information on revenue, expenditure and financial assets/liabilities.
(ii) Timeliness of submission of the financial statements	*B*	Since 2002, the consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.
(iii) Accounting standards used	*C*	Government is using national standards which are partially based on IPSAS but full implementation of ISPAS is not complete. The standards used are not disclosed in the report.

3.6 External scrutiny and audit

Scope, nature and follow-up of external audit

3.6.1 A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of quality include whether external audit (a) is adequately empowered – i.e. authority exists to obtain necessary information and the scope of audit covers the full public sector, and (b) adheres to appropriate auditing standards (INTOSAI, IFAC) and focuses on significant and systemic PFM issues in its reports and (c) covers the full range of financial audit – reliability of financial statements, regularity of transactions and functioning of internal control system. Public sector auditing is a crucial element of an effective accountability framework, which is a cornerstone of all democratic governments.

3.6.2 The mandate of the Auditor General is laid down in the Public Audit Act and the Public Finance Act. The Public Audit Act says that "He is empowered to audit the accounts and a record of the government ministries, parastatals and other statutory bodies as need arises. He is required to produce annual reports of the audited organisations within twelve months for the presentations to His Excellency of the President of the Republic of Zambia for tabling in the National Assembly". The Public Finance Act is widening the mandate to carry out Performance auditing. This act also gives the Auditor Generals specific powers to access information to perform to undertake audit duties.

3.6.3 The Office of the Auditor General (OAG) has been undertaking reforms and recently has been restructured. The office has an establishment of 591 and has about 300 employees. Of these more than 100 were recruited last year. The recruitment is expected to continue until the establishment filled.

3.6.4 All entities are covered annually for an audit certification of financial statements, but the OAG does not have adequate financial and human resources for an audit scrutiny of all the accounts annually. In terms of expenditure the audit is covering about 75%; in terms of entities/accounts the coverage is about 50%. OAG has a budget ceiling that makes it difficult for it to increase the audit coverage. However, the OAG is planning the audits in a way that makes it easier to cover its mandate over a period of more than one year. OAG has adopted INTOSAI auditing standards.

3.6.5 Prior to 2002, financial statements have not been delivered in time, causing delays of audit reports. However, Audit reporting has improved markedly during recent time. Since last year the annual audit report was submitted to Parliament within 12 months of the end of the fiscal year as required by the constitution. Similarly, Financial Statements for the last year were submitted to OAG by September 30, which is the statutory requirement. In recent years OAG has submitted audited financial statement to parliament by December 31 in line with statutory requirement; this timing is well within good PFM principles.

3.6.6 Once the audit report is finished and submitted to the parliament, the responsibility for making recommendations rests with the PAC, and the Government is then supposed to take responsibility for follow-up on the recommendations from PAC. OAG in subsequent reports makes observations on action taken or not

3.6.7 There are no rules or provisions for external and independent audit of the OAG; the Auditor General is responsible for the auditing of her office.

3.6.8 One paramount issue, not covered by any performance indicator in this evaluation, is the independence of the OAG. The OAG is dependent on the Ministry of Finance (the auditee) for its budget. Neither does it have full control over its human resources which are allocated to them trough the Public Service. According to the rules of INTOSAI (Lima Declaration), an Auditor General, while funded by and reporting to Parliament, must be independent of the executive and be able to control its own resources for a full and professional audit of the State budget and everything else within its audit mandate. Although the Zambian OAG reports to the parliament, it has to do so through the President. The president has to send the report to the parliament within 12 days. When it comes to the audit mandate, the OAG covers all Central Governments, while local governments are audited by auditors engaged by the local councils. One concern from an accountability point of view is the auditing of defence expenditure, where the OAG has the mandate, but does not have immediate access to information necessary to complete the audit.

Indicator	Score	Brief Explanation
PI-26 Scope, nature and follow-up of external audit	**B+**	
(i) Scope/nature of audit performed	*B*	All entities are covered annually for an audit certification of financial statements, but the OAG does not have adequate financial and human resources for an audit scrutiny of all the accounts annually. In terms of expenditure the audit is covering about 75%; in terms of entities/accounts the coverage is about 50%
(ii) Timeliness of submission of audit reports to legislature	*A*	Since 2002, the annual audit report is submitted to Parliament within 4 months of receipt of financial statement and within 12 months of the end of the fiscal year, which is the statutory limit.
(iii) Evidence of follow-up on audit recommendations	*B*	Once the audit report is finished and submitted to the parliament, the responsibility for making recommendations rests with the PAC, and the Government is then supposed to take responsibility for follow-up on the recommendations from PAC. OAG in subsequent reports makes observations on action taken or not.

Legislative scrutiny of the annual budget law

3.6.9 The Estimates Committee was created in 2000 and was focusing on post-budget analysis until last year when the committee engaged consultants to assist them in analysing the budget proposal, which resulted in an analytical report presented to the parliamentarians. The committee lacks adequate analytical capacity to assist them in their work.

3.6.10 The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalised. The legislature has at least two months to review the budget proposal as it normally presented in January and the legislature is required by the Constitution to approve the budget by March. The period is considered adequate for debating and approving the budget.

3.6.11 The budget process does not conform to best practices in PFM since the financial year begins in January, but the approval of the budget is not made until end of March. The real effect of this is that every first quarter of the year, parliament has not approved the spending and has to do so retroactively. For authorising spending during the first quarter, the Presidential Provisional Warrant is used between January and March.

3.6.12 Another sign of Parliamentary weakness in the budget process is that the government under the fiscal year can reallocate budget and even increase spending without prior approval from the Parliament. These issues are coming to the parliament for retroactive approval with no possibility to influence what has already happened.

Indicator	Score	Brief Explanation
PI-27 Legislative scrutiny of the annual budget law	$\boxed{\text{C+}}$	
(i) Scope of the legislature's scrutiny.	*C*	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalised.
(ii) Extent to which the legislature's procedures are well-established and respected.	*C*	Legislature procedures exist and are well and are respected. The Estimates Committee was created in 2000 and in the past has focused on post-budget analysis except for last year when the Estimates Committee recruited consultants to assist them in analysing the budget and the report was produced and presented to the Parliamentarians
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	*A*	The legislature has at least two months to review the budget proposals. The budget is normally presented in January and legislature is required to approve the budget by March.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	*C*	Clear rules exist within which variations can be done. To do variations, the Ministry or Spending Agency is required to request for approval from the Secretary to the Treasury and copy of the approved variation is sent to the Auditor General. The law allows for supplementary budget as well as retroactive approval by the legislature up to 30 months. These rules are not always complied with as evidenced by the practice of ex-post regularization; which results in extensive administrative reallocation as well as expansion of total expenditure

Legislative scrutiny of external audit reports

3.6.13 In most countries, the legislature is the constitutionally mandated institution through which governments are held to account to the electorate. In Zambia the Parliamentary Public Accounts Committee (PAC) is responsible for the legislative oversight of budget execution. Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. The PAC hearing and scrutiny by the committee is completed within six months and these reports are submitted to the house. Auditor General and Accountant General are permanent witnesses to the PAC.

3.6.14 The PAC has until recently received the audit report very late, due to backlogs in producing the financial statements. Normally the PAC conducts hearings on all cases that are brought to their attention and summons controlling officers to appear and explain the cases. Representatives from the OAG and Accountant General are permanent witnesses to explain and provide more information to assist the committee. The committee has limited human resources for preparation and analytical work and has to rely on OAG to a great extent.

3.6.15 As a result of the hearings and the committee's deliberation, recommendations are issued but responses from the Executive are often delayed and implementations of recommendations are not time bound and conclusive.

Indicator	Score	Brief Explanation
PI-28 Legislative scrutiny of external audit reports	$\boxed{\text{C+}}$	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	*C*	Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. The Public Accounts Committee (PAC) hearing and scrutiny by the committee is completed within six months and these reports are submitted to the house. Auditor General and Accountant General are permanent witnesses to the PAC.
(ii) Extent of hearings on key findings undertaken by the legislature.	*A*	PAC are conducts hearings on all cases that are brought to their attention. The Controlling Officers for the Ministries and Spending Agencies with adverse audit opinion are called and do appear before the PAC. However, sometimes they delay in submitting the reports required by PAC.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	*B*[15]	Actions are recommended to the executive, some of which are implemented. The Government Assurance Committee in Parliament is responsible for following up the Executive on the recommendations of the House.

3.7 Donor Practices

Predictability of Direct Budget Support

3.7.1 Direct budget support constitutes an important source of revenue for central government in many countries. Prior to 2005, however, Zambia received limited direct budget support.

3.7.2 There are delays in donor inflows attributed to delayed implementation of donor conditionalities. In certain circumstances these conditionalities have been met but no disbursements have been forth coming.

Financial information provided by donors for budgeting and reporting on project and programme aid

3.7.3 Disbursement schedules in the past have tended not to be provided to Government for the whole project implementation period. Instead, estimates of disbursement for such projects have been given to Government on a year by year basis for the coming fiscal year. However, these estimates are not communicated to MoFNP in time for inclusion in the annual budget estimates. Hence, inflows to such projects tend to result in resources that remain outside the budget. In cases where the budget estimate includes the total project sum, this results in an over estimate of the likely disbursements.

3.7.4 In addition, donors mainly use their own classification for their estimates and reports which is not consistent with the Government's budget classification.

[15] This dimension appears to duplicate the information in indicator 26, dimension (iii).

3.7.5 Donors provide quarterly reports of the actual disbursements for at least 50% of externally financed projects.

Proportion of aid that is managed by use of national procedures

3.7.6 The national systems for management of funds are those established in the general legislation of the country and implemented by the mainstream line management functions of the government.

3.7.7 Less than 50% of aid funds to central government are managed by use of national procedures. Hence most of it is not captured by the government financial reporting system.

Indicator	Score	Brief Explanation
D-1 Predictability of Direct Budget Support	$\boxed{\text{D}}$	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	*D*	Prior to 2005, Zambia received limited direct budget support. Relevant information was not provided to assess whether a higher score was justified.
(ii) In-year timeliness of donor disbursements.	*D*	There are delays in donor inflows attributed to delayed implementation of donor conditionalities. In certain circumstances these conditionalities have been met but no disbursements have been forth coming. However, relevant information was not provided to asses whether a higher score was justified
D-2 Financial information provided by donors for budgeting and reporting	$\boxed{\text{D+}}$	
(i) Completeness and timeliness of budget estimates by donors for project support	*C*	Lack of predictability of disbursement of donor support for projects and programs has affected the implementation of specific line items in the budget. Donors have mainly used their own classification system for their estimates and reports, which is not consistent with government's budget classification.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	*D*	Relevant information was not provided to assess whether a higher score was justified.
D-3 Proportion of aid that is managed by use of national procedures	$\boxed{\text{D}}$	
(i) Overall proportion of aid funds to central government that are managed through national procedures.	*D*	Less than 50% of aid funds to central government are managed by use of national procedures. Hence most of the aid is not captured by the government financial reporting system. This is also mainly due to predominantly project supported aid which rarely uses national procedures in terms of banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements.

4. Government Reform Process

4.1 General description of recent and on-going reforms

4.1.1 Government has been implementing a number of reforms relevant to PFM, which are expected to lead to improvements in PFM systems. In the early 1990s, Government began a political and socio-economic reform process which entailed democratising the political system and liberalising the economy. The political reforms resulted in a return to multi-party politics after two decades of a one party system of Government. The political reforms gave special impetus to public demand for good governance, transparency and accountability in the conduct and management of public affairs. The economic reforms focused on privatization of parastatal entities and the redefinition of the role of the Public Service from that of controlling the overall economy to that of providing a conducive environment for market based and private sector driven economy.

Public Service Reform Programme (PSRP)

4.1.2 In 1993 Government initiated the PSRP to restructure the Public Service in order to improve the quality of service delivery. In order for the reforms to make a positive impact on the well being of the citizens, Government recognised the need for significant institutional and human capacity building interventions. Therefore, Government designed the Public Service Capacity Building Project (PSCAP) as a comprehensive strategy to build institutional and human capacity for quality public service delivery. PSCAP became operational in October 2000 and was designed to be implemented in three (3) Phases over a thirteen (13) years period (2000-2013). The focus of the first phase was on the following five major outputs:

- right-sizing and pay reform of the Public Service implemented;
- improved policy and Public Service management;
- improved financial management, accountability and transparency;
- improved capacity of the judicial and legal systems and
- decentralisation and participatory governance.

4.1.3 In 2001 the Government together with the World Bank carried out the Country Financial Accountability Assessments (CFAA), Country Procurement Assessment Review (CPAR), and a Public Expenditure Management and Financial Accountability (PEMFA) Review. The Public Expenditure and Financial Accountability Reforms were launched in September 2002. The PEMFA Review was a diagnostic tool which highlighted key results areas for PSRP to focus on in order to achieve efficient public service delivery.

4.1.4 In 2003 the Government identified three key priority programmes for implementation as follows:

- Public Expenditure Management and Financial Accountability (PEMFA);
- Right-sizing and Pay Reforms and
- Decentralisation.

Poverty Reduction Strategy Paper (PRSP) and Transitional National Development Plan (TNDP)

4.1.5 The PRSP was developed as the Nation's medium term overall policy framework for national planning and interventions for development and poverty reduction for the period 2002-2004. The strategy for poverty reduction was rapid economic growth and employment creation. This would result in improvements in national resources management, a conducive macroeconomic framework; sectoral performance improvements especially in key sectors such as agriculture and social sectors, infrastructure developments, overall improvements in governance and public service delivery capacity.

4.1.6 The PRSP recognised the need to strengthen the linkage between policy and budgets. In addition, under the strategy, measures were developed to improve the impact of public spending on economic development, growth and poverty reduction.

4.1.7 The TNDP built on the PRSP to provide a comprehensive National framework for National policies and priorities. The TNDP encompassed areas not adequately covered by the PRSP i.e. Judiciary, Law and Order, Foreign Relations, Defence and Security, Policy Making, Science and Technology, Information Services, Population and Development, Regional Development, and Local Government, Housing and Urban Development. Consistent with the PRSP, the guiding theme for the TNDP is sustained growth, employment creation and poverty reduction.

4.1.8 The TNDP provides for a systematic institutional capacity and human resource enhancement of the policy and Central Administration Sector to play a facilitative role in the achievement of economic growth and poverty reduction.

Medium Term Expenditure Framework (MTEF) and Activity Based Budgeting (ABB)

4.1.9 In 2004, Government started to implement the MTEF and ABB. Under the MTEF process a resource envelope for the medium term period is determined and allocated to the priorities in a coherently phased pattern. In essence, it is a three year budgetary instrument of implementing Government policies and programmes in a coherent and consistent manner with the first year of the framework being operational.

4.1.10 The ABB provides for programme and output based budgeting. The MTEF assists Government to strengthen the impact of its operations on economic growth and poverty reduction by improving the sustainability, efficiency and equity of public financial management. The MTEF and ABB establish fiscal discipline and effectiveness in the use of public resources through improving the predictability, transparency and accountability in public spending.

PEMFA Programme

4.1.11 The PEMFA Programme is one of three pillars of the Government's Public Sector Reform Programme aimed at improving the quality of service delivery in the public sector. The other programmes are (1) Right Sizing and Pay Reform; and (2) Decentralisation.

4.1.12 The overall objective of PEMFA is to contribute to the efforts of Government in improving capacity to effectively and efficiently mobilise and utilise public resources (improve public expenditure management) and to strengthen overall financial accountability.

4.1.13 The programme is coordinated by the Ministry of Finance and National Planning. A number of other public bodies/institutions in Zambia will be closely involved in the implementation of the PEMFA programme, including: Ministry of Justice, Zambia National Tender Board, Bank of Zambia, Office of the Auditor General, National Assembly and the Zambia Institute of Chartered Accountants. The Programme consists of the following 12 components:

1. Commitment Control and Financial Management System
2. Integrated Financial Management Information System (IFMIS) implementation
3. Improved Fiscal Policy and Economic Planning
4. Reformed Budget Preparation and Budget Execution

5. Improved Debt Management
6. Improved Internal Audit
7. Better External Finance Coordination
8. Consistent Legal Framework for PFM
9. Strengthened External Audit
10. Enhancing Parliamentary Oversight
11. Accountancy Training and Regulation
12. Public Procurement Reform

Other PFM initiatives

4.1.14 Government has commenced the development of the Fifth National Development Plan (2006-2010) as a follow up to the PRSP/TNDP. The FNDP will incorporate principles that were contained in the PRSP and ensure integration of both local and international initiatives in one national framework and give the people of Zambia an opportunity to articulate a self-determined national development agenda that will be based on comprehensive consultations, coherence and intellectual humility in considering the inputs of all stakeholders.

4.2 Institutional Factors Supporting Reform Planning and Implementation

4.2.1 The reforms described above emphasise the technical aspects of the PFM reforms. However, although the Government has indicated its commitment to strengthen its budget policy and planning processes, these measures will be ineffective in bringing about fundamental change in the way in which budgets are planned and executed if there are underlying institutional obstacles to reform. Specifically, the Government's ability to meet its objectives for PFM reform hinges critically on its ability to overcome the following institutional obstacles: (i) co-ordination and appropriate sequencing of the reforms; (ii) capacities to implement these reforms; and (iii) the extent of public scrutiny and external pressure.

4.2.2 *Government ownership and leadership of reform programme.*

Government leadership of the PEMFA programme can be taken to be evidence of government commitment to reform. Continued high-level political commitment and leadership for reform will be required for the success of the programme, particularly when it comes to the reforms on strategic budgeting issues (through greater linkage between national development policies and plans and budgetary allocations), which require significant political certainty and direction.

4.2.3 *Co-ordination and appropriate sequencing of reforms.*

Within the PFM reform programme, the Government has set itself a target of achieving success in all 12 components. In practice, it will be very difficult for the Government to move forward on all of these reform measures at the same time and to the same degree. At present, the focus has been more on ensuring that the right inputs are in place.

4.2.4 *Capacities to implement the reforms.*

There are significant capacity constraints, particularly in the line ministries, in provincial and district administrations, to implement some of the reforms. This is particularly the case with financial management capacities. This lack of analytical skills will adversely affect the Government's ability to meet its PFM reform objectives. Another constraint to the ability to implement reforms relates to inappropriate incentives (including pay and conditions) in Government and an allowance seeking culture.

4.2.5 *Extent of public scrutiny and external pressure.* There have been improvements in external oversight, including the clearance of the backlog of the Auditor-General's reports and the more active role of Parliament in the budget process. However, the degree of public scrutiny and pressure on the Government to meet its reform commitments should be improved. For example, civil society can play a role in exercising sufficient pressure for good PFM.

List of Annexes

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Annex 6 – List of Stakeholders Met

Annex 1

Summary of PFM Performance Indicators[16]

Indicator	Score	Brief Explanation
A. Credibility of the Budget		
PI-1. Aggregate expenditure out-turn compared to original approved budget	$\boxed{\textbf{C}}$	The percentage deviations between actual and budgeted primary expenditures as a proportion of the original approved budget were: 2002 7.3% (actual expenditures) 2003: 22.2% (actual expenditures) 2004: 11.8% (releases)
PI-2. Composition of expenditure out-turn compared to original approved budget	$\boxed{\textbf{D}}$	The variances in the composition of primary expenditures across budget heads were: 2002: 22.2% (actual expenditures) 2003: 17.0% (actual expenditures) 2004: 18.5% (releases)
PI-3. Aggregate revenue out-turn compared to original approved budget	$\boxed{\textbf{A}}$	Nominal domestic revenue receipts have been higher than the budgeted amounts for the last several years due to conservative revenue targets.
PI-4. Stock and monitoring of expenditure payment arrears	$\boxed{\textbf{D+}}$	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	*D*	Expenditure arrears comprise approximately 12% of total expenditure. MoFNP is implementing a five-year plan to reduce the stock of outstanding arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	*B*	Detailed information is available on the size and composition of arrears
B. Comprehensiveness and Transparency		

[16] The measurement of the scores in this annex follows closely the PEFA Guidelines (see Annex 2 for a description of the calibration of scores for each indicator). For indicators with more than one dimension, a separate score is given for each dimension, and the overall score for the indicator is shown in bold and box-framed.

Indicator	Score	Brief Explanation
PI-5. Classification of the budget	$\boxed{\text{C}}$↑	The budget is presented by administrative and economic classification. Since 2004, the Budget has been presented by budget head and sub-head, programme, and activities and included external finance by programme and donor. However, budget execution reports do not mirror budget presentation since the former exclude expenditure financed by external funds which are not channelled through the Treasury Account (although the budget proposals in the Yellow Book do include these types of funds). The result is that an analysis of budget execution (both regular in-year reports and annual financial statements) shows relatively low levels of budget implementation for those ministries. An upward arrow has been recorded since the draft 2006-2008 MTEF includes forward estimates according to the 10 GFS functions, and budget reports from the 2006 Budget are intended to include a summary according to the functional classification. As the introduction of activity-based budgeting is relatively new, improvements to the system are planned, including additional training on the functional and programmatic classifications. In addition, the programme definitions will need to be further developed: in some cases, they show a mix of economic items (e.g. personal emoluments) and activities. There will also be the need to increase the accessibility (comprehension) of the budget information to the public and civil society.

Indicator	Score	Brief Explanation
PI-6. Comprehensiveness of information included in budget documentation	$\boxed{B}$	The Budget documents comprise: (i) the Yellow Book; (ii) the Economic Report, (iii) the Minister's Budget Speech and (iv) the Establishment Register. The MTEF (Green Paper) should also be considered as supplementary to the budget documents, although it is not sent to Parliament with the Budget. Included within the budget documents are: 1. Macroeconomic assumptions (Economic Report) 2. Fiscal deficit, defined according to the GFS (Economic Report) 3. Composition of deficit financing (Economic Report) 4. Details of the debt stock for both domestic and external debt (Economic Report) 7. Current year's budget, covering both the original budget and the revised (supplementary) budget (Yellow Book) Currently not included in the budget documentation are: 5. A list of Government's financial assets 6. Previous year's actual outturns by individual budget heads. 8. Summarised revenue and expenditure data according to the economic classification; what is included is a summarised form of the economic classification (split between personal emoluments and non-personal emoluments) 9. Detailed analyses of expenditure implications for new expenditure policies; the fiscal implications of revenue policy measures are included in the Budget Speech. Whilst the amounts allocated for major expenditure areas are set out in the Budget Speech, they are not analysed in detail.
PI-7. Extent of unreported government operations	$\boxed{D+}$	
(i) Level of unreported extra-budgetary expenditure	*D*	Comprehensive and conclusive information is not available on the level of unreported extra-budgetary expenditure.
(ii) Income/expenditure information on donor-funded projects	*C*	Budget incorporates only known commitments for programmes covered by underlying government/co-operating partner-to-government agreements. Actual disbursements vary considerably from planned commitments, and major revisions are made during the year
PI-8. Transparency of Inter-Governmental Fiscal Relations	$\boxed{D+}$	
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	*D*	Transfers from the central government constitute only a very small part of local government revenues. Transfers to local government are made in the form of block grants, largely to compensate for rates on government property, rather than to provide funding for particular services of priority for central government.
(ii) Timeliness and reliable information to SN governments on their allocations	*C*	Central government usually provides local councils with their likely transfer amounts when the central government Call Circular is disseminated (i.e.. August, September, or October), at the beginning of the local councils' budget preparation process. At least once in the last three years, Parliament has made substantial changes in the size of the transfers in the first quarter of the fiscal year, necessitating a reworking of the budget.

Indicator	Score	Brief Explanation
(iii) Extent of consolidation of fiscal data for general government	*D*	No consolidation of general Government (e.g local authorities, parastatals, donor projects) expenditure is done.
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	**C**	
(i) Extent of central government monitoring of AGAs/PEs	*C*	Whilst most major AGAs/PEs submit fiscal reports to MoFNP, MoFNP does not produce a consolidated report.
(ii) Extent of central government monitoring of SN governments' fiscal position	*C*	MoLGH receives fiscal reports from local councils but it does not produce a consolidated report. MoFNP does not monitor local councils' fiscal position.
PI-10. Public Access to key fiscal information	**B**	Budget information available to the public include: (i) Annual Estimates of Revenue and Expenditure (Yellow Book) and the Economic Report (published by Government printer when it is sent to Parliament, i.e. in January 2005 for the 2005 Budget). The Green Paper (MTEF) is publicised in the press after it has been approved by Cabinet. The Appropriation Bill is published when it is passed, usually in March. Between the Economic Report and the Yellow Book, the first six items listed in Indicator 6 are available publicly. However, in practice, since there are relatively few copies of the Yellow Book and the Economic Report printed, it would be difficult for significant numbers of the population to get hold of copies, particularly of the Yellow Book; publication on the MoFNP website would make it more widely available. (iv) external audit reports (other than end-year Financial Statements) are available when they are tabled in Parliament (v) procurement contract awards (the winning contractors for tenders over 200 million Kwacha are published in the Government Gazette each week The following are either not available or do not meet the appropriate timing: (ii) in-year budget execution reports (monthly), whilst published on the MoFNP websites, are not available within 1 month of the month-end (latest available is August 2005) (iii) year-end Financial Statements (available for purchase from the Government printer; available to the public when Parliament has endorsed the audited Financial Statements, which is typically not within 6 months of the completed audit) (vi) information on resources available to primary service units are not readily available to the public. An initial expenditure tracking analysis, with limited coverage, was conducted in the education sector, but more comprehensive information is needed
C(i) Policy-Based Budgeting		
PI-11. Orderliness and participation in the annual budget process	**B**	
(i) Existence of, and adherence to, a fixed budget calendar	*B*	The Budget Circular includes a timetable for budget preparation by all stakeholders. Although this timing may change year to year, in general ministries/agencies adhere to it. The budget calendar allows line ministries and agencies approximately 4 weeks for preparation of their submissions. For example, for the 2005 Budget, the ceilings (through the Circular) were distributed in October 2004; submissions from line ministries/agencies were submitted by the end of November 2004.
(ii) Guidance on the preparation of budget submissions	*A*	The Cabinet approved the 2005-2007 Green Paper, which included the budget ceilings by budget head, in October 2004, prior to the start of the budget preparation process by line ministries/agencies.

Indicator	Score	Brief Explanation
(iii) timely budget approval by the legislature	*D*	The budget is usually approved in March, 3 months after the beginning of the fiscal year (and has been so for 2003, 2004 and 2005 budgets). This is in line with the Constitution, which requires the Minister of Finance to lay the budget before Parliament within three months *after* the start of the fiscal year. Draft changes to the Constitution have been proposed, to require that the Budget be approved before the beginning of the fiscal year.
PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	
(i) multi-year fiscal forecasts and functional allocations	*C*	The 2005-2007 Green Paper (the MTEF) covers forward estimates for the fiscal aggregates, including macro/fiscal indicators and the economic classification, and included ceilings for the main budget heads. Beginning with the 2006-2008 Green Paper, ceilings for 10 GFS functions will also be included. It is too early to determine the stability and strength of the links between the forward estimates and the subsequent annual budget ceilings, in that the 2005-2007 Green Paper was the first to include ceilings for budget heads.
(ii) scope and frequency of debt sustainability analysis	*A*	Debt sustainability analyses, covering both domestic and external debt, have been carried out annually for the past three years.
(iii) existence of costed sector strategies	*C*	Sector strategies have been prepared as part of the national planning process. However, several sector strategies include plans and costings which go significantly beyond the scope of the resource framework.
(iv) linkages between investment budgets and forward expenditure estimates	*C*↑	Whilst investment decisions come broadly from the sector strategies, the on-going recurrent costs of many of these decisions have not yet been calculated and included in the forward estimates. An upward arrow has been recorded since, currently, on-going work on the MTEF is addressing the issue of costing recurrent costs.
PI-13. Transparency of taxpayer obligations and liabilities	B	
(i) Clarity and comprehensiveness of tax liabilities	*B*	The tax law and regulations are clearly spelt out and there are limited discretionary powers for the tax authorities Tax payer education seminars are conducted
(ii) Taxpayer access to information on tax liabilities and administrative procedures	*B*	Tax payer education seminars are conducted and information on tax liabilities and procedures are available on the ZRA website. Tax payers have comprehensive information on the major tax liabilities (e.g. Income Tax, VAT)
(iii) Existence and functioning of a tax appeals mechanism	*B*	A clear existing and functioning tax appeals mechanism is in place. The Revenue Appeals Tribunal sits four times a month. Cases are disposed within an average of three months.
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	C+	
(i) Controls in taxpayer registration system	*C*	Tax payer registration is not linked with other government registration systems such as the Registrar of Companies and the Registrar of Societies
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	*C*	Penalties exist but no effective mechanism to ensure compliance with registration

Indicator	Score	Brief Explanation
(iii) Planning and monitoring of tax audit and fraud investigation programmes	*B*	A fully fledged department is in place to audit all classes of taxes ZRA conducts surveys to arrive at standard tax rates for various imports.
PI-15. Effectiveness in collection of tax payments	**D+**	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	*D*	No information was available on this dimension
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	*B*	Transfers of collections to the Treasury are done at least weekly. MoFNP and BOZ meet twice a week in which monitoring of tax collections is discussed.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	*A*	The reconciliations with the Treasury are done regularly on a monthly basis within one month of end of previous month
PI-16. Predictability in the availability of funds for commitment of expenditures	**D+**	
(i) Extent to which cash flows are forecast and monitored	*C*	Quarterly forecasts of cash flows have been made. However, these have not been used extensively as a basis for funding, are not updated, and are rarely used for monitoring.
(ii) Reliability and horizon of periodic in-year information to MPSAs on ceilings for expenditure	*D*	Revised quarterly commitment ceilings, in line with the availability of cash, are not effectively communicated by MoFNP to MPSAs, leading to significant unpredictability in the availability of budget releases to MPSAs.
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MPSAs	*C*	Budget variations are done frequently within same head with Treasury approval. However, these variations once above approved budget are approved by Parliament retrospectively as supplementary budgets. In the last three years, this has occurred once a year.
PI-17 Recording and management of cash balances, debt and guarantees	**C**	
(i) Quality of debt data recording and reporting	*C*	Foreign debt records are complete, updated and reconciled quarterly. However, some work needs to done on domestic debt data, which is in fragmented databases and not consolidated. The Economic Report include analysis of debt stock and debt servicing
(ii) Extent of consolidation of the government's cash balances	*C*	Calculation and consolidation of bank balances takes place at least monthly. A system exists through Accountant General's office for consolidation of cash balances
(iii) Systems for contracting loans and issuance of guarantees	*C*	Contracting of loans is done within the overall limit for total debt by Government; this official limit is stipulated by CAP366 of the laws of Zambia under the Loans and Guarantees Authorization Act. However, although criteria exist for issuing government guarantees and contracting loans, these are currently not being applied, as Government has not borrowed or issued any guarantees for the last two years.

Indicator	Score	Brief Explanation
PI-18. Effectiveness of payroll controls	D+	
(i) Degree of integration and reconciliation between personnel records and payroll data.	*C*	In the new PMEC systems, personnel data and payroll data are directly linked. These data are reconciled monthly. However, only 68% of the payroll is on the new system (PMEC) and the Ministries which are not yet restructured such as the Ministry of Health are still on the old payroll. Reconciliation for data not on the new PMEC system takes place at least twice a year.
(ii) Timeliness of changes to personnel records and the payroll	*D*	There are delays in processing changes to personnel and payroll. These delays can sometimes take more than three months.
(iii) Internal controls of changes to personnel records and the payroll.	*D*	The payroll system has inbuilt controls but the problem is that of data entry and validation.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	*C*	Partial payroll audits or staff surveys have been undertaken within the last 3 years. Physical audits are undertaken every year and these are initiated by PSMD at Cabinet Office but Controlling Officers in each Ministry or Spending Agencies also undertake specific audits.
PI-19. Competition, value for money and controls in procurement	D+	
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	*D*	No comprehensive information is systematically compiled on the percentage of contracts above the threshold that are awarded on the basis of open competition
(ii) Justification for use of less competitive procurement methods	*C*	MPSAs request for authority from ZNTB to use less competitive methods with clear justification in accordance with the regulations. However, there are weaknesses and these weaknesses are highlighted in the Auditor General's report.
(iii) Existence and operation of a procurement complaints mechanism	*C*	A mechanism exists for submitting and addressing procurement complaints, but it is designed poorly because it is not time bound and a supplier with a complaint against ZNTB decision can only appeal to ZNTB.
PI-20. Effectiveness of internal controls for non-salary expenditure	C	
(i) Effectiveness of expenditure commitment controls.	*C*	Expenditure commitment control procedures exist and are effective when complied to, but there is evidence about the lack of enforcement and the violation of rules in the Auditor General's report
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	*C*	Government has a comprehensive set of internal control procedures and new officers are usually inducted into these procedures. However, the problem is the understanding of the rules and lack of enforcement from the upper level in the ministries, who should be responsible for the enforcement. This is a major concern as lack of enforcement undermines the function of the system however well it might be constructed.
(iii) Degree of compliance with rules for processing and recording transactions.	*C*	According to Internal Audit reports/Auditor General reports, rules are complied with in a majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.

Indicator	Score	Brief Explanation
PI-21. Effectiveness of internal audit	D+	
(i) Coverage and quality of the internal audit function	*D*	Internal audit covers all central government entities, and is working according to the audit manual. However, inadequate resources and focus on pre-audit undermines the quality of the internal audit function. There is no information on the percentage of staff time dedicated to systems audit, which according to the PEFA guidelines justifies a D score.
(ii) Frequency and distribution of reports.	*B*	The audited entities, MoFNP and the OAG receive internal audit reports as they are completed.
(iii) Extent of management response to internal audit findings.	*C*	Management response varies from MPSAs. Action is taken by Controlling Officers on major issues but with delay.
PI-22. Timeliness and regularity of accounts reconciliation	C+	
(i) Regularity of bank reconciliations	*B*	Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	*C*	Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months after year end.
PI-23. Availability of information on resources received by service delivery units	C	Information about the expenditure by either primary schools or primary health clinics across most of the country that comes from the state budget is compiled and available. Resources in cash or kind from donor which are not channelled through the Budget, are not routinely reported.
PI-24. Quality and timeliness of in-year budget reports	C+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	*B*	Although classification of data allows direct comparison to the original budget, the exclusion of external funds not channelled through the Treasury Account from budget execution reports do not allow a complete comparison to the original budget.
(ii) Timeliness of the issue of reports	*A*	Reports are prepared on monthly and quarterly and issued within 4 weeks of end of period. The monthly expenditure returns are submitted to the Ministry of Finance by the 15-day for the previous month.
(iii) Quality of information	*C*	Most of the data is fundamentally secure but there are some concerns about the accuracy of information from decentralized ministries, such as data from schools which do not have qualified accountants/auditors.

Indicator	Score	Brief Explanation
PI-25. Quality and timeliness of annual financial statements	C+	
(i) Completeness of the financial statements	*B*	Government Financial statement is prepared annually, and includes, budget estimates, full information on revenue, expenditure and financial assets/liabilities.
(ii) Timeliness of submission of the financial statements	*B*	Since 2002, the consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.
(iii) Accounting standards used	*C*	Government is using national standards which are partially based on IPSAS but full implementation of ISPAS is not complete. The standards used are not disclosed in the report.
PI-26 Scope, nature and follow-up of external audit	B+	
(i) Scope/nature of audit performed	*B*	All entities are covered annually for an audit certification of financial statements, but the OAG does not have adequate financial and human resources for an audit scrutiny of all the accounts annually. In terms of expenditure the audit is covering about 75%; in terms of entities/accounts the coverage is about 50%
(ii) Timeliness of submission of audit reports to legislature	*A*	Since 2002, the annual audit report is submitted to Parliament within 4 months of receipt of financial statement and within 12 months of the end of the fiscal year, which is the statutory limit.
(iii) Evidence of follow-up on audit recommendations	*B*	Once the audit report is finished and submitted to the parliament, the responsibility for making recommendations rests with the PAC, and the Government is then supposed to take responsibility for follow-up on the recommendations from PAC. OAG in subsequent reports makes observations on action taken or not.
PI-27 Legislative scrutiny of the annual budget law	C+	
(i) Scope of the legislature's scrutiny.	*C*	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalised.
(ii) Extent to which the legislature's procedures are well-established and respected.	*C*	Legislature procedures exist and are well and are respected. The Estimates Committee was created in 2000 and in the past has focused on post-budget analysis except for last year when the Estimates Committee recruited consultants to assist them in analysing the budget and the report was produced and presented to the Parliamentarians
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	*A*	The legislature has at least two months to review the budget proposals. The budget is normally presented in January and legislature is required to approve the budget by March.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	*C*	Clear rules exist within which variations can be done. To do variations, the Ministry or Spending Agency is required to request for approval from the Secretary to the Treasury and copy of the approved variation is sent to the Auditor General. The law allows for supplementary budget as well as retroactive approval by the legislature up to 30 months. These rules are not always complied with as evidenced by the practice of ex-post regularization; which results in extensive administrative reallocation as well as expansion of total expenditure

Indicator	Score	Brief Explanation
PI-28 Legislative scrutiny of external audit reports	$\boxed{\text{C+}}$	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	*C*	Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. The Public Accounts Committee (PAC) hearing and scrutiny by the committee is completed within six months and these reports are submitted to the house. Auditor General and Accountant General are permanent witnesses to the PAC.
(ii) Extent of hearings on key findings undertaken by the legislature.	*A*	PAC are conducts hearings on all cases that are brought to their attention. The Controlling Officers for the Ministries and Spending Agencies with adverse audit opinion are called and do appear before the PAC. However, sometimes they delay in submitting the reports required by PAC.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	*B*[17]	Actions are recommended to the executive, some of which are implemented. The Government Assurance Committee in Parliament is responsible for following up the Executive on the recommendations of the House.
D-1 Predictability of Direct Budget Support	$\boxed{\text{D}}$	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	*D*	Prior to 2005, Zambia has received limited direct budget support. Relevant information was not provided to assess whether a higher score was justified.
(ii) In-year timeliness of donor disbursements.	*D*	There are delays in donor inflows attributed to delayed implementation of donor conditionalities. In certain circumstances these conditionalities have been met but no disbursements have been forth coming. However, relevant information was not provided to asses whether a higher score was justified
D-2 Financial information provided by donors for budgeting and reporting	$\boxed{\text{D+}}$	
(i) Completeness and timeliness of budget estimates by donors for project support	*C*	Lack of predictability of disbursement of donor support for projects and programs has affected the implementation of specific line items in the budget. Donors have mainly used their own classification system for their estimates and reports, which is not consistent with government's budget classification.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	*D*	Relevant information was not provided to assess whether a higher score was justified.
D-3 Proportion of aid that is managed by use of national procedures	$\boxed{\text{D}}$	

[17] This dimension appears to duplicate the information in indicator 26, dimension (iii).

Indicator	Score	Brief Explanation
(i) Overall proportion of aid funds to central government that are managed through national procedures.	*D*	Less than 50% of aid funds to central government are managed by use of national procedures. Hence most of the aid is not captured by the government financial reporting system. This is also mainly due to predominantly project supported aid which rarely uses national procedures in terms of banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements.

Annex 2

Overview of PEFA Scoring Calibration for Individual Indicators[18]

PEFA SCORE		EXPLANATION OF CALIBRATION
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
	B	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.
	C	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.
	D	(i) In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.
PI-2. Composition of expenditure out-turn compared to original approved budget	A	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.
	B	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.
	C	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.
	D	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.
PI-3. Aggregate revenue out-turn compared to original approved budget	A	(i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.
	B	(i) Actual domestic revenue collection was below 94% of budgeted domestic revenue estimates in no more than one of the last three years.
	C	(i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no more than one of the last three years.
	D	(i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years.
PI-4. Stock and monitoring of expenditure payment arrears	A	(i) The stock of arrears is low (i.e. is below 2% of total expenditure) (ii) Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).
	B	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years. (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.
	C	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. (ii) Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.
	D	(i) The stock of arrears exceeds 10% of total expenditure. (ii) There is no reliable data on the stock of arrears from the last two years.
PI-5. Classification of the budget	A	(i) The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)
	B	(i) The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.

[18] Annex 1, PEFA PFM Performance Management Framework Guidelines, June 2005. PEFA Secretariat. www.pefa.org

PEFA SCORE		EXPLANATION OF CALIBRATION
	C	(i) The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.
	D	(i) The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).
PI-6. Comprehensiveness of information included in budget documentation	A	(i) recent budget documentation fulfils 7-9 of the 9 information benchmarks
	B	(i) recent budget documentation fulfils 5-6 of the 9 information benchmarks
	C	(i) recent budget documentation fulfils 3-4 of the 9 information benchmarks
	D	(i) recent budget documentation fulfils 2 or less of the 9 information benchmarks
PI-7. Extent of unreported government operations	A	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).
	B	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure. (ii) Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.
	C	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 5-10% of total expenditure. (ii) Complete income/expenditure information for all loan financed projects is included in fiscal reports.
	D	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure. (ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations.
PI-8. Transparency of Inter-Governmental Fiscal Relations	A	(i) Transparency and objectivity in the horizontal allocation among SN governments The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems (ii) Timeliness of reliable information to SN governments on their allocations SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes. (iii) Extent of consolidation of fiscal data for general government according to sectoral categories Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.
	B	(i) Transparency and objectivity in the horizontal allocation among SN governments The horizontal allocation of most transfers from central government (at least 50% of transfers) is determined by transparent and rules based systems. (ii) Timeliness of reliable information to SN governments on their allocations SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible. (iii) Extent of consolidation of fiscal data for general government according to sectoral categories Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for at least 75% (by value) of SN government expenditure and consolidated into annual reports within 18 months of the end of the fiscal year.

PEFA SCORE		EXPLANATION OF CALIBRATION
	C	(i) Transparency and objectivity in the horizontal allocation among SN governments The horizontal allocation of only a small part of transfers from central government (10-50%) is determined by transparent and rules based systems. (ii) Timeliness of reliable information to SN governments on their allocations Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made. (iii) Extent of consolidation of fiscal data for general government according to sectoral categories Fiscal information (at least ex-post) that is consistent with central government fiscal reporting is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year.
	D	(i) Transparency and objectivity in the horizontal allocation among SN governments No or hardly any part of the horizontal allocation of transfers from central government is determined by transparent and rules based systems. (ii) Timeliness of reliable information to SN governments on their allocations Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable. (iii) Extent of consolidation of fiscal data for general government according to sectoral categories Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.
PI-9. Oversight of aggregate fiscal risk from other public sector entities	A	(i) All major AGAs/PEs submit fiscal reports to central governments at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually. (ii) SN government cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.
	B	(i) All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, and central government consolidates overall fiscal risk into a report.
	C	(i) Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete.
	D	(i) No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete. (ii) No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete.
PI-10. Public Access to key fiscal information	A	(i) the government makes available to the public 5-6 of the 6 listed types of Information
	B	(i) the government makes available to the public 3-4 of the 6 listed types of information
	C	(i) the government makes available to the public 1-2 of the 6 listed types of Information
	D	(i) the government makes available to the public none of the 6 listed types of Information

PEFA SCORE		EXPLANATION OF CALIBRATION
PI-11. Orderliness and participation in the annual budget process	A	(i) Existence of and adherence to a fixed budget calendar A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. (ii) Guidance on the preparation of budget submissions A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs. (iii) Timely budget approval by the legislature The legislature has, during the last three years, approved the budget before the start of the fiscal year.
	B	(i) Existence of and adherence to a fixed budget calendar A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time, (ii) Guidance on the preparation of budget submissions A comprehensive and clear budget circular is issued to MDAs, which reflect ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission. (iii) Timely budget approval by the legislature The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years.
	C	(i) Existence of and adherence to a fixed budget calendar An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely. (ii) Guidance on the preparation of budget submissions A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments. (iii) Timely budget approval by the legislature The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.
	D	(i) Existence of and adherence to a fixed budget calendar A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions. (ii) Guidance on the preparation of budget submissions A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment. (iii) Timely budget approval by the legislature The budget has been approved with more than two months delay in two of the last three years.

PEFA SCORE		EXPLANATION OF CALIBRATION
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	A	(i) Multi-year fiscal forecasts and functional allocations Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained (ii) Scope and frequency of debt sustainability analysis DSA for external and domestic debt is undertaken annually. (iii) Existence of costed sector strategies Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts. (iv) Linkages between investment budgets and forward expenditure estimates Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.
	B	(i) Multi-year fiscal forecasts and functional allocations Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained. (ii) Scope and frequency of debt sustainability analysis DSA for external and domestic debt is undertaken at least once during the last three years. (iii) Existence of costed sector strategies Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure. (iv) Linkages between investment budgets and forward expenditure estimates The majority of important investments are made on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.
	C	(i) Multi-year fiscal forecasts and functional allocations Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis. (ii) Scope and frequency of debt sustainability analysis A DSA for at least for external debt undertaken once during last three years. (iii) Existence of costed sector strategies Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts. (iv) Linkages between investment budgets and forward expenditure estimates Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.

PEFA SCORE		EXPLANATION OF CALIBRATION
	D	(i) Multi-year fiscal forecasts and functional allocations No forward estimates of fiscal aggregates are undertaken (ii) Scope and frequency of debt sustainability analysis No DSA has been undertaken in the last three years (iii) Existence of costed sector strategies Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure. (iv) Linkages between investment budgets and forward expenditure estimates Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.
PI-13 Transparency of Taxpayer Obligations and Liabilities	A	(i) Clarity and comprehensiveness of tax liabilities Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. (ii) Taxpayers' access to information on tax liabilities and administrative procedures Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns. (iii) Existence and functioning of a tax appeals mechanism. A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.
	B	(i) Clarity and comprehensiveness of tax liabilities Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved. (ii) Taxpayers' access to information on tax liabilities and administrative procedures Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. (iii) Existence and functioning of a tax appeals mechanism. A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed..
	C	(i) Clarity and comprehensiveness of tax liabilities Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved. (ii) Taxpayers' access to information on tax liabilities and administrative procedures Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date. (iii) Existence and functioning of a tax appeals mechanism. A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.

PEFA SCORE		EXPLANATION OF CALIBRATION
	D	(i) Clarity and comprehensiveness of tax liabilities Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities. (ii) Taxpayers' access to information on tax liabilities and administrative procedures Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient. (iii) Existence and functioning of a tax appeals mechanism. No functioning tax appeals system has been established
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	A	(i) Controls in the taxpayer registration system. Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations. (ii) Effectiveness of penalties for non-compliance with registration and tax declaration Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered. (iii) Planning and monitoring of tax audit programs. Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.
	B	(i) Controls in the taxpayer registration system. Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations. (ii) Effectiveness of penalties for non-compliance with registration and tax declaration Penalties for non-compliance exist for most relevant areas, but are not always effective due to sufficiently scale and/or inconsistent administration. (iii) Planning and monitoring of tax audit programs. Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.
	C	(i) Controls in the taxpayer registration system. Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers. (ii) Effectiveness of penalties for non-compliance with registration and tax declaration Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance. (iii) Planning and monitoring of tax audit programs. There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.
	D	(i) Controls in the taxpayer registration system. Taxpayer registration is not subject to any effective controls or enforcement systems (ii) Effectiveness of penalties for non-compliance with registration and tax declaration Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed). (iii) Planning and monitoring of tax audit programs. Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.

PEFA SCORE		EXPLANATION OF CALIBRATION
PI-15 Effectiveness in collection of tax payments	A	(i) The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections). (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.
	B	(i) The average debt collection ratio in the two most recent fiscal years was 75-90% and the total amount of tax arrears is significant. (ii) Revenue collections are transferred to the Treasury at least weekly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.
	C	(i) The average debt collection ratio in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant (ii) Revenue collections are transferred to the Treasury at least monthly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.
	D	(i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). (ii) Revenue collections are transferred to the Treasury less regularly than monthly (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay.
PI-16 Predictability in the availability of funds for commitment of expenditures	A	(i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows. (ii) MDAs' are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.
	B	(i) A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows. (ii) MDAs are provided reliable information on commitment ceilings at least quarterly in advance. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.
	C	(i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated. (ii) MDAs are provided reliable information for one or two months in advance. (iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.
	D	(i) Cash flow planning and monitoring are not undertaken or of very poor quality. (ii) MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment. (iii) Significant in-year budget adjustments are frequent and not done in a transparent manner.
PI-17. Recording and management of cash balances, debt and guarantees	A	(i) Quality of debt data recording and reporting Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly (ii) Extent of consolidation of the government's cash balances All cash balances are calculated daily and consolidated. (iii) Systems for contracting loans and issuance of guarantees. Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

PEFA SCORE		EXPLANATION OF CALIBRATION
	B	(i) Quality of debt data recording and reporting Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually. (ii) Extent of consolidation of the government's cash balances Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. (iii) Systems for contracting loans and issuance of guarantees. Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.
	C	(i) Quality of debt data recording and reporting Domestic and foreign debt records are complete, updated and reconciled on at least annually. Data quality considered of fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content. (ii) Extent of consolidation of the government's cash balances Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances (iii) Systems for contracting loans and issuance of guarantees. Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.
	D	(i) Quality of debt data recording and reporting Debt data records are incomplete and inaccurate to a significant degree. (ii) Extent of consolidation of the government's cash balances Calculation of balances takes place irregularly, if at all, and the system used does not allow consolidation of bank balances. (iii) Systems for contracting loans and issuance of guarantees. Central government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism.
PI-18 Effectiveness of payroll controls	A	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation. (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments). (iii) Authority to change records and payroll is restricted and results in an audit trail. (iv) A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.
	B	(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. (ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally. (iii) Authority and basis for changes to personnel records and the payroll are clear. (iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).

PEFA SCORE		EXPLANATION OF CALIBRATION
	C	(i) A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months. (ii) Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments. (iii) Controls exist, but are not adequate to ensure full integrity of data. (iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years.
	D	(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. (ii) Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments. (iii) Controls of changes to records are deficient and facilitate payment errors. (iv) No payroll audits have been undertaken within the last three years.
PI-19 Competition, value for money and controls in procurement	A	(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition. (ii) Justification for use of less competitive procurement methods Other less competitive methods when used are justified in accordance with clear regulatory requirements. (iii) Existence and operation of a procurement complaints mechanism A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny.
	B	(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases Available data on public contract awards shows that more than 50% but less than 75% of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate. (ii) Justification for use of less competitive procurement methods Other less competitive methods when used are justified in accordance with regulatory requirements. (iii) Existence and operation of a procurement complaints mechanism A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority.
	C	(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases Available data shows that less than 50% of contracts above the threshold are awarded on an open competitive basis, but the data may not be accurate. (ii) Justification for use of less competitive procurement methods Justification for use of less competitive methods is weak or missing. (iii) Existence and operation of a procurement complaints mechanism A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints.

PEFA SCORE		EXPLANATION OF CALIBRATION
	D	(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases Insufficient data exists to assess the method used to award public contracts OR the available data indicates that use of open competition is limited. (ii) Justification for use of less competitive procurement methods Regulatory requirements do not clearly establish open competition as the preferred method of procurement. (iii) Existence and operation of a procurement complaints mechanism No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process.
PI-20 Effectiveness of internal controls for non-salary expenditure	A	(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised). (ii) Other internal control rules and procedures are relevant, incorporates a comprehensive and generally cost effective set of controls, which are widely understood. (ii) Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.
	B	(i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception. (ii) Other internal control rules and procedures incorporates a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays. (iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.
	C	(i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated. (ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. (iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.
	D	(i) Commitment control systems are generally lacking OR they are routinely violated. (ii) Clear, comprehensive control rules/procedures are lacking in other important areas. (iii) The core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures.
PI-21. Effectiveness of internal audit	A	(i) Internal audit is operational for all central government entities, and generally meet professional standards, It is focused on systemic issues (at least 50% of staff time).. (ii) Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI. (iii) Action by management on internal audit findings is prompt and comprehensive across central government entities.
	B	(i) Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time). (ii) Reports are issued regularly for most audited entities are distributed to the audited entity, the ministry of finance and the SAI. (iii) Prompt and comprehensive action is taken by many (but not all) managers.
	C	(i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards. (ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI. (iii) A fair degree of action taken by many managers on major issues but often with delay
	D	(i) There is little or no internal audit focused on systems monitoring. (ii) Reports are either non-existent or very irregular. (iii) Internal audit recommendations are usually ignored (with few exceptions).

PEFA SCORE		EXPLANATION OF CALIBRATION
PI-22. Timeliness and regularity of accounts reconciliation	A	(i) Regularity of bank reconciliations Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. (ii) Regularity of reconciliation and clearance of suspense accounts and advances Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.
	B	(i) Regularity of bank reconciliations Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month. (ii) Regularity of reconciliation and clearance of suspense accounts and advances Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.
	C	(i) Regularity of bank reconciliations Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter. (ii) Regularity of reconciliation and clearance of suspense accounts and advances Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward.
	D	(i) Regularity of bank reconciliations Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months. (ii) Regularity of reconciliation and clearance of suspense accounts and advances Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.
PI-23 Availability of information on resources received by service delivery units	A	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.
	B	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).
	C	(i) Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors.
	D	(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.
PI-24. Quality and timeliness of in-year budget reports	A	(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. (iii) There are no material concerns regarding data accuracy.
	B	(i) Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly, and issued within 6 weeks of end of quarter. (iii) There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.

PEFA SCORE		EXPLANATION OF CALIBRATION
	C	(i) Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). (ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter. (iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.
	D	(i) Comparison to the budget may not be possible across all main administrative headings. (ii) Quarterly reports are either not prepared or often issued with more than 8 weeks delay. (iii) Data is too inaccurate to be of any real use.
PI-25. Quality and timeliness of annual financial statements	A	(i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied for all statements.
	B	(i) A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities (ii) The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied.
	C	(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (ii) The statements are submitted for external audit within 15 months of the end of the fiscal year. (iii) Statements are presented in consistent format over time with some disclosure of accounting standards.
	D	(i) A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit. (ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year (iii) Statements are not presented in a consistent format over time or accounting standards are not disclosed.
PI-26. Scope, nature and follow-up of external audit	A	(i) All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. (iii) There is clear evidence of effective and timely follow up.
	B	(i) Central government entities representing at least 75% of total expenditures 12 are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. (iii) A formal response is made in a timely manner, but there is little evidence of systematic follow up.
	C	(i) Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. (ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) A formal response is made, though delayed or not very thorough. but there is little evidence of any follow up.
	D	(i) Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues. (ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) There is little evidence of response or follow up.

PEFA SCORE		EXPLANATION OF CALIBRATION
PI-27 Legislative scrutiny of the annual budget law	A	(i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue. (ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. (iii) The legislature has at least two months to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
	B	(i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. (ii) Simple procedures exist for the legislature's budget review and are respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.
	C	(i) The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. (ii) Some procedures exist for the legislature's budget review, but they are not comprehensive and only partially respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.
	D	(i) The legislature's review is non-existent or extremely limited, OR there is no functioning legislature. (ii) Procedures for the legislature's review are non-existent or not respected. (iii) The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month). (iv) Rules regarding in-year budget amendments may exist but are either very rudimentary and unclear OR they are usually not respected.
PI-28 Legislative scrutiny of external audit reports	A	(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports. (ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. (iii) The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.
	B	(i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports. (ii) In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion. (iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence.
	C	(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. (ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only. (iii) Actions are recommended, but are rarely acted upon by the executive.
	D	(i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. (ii) No in-depth hearings are conducted by the legislature. (iii) No recommendations are being issued by the legislature.
D-1 Predictability of Direct Budget Support	A	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
	B	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.

PEFA SCORE		EXPLANATION OF CALIBRATION
	C	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years.
	D	(i) In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15% OR no comprehensive and timely forecast for the year(s) was provided by the donor agencies. (ii) The requirements for score C (or higher) are not met.
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	A	(i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 85% of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification.
	B	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 70% of the externally financed project estimates in the budget with a break-down consistent with the government budget classification.
	C	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government's budget classification. (ii) Donors provide quarterly reports within two months of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a break-down consistent with the government budget classification.
	D	(i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start. (ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.
D-3 Proportion of aid that is managed by use of national procedures	A	(i) 90% or more of aid funds to central government are managed through national procedures.
	B	(i) 75% or more of aid funds to central government are managed through national procedures.
	C	(i) 50% or more of aid funds to central government are managed through national procedures.
	D	(i) Less than 50% of aid funds to central government are managed through national procedures.

Annex 3

Potential PFM Sub-Indicators

As significant improvements in PFM systems can take time to show improved outcomes, and hence to engender movements across PEFA scores (e.g. from C to B), the following provides a list of sub-indicators, within the main PEFA indicators, which may assist in more regular monitoring. It is important to note that the sub-indicators indicated in the table are not intended to be monitored each year. The sub-indicators represent a menu of potential measures relevant to the given PFM area which may be used by the PEMFA Secretariat or other stakeholders.

Indicator	**Potential PFM Sub-Indicators**	**Potential Monitoring Frequency**
1. Aggregate expenditure out-turn compared to original approved budget	Monitoring can be done annually as in the Guidelines – add the most recently completed budget year	Annual
2. Composition of expenditure out-turn compared to original approved budget	Monitoring can be done annually as in the Guidelines – add the most recently completed budget year	Annual
3. Aggregate revenue out-turn compared to original approved budget	Monitoring can be done annually as in the Guidelines – add the most recently completed budget year	Annual
4. Stock and monitoring of expenditure payment arrears	Monitoring may be done as in Guidelines. The stock of arrears should be monitored each year. The flow of new arrears and the dismantling of old stock should also be monitored.	Annual
5. Classification of the budget	Monitoring may be done as in Guidelines.	Annual
6. Comprehensiveness of information included in budget documentation	The *availability* of information in each year's annual budget documentation can be monitored as in the Guidelines. Comments can also be made on changes in the *quality* of information in the documentation.	Semi-annual
7. Extent of unreported government operations	(i) Level of unreported extra-budgetary expenditure: an estimate of the extent of unreported expenditures may be made, but the level is unlikely to change significantly year to year. (ii) Income/expenditure information on donor-funded projects included in fiscal reports: moves between categories are unlikely to be significant	Semi-annual but unlikely to change significantly over the short term
8. Transparency of Inter-Governmental Fiscal Relations	(i) transparency and rules based systems in the horizontal allocation of transfers from central government to local councils • Monitoring may be done as in Guidelines. (ii) timeliness of reliable information to local councils on their allocations from central government • Monitoring may be done as in Guidelines. (iii) consolidation of fiscal data • Monitoring may be done as in Guidelines.	Semi-annual but unlikely to change significantly over the short term

Indicator	Potential PFM Sub-Indicators	Potential Monitoring Frequency
9. Oversight of aggregate fiscal risk from other public sector entities.	(i) Extent of central government monitoring of statutory bodies and parastatals: Comments should be made on the availability of information to MoFNP (ii) (ii) Extent of central government monitoring of local councils' fiscal position: Comments should be made on: • the *availability of fiscal information* to both MoLGH and MoFNP; • whether or not a consolidated fiscal picture (i.e. report) is put together for central government + local councils	Semi-annual but unlikely to change significantly over the short term
10. Public Access to key fiscal information	Monitoring may be done as in Guidelines. For each year's budget, comments may be made on changes to the *ease of accessibility* to the general public of the information (e.g. if more documents are available on-line, as opposed to merely available from the Government printer). Comments may also be made on the *accessibility in terms of presentation* of the information.	Semi-annual

Indicator	Potential PFM Sub-Indicators	Potential Monitoring Frequency
11. Orderliness and participation in the annual budget process	(i) Existence of, and adherence to, a fixed budget calendar: • Monitoring may be done as in Guidelines. The key indicators are when the Call Circular is issued, when ministries' budget proposals are submitted to MoFNP, when the budget is submitted to Government, and when Government submits it to Parliament. Major delays from one year to the next should be noted. (ii) Guidance on the preparation of budget submissions: monitoring may be done as in Guidelines. (iii) timely budget approval by the legislature: monitoring of the timing of approval of each year's budget may be done as in Guidelines.	Annual
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	(i) multi-year fiscal forecasts and functional allocations: Key sub-indicators include: • the type of classification of the indicators (administrative, economic and functional/sectoral), or just administrative and economic (no functional) • comments on degree of linkage between annual ceilings and relevant previous forward estimates over time • comments on degree of linkages between sectoral ceilings and Government policies (ii) scope and frequency of debt sustainability analysis: comments may be made on the preparation of a debt sustainability report each year and the coverage and quality of information in the report (iii) existence of costed sector strategies: • quality of the strategies in terms of their prioritisation of activities and linkage with overall Government priorities • quality of costing of activities (both recurrent and capital) in the strategies • compatibility with medium-term resource framework (iv) linkages between investment budgets and forward expenditure estimates: • comments on the linkages between forward estimates and on-going recurrent expenditures • comments on linkage between investment projects and FNDP/national priorities	Semi-annual (sub-indicators under i, ii and iv are ones that may be monitored regularly;, with sub-indicators under ii less regularly)
13. Transparency of tax payer obligations and liabilities	Indicator is sufficient for monitoring	Semi-annual but unlikely to change significantly over the short term

Indicator	Potential PFM Sub-Indicators	Potential Monitoring Frequency
14. Effectiveness of measures for tax payer registration and tax assessment	(ii) Controls in tax payer registration system Extent of linkages to other Government registration systems	Semi-annual but unlikely to change significantly over the short term
15. Effectiveness in collection of tax payments	(i) Collection ratio for gross tax arrears (follow-up of main indicator)	Annual or semi-annual
16. Predictability in the availability of funds for commitment of expenditures	(ii) reliability of information on expenditure ceilings to MPSAs -Extent of feedback by MoFNP on quarterly expenditure ceilings to MPSAs (iii) extent of in-year adjustments - supplementary budget amount as % of total budget - ex-post expenditure amounts as % of total budget	Annual or semi-annual
17. Recording and management of cash balances, debt and guarantees	Indicator is sufficient for monitoring	Semi-annual
18. Effectiveness of payroll controls	- Degree of integration of payroll systems - Degree of regularity of payroll audits - Degree of completeness (quality) of payroll audits	Semi-annual
19. Competition, value for money and controls in procurement	- Assessment of degree of compliance with rules - information from surveys, Anti-Corruption Commission, complaints procedures and others - number of cases brought to court - existence of independent complaints procedure/mechanism - Procurement staff competence as measured by education and training level and actual experience	Semi-annual
20. Effectiveness of internal controls for non-salary expenditure	- Degree of compliance with internal control procedures (as measured by Internal Auditor) - Follow-up on audit observations (external and internal) regarding internal control issues - Extent of understanding by controlling officers and other staff of internal control rules, regulations and procedures (as measured by training and retraining programmes) - extent of in-year adjustments (see indicator 16)	Semi-annual
21. Effectiveness of internal audit	- Proportion of staff time spent on systems audit of important government systems ((procurement, payroll and others) - Proportion of staff time spend on pre-audit - Degree of compliance with Internal Audit recommendations - Degree of coverage of internal audit down to regions and districts - Improvement on human resources (numbers, professional audit training and certification) and logistical resources for coverage of regions and districts	Semi-annual
22. Timeliness and regularity of accounts reconciliation	- Size of uncleared advances - Number of suspense accounts with a long duration which are brought forward to next year	Semi-annual
23. Availability of information on resources received by service delivery units	- Degree of accuracy of data in financial reports - Expenditure tracking down to end users, focussing on specific sectors in turn	Semi-annual

Indicator	Potential PFM Sub-Indicators	Potential Monitoring Frequency
24. Quality and timeliness of in-year budget reports	- Degree of accuracy of data in in-year reports - Degree of management action to recommendations in reports (as measured e.g. by surveys or Internal Auditor)	Semi-annual
25. Quality and timeliness of annual financial statements	- Quality and quality assurance through the data chain when statements are prepared (as measured by the Internal Auditor)	Semi-annual
26. Scope, nature and follow-up of external audit	- Actual annual audit coverage of both expenditure as such as well as coverage of ministries and all other spending authorities - Existence of an up to date comprehensive materiality and risk analysis - Increased staff resources (c f establishment number) and qualification of staff	Semi-annual
27. Legislative scrutiny of the annual budget law	- Existence of institutional capacity (e.g. resources) for provision of budget analysis to Parliamentarians	Semi-annual
28. Legislative scrutiny of external audit reports	- Extent of effective follow-up of the recommendations from OAG and PAC - degree of compliance with recommendations by the executive - Resources for PAC to support their preparation and analytical capacity for the discharge process	Semi-annual
D-1 Predictability of Direct Budget Support	Indicator is sufficient	Annual (although unlikely to change significantly year to year)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	Indicator is sufficient	Annual (although unlikely to change significantly year to year)
D-3 Proportion of aid that is managed by use of national procedures	Indicator is sufficient	Annual (although unlikely to change significantly year to year)

ANNEX 4

Proposed Sequencing of PFM Measures[19]

Indicator	PEFA Score	Relevant PEMFA Component	Prior Actions Required
2. Composition of expenditure out-turn compared to original approved budget	D	1 and 4	
D-1 Predictability of Direct Budget Support	D	4 and 7	Donors providing timely information
D-3 Proportion of aid that is managed by use of national procedures	D	7	Sufficient improvements in PFM to allow donors to agree to use national procedures
4. Stock and monitoring of expenditure payment arrears	D+	1,4, 5, 6 and 8	Financial Regulations passed to strengthen commitment control
16. Predictability in the availability of funds for commitment of expenditures	D+	1 and 4	
18. Effectiveness of payroll controls	D+	1 and 6	
19. Competition, value for money and controls in procurement	D+	8 and 12	Revised ZNTB legislation
21. Effectiveness of internal audit	D+	6 and 11	
8. Transparency of Inter-Governmental Fiscal Relations	D+	5	
15. Effectiveness in collection of tax payments	D+	4	
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	D+	4 and 7	Donors providing timely information
1. Aggregate expenditure out-turn compared to original approved budget	C	1 and 4	
5. Classification of the budget	C	1, 2, and 4	
17. Recording and management of cash balances, debt and guarantees	C	1, 2 and 5	Successful implementation of IFMIS
20. Effectiveness of internal controls for non-salary expenditure	C	1 and 6	
23. Availability of information on resources received by service delivery units	C	1 and 4	
9. Oversight of aggregate fiscal risk from other public sector entities.	C	1, 5 and 9	
7. Extent of unreported government operations	C	1, 4 and 5	Agreement on what Government operations are to be reported
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	3, 4 and 7	
14. Effectiveness of measures for taxpayer registration and tax assessment	C+	4	
25. Quality and timeliness of annual financial statements	C+	1 and 2	Successful implementation of IFMIS
22. Timeliness and regularity of accounts reconciliation	C+	1 and 2	Successful implementation of IFMIS
24. Quality and timeliness of in-year budget reports	C+	1 and 2	Successful implementation of IFMIS

[19] See Section (iii) of the Summary Assessment for further explanation of analysis presented here.

Indicator	PEFA Score	Relevant PEMFA Component	Prior Actions Required
27. Legislative scrutiny of the annual budget law	C+	4, 8 and 10	
28. Legislative scrutiny of external audit reports	C+	8, 9 and 10	
26. Scope, nature and follow-up of external audit	B+		
6. Comprehensiveness of information included in budget documentation	B		
10. Public Access to key fiscal information	B		
11. Orderliness and participation in the annual budget process	B		
13. Transparency of taxpayer obligations and liabilities	B		
3. Aggregate revenue out-turn compared to original approved budget	A		

ANNEX 5

REVISED TERMS OF REFERENCE FOR THE ANNUAL EVALUATION OF PEMFA 2005

1 BACKGROUND

Zambia has set off on a process of substantially reforming the Public Finance Management (PFM) system. A comprehensive Public Expenditure Management and Financial Accountability (PEMFA) reform program has been designed in co-operation between the Government of Zambia (GRZ) and the donors.

A Memorandum of Understanding (MoU) for the PEMFA program was signed in December 2004 by GRZ and a group of donors: DFID, The Netherlands, Ireland, Denmark, The World Bank, Finland, Sweden, Norway, The EC, Germany, and the UN Country Team. The implementation of the program started during the first half of 2005.

The program is five years (2005-2009) and comprises 12 components[20] addressing all aspects of PFM. The program is centred at the Ministry of Finance and National Planning (MoFNP) but also other agencies and institutions are involved.[21]

PEMFA is one of three pillars of the GRZ Public Sector Reform Programme (PSRP), with the overall of aim to improve the quality of service delivery. The overall objective of the PEMFA program is to improve efficiency, effectiveness and accountability in the management and utilisation of public financial resources to support the implementation of Zambia's Poverty Reduction Strategy (PRS), National Development Plan (NDP). PEMFA should contribute to an improved and strengthened PFM system ensuring that public resources are effectively and efficiently channelled to priority areas in accordance with the PRSP priorities.

The PEMFA programme with an indicative budget of MUSD 72, is fully financed through a pooled funding arrangement. [22]

The Signatories to the PEMFA MoU have agreed to set up a Joint Framework for Monitoring and Evaluation (M&E Framework) in order to be able to regularly track progress in implementation and results (see annex 1). This framework serves both an accountability purpose, i.e. reporting on results, and the need for regular information on progress for the planning and design of the program.

One of the elements of the M&E Framework is an Annual Evaluation of the impact of the PEMFA program. It has been agreed that the indicators developed under the World Bank led PEFA initiative should be used in this Annual Evaluation (see annex 2) and that the first Annual Evaluation 2005 should be used to set a baseline for these indicators and further develop the indicator frame.

[20] 1) Commitment control and FMS; 2) IFMIS; 3) Fiscal policy and planning; 4) Budget preparation and execution; 5) Improved debt management; 6) Enhanced internal audit and control; 7) Better external financing; 8) Legal and regulatory framework; 9) Strengthened external audit; 10) Enhancing parliamentary oversight; 11) Accounting training and regulations; 12) Public procurement reforms.

[21] Ministry of Justice, Bank of Zambia, Zambia Revenue Authority, Zambia National Tender Board, the Parliament, Zambia Institute of Chartered Accounts, Office of the Auditor General.

[22] The EC contribution is channelled as budget support.

2 PURPOSE AND SCOPE OF THE ANNUAL EVALUATION

The purpose of this Annual Evaluation is to assess the current status of the Zambia PFM system based on the PEFA indicators in order to set a baseline for the continued use and assessment of these indicators.

The evaluation should deliver:

- A baseline for the continued use of the PEFA indicators.
- A further developed indicator frame including outcome indicators and impact indicators, with second-level PEFA indicators where needed.
- A brief assessment of the results of the PEFA review in relation to the PEMFA components (coverage and plans) with recommendations on priorities, sequencing and coverage of the components.
- Recommendations on the timing and approach of subsequent PEMFA evaluations over the five year lifetime of the programme.

3 THE ASSIGNMENT (ISSUES TO BE COVERED IN THE EVALUATION)

The evaluation should assess the Zambia PFM system focusing on the areas of the PEFA indicators. The evaluation should give sufficient information on each of the areas to deliver a baseline for the impact evaluations of 2006-2009.

As regards the impact indicators, the evaluation should analyse the PEFA indicators in relation to the Zambia context and the PEMFA program in order to detail each of the indicators and where needed adding a second level. It is important to use already existing documentation on the Zambia PFM (see reference list) to feed the assessment and to analyse whether there are areas of importance that are not covered by the PEFA indicators and therefore should be added to the indicator frame.

It is important that the outcome indicators proposed in the M&E Framework are reviewed in light of the findings of the PEFA review, and subsequent refinements, changes and/or additions to the indicators are recommended.

In suggesting an indicator frame the evaluation should also ensure coherence with the indicators set in the interim Peformance Assessment Framework (iPAF) for the Poverty Reduction Budget Support (PRBS). It could also be relevant to consider the PRSP indicators. Furthermore, it is important that the suggested indicator frame is based on realistic assumptions of the likely performance of Zambia PFM during the five PEMFA years.

The PEMFA program has had a short period of implementation and therefore no actual assessment of performance should be carried out this year 2005. However, PEMFA is not cut in stone from the outset but lessons and insights gained during the process of implementation should be used to continuously develop and improve PEMFA. The PEFA review will give further insights into the strengths and weaknesses of the PFM system. Hence, the evaluation team is asked to conduct a brief review of the PEMFA components (plans and coverage) in relation to the findings of the PEFA review, and to give recommendations on any needed changes in priorities, coverage and sequencing of the components.

Given that this is the first annual evaluation of PEMFA, the evaluation team should draw lessons from this evaluation process and make recommendations for timing and approach of PEMFA evaluations over the next five years.

4 APPROACH, EVALUATION TEAM AND TIME SCHEDULE

4.1 Approach

The evaluation is a joint exercise between the GRZ and the donors supporting the PEMFA programme. The GRZ will lead the evaluation process and be assisted in completing the evaluation in a timely and effective manner by independent monitoring consultants.

The evaluation should be conducted in three phases: 1) inception phase; 2) field phase; and 3) final report phase.

The purpose of the inception phase is for the evaluation team to arrive at a common understanding of and further develop the approach and methodology to be applied in the evaluation. This could be achieved for example through a team workshop.

The field phase should be undertaken on the basis of the approach agreed during the inception phase and will be concentrated to Lusaka. The main purpose of the field phase is data gathering through different types of interviews and meetings and through document and database search.

As stated above it is important that existing documentation on the Zambia PFM are used in the assessment (see reference list). This material should be used to feed the baseline but also to see if there are areas of importance that are not covered by the PEFA indicators and therefore should be added to the indicator frame.

The evaluation team could also search for and use other relevant indicator frames to complement the PEFA frame and to assist in detailing the PEFA indicators. OECD/DAC has developed good practice papers on procurement including indicators for baseline assessments and indicators for monitoring procurement performance, which should be used when detailing the indicators on procurement (see reference list).

Briefing sessions should be organised at the beginning and the end of the field phase to share and discuss the preliminary findings with all concerned stakeholders.

The final report phase should focus on drafting the final report (see requirements in section 5), presenting and discussing the draft and producing a final version.

4.2 Evaluation Team

The Evaluation Team should consist of six persons, four team members appointed by GRZ, including the team leader, and two independent monitoring consultants assisting the GRZ in the application of the PEFA indicators used in the monitoring framework. The monitoring consultants will be appointed by the PEMFA donors.

The team leader should have sufficient experience of leading similar assignments and is responsible for delivering according to the agreed time schedule and for the quality of the reports.

The estimated time and resources required are two weeks for the team members, three weeks for the team leader and the monitoring consultants. The evaluation will be carried out in September/October . It is planned to be discussed at the Second Mid-Year Review of PEMFA in October.

4.3 Time Schedule

Tentative time schedule:

Inception phase	end September 05
Field phase (about two weeks)	September-beginning of October 05

Draft Final Report	October 05
Final Report	November 05

5 REPORTING

The evaluation team shall deliver a draft and a final report. Both reports should be succinct while including the necessary background and basis for understanding the conclusions, more detailed information should be presented in annexes. The reports should be written in English. Both reports should also be presented as drafts to be commented on by the stakeholders to the evaluation. The evaluation team should respect the comments received and if they do not agree with some of the comments they should be prepared to detail their arguments.

The evaluation team will report to the Ministry of Finance and National Planning, which will be leading the evaluation, distributing the reports to all concerned stakeholders, i e the Joint Technical Working Group (JTWG) and the Donor Committee. The Swedish Embassy has the responsibility for co-ordinating donor input to the evaluation process.

The Final Report should not exceed 50 pages, excluding annexes. The report should include the following sections: Executive summary; Introduction and background including methodology; Findings relating to the purpose of the evaluation and the issues listed under the assignment; Recommendations relating to the purpose of the evaluation and the issues listed under the assignment. The final version of the Final Report must be presented in a way that enables publication without further editing.

The Team Leader should participate at a workshop in Lusaka to present the final report and the main recommendations to the stakeholders.

Annex 6

List of Stakeholders Met

1. Mrs A O Chifungula, Auditor General,
2. Mr C N Mwango, Accountant General, MoFNP
3. Mr. L. Zulu, Controller of Internal Audit, MoFNP
4. Mr K. Mpembamoto, Zambia Revenue Authority
5. Mr Ndopu, Acting Director –ETC, MoFNP
6. Ms C. Kazembe, ETC, MoFNP
7. Mr R Simwinga, Director-IDM, MOFNP
8. Mr Mwanga, IDM, MoFNP
9. Mr E. Ngulube, Director Budget
10. Registrar, Revenue Appeals Tribunal
11. Mr T Banda, MoLGH
12. Mr E Shandavu, Decentralisation Secretariat, MoLGH
13. Ms K Sampa, Committee Clerk (FC), National Assembly
14. Ms S Sianga, Assistant Committee Clerk, National Assembly
15. Ms C Musonda, Assistant Committee Clerk, National Assembly
16. Mr T C Nyangu, Assistant Committee Clerk, National Assembly
17. Mr M F Kateshi, Assistant Committee Clerk, National Assembly
18. Ms Martha Nganjo Accountant, MoFNP
19. Mrs Ngoma, Senior Accountant, MOFNP
20. Mr Zulu, Auditor General's office
21. Mr Mushinge, Chief Accountant – Works and Supply
22. Mr Sakala, Director, HRIP, PSMD, Cabinet Office
23. Mr Songwe, Head of Procurement, Ministry of Works and Supply
24. Ms N Kalaluka, Principal Accountant, MOFNP
25. Mr M Goma, Deputy Accountant General, MOFNP
26. Mr Rodgers Mwanza, Principal Accountant, MOFNP
27. Chief Accountant, Ministry of Education
28. Hon Simenda, Chairperson, Estimates Committee, Parliament
29. Hon Chulumanda, Public Accounts Committee, Parliament
30. Director General, Anti Corruption Committee
31. Director – Operations, Anti Corruption Committee
32. Director – Prevention, Anti Corruption Committee
33. Secretary to the Commission, Anti Corruption Committee