



Republic of Zambia

**PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY FOR THE
GOVERNMENT OF THE REPUBLIC OF ZAMBIA
2013-2015**

JULY, 2013

1 FOREWORD

It is with great pleasure that I present to you the Government of the Republic of Zambia's Public Financial Management (PFM) reform strategy for a three year period (2013-2015). The strategy involves undertaking reforms in ten components that have been identified as requiring urgent attention.

The design of a good PFM should lead to attainment of economic development, poverty reduction and improved service delivery. One important way this can be achieved is through policy-based budget management and resource allocation, accountability for results and independent audits. Strengthening the system of PFM in Zambia is therefore an important prerequisite for achieving the targets enshrined in the Sixth National Development Plan (SNDP) and subsequent development plans.

The preparation of the PFM reform strategy has been driven by concerted and consolidated efforts, consultation and dialogue both within Government and other stakeholders. The focus of the strategy is on strengthening key PFM dimensions so that by the end of 2015, the Government has in place an "enhanced PFM system that is more efficient, effective and transparent." The ultimate goal is to ensure efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. A PFM reform strategy covering three years can only be seen as a step towards the ultimate goal.

The on-going PFM reform process presents an opportunity for strengthening the procedures and processes in the budget cycle, including planning and budgeting, internal controls, procurement, debt management, accounting and reporting, and the monitoring and evaluation systems. The reform strategy has been clarified in terms of approach, objectives, key activities, costs, and implementation plans. It builds on the progress and successes the Government has made in the implementation of preceding and on-going public sector reforms, especially within the frame of the Public Expenditure Management and Financial Accountability (PEMFA) programme undertaken between 2005 and 2010, and extended to 2012.

Reforms of this nature have far reaching implications, and as a Government, we are committed to the strategy and its key programmes, and will give all the necessary political support and leadership to ensure that the overall objectives of the reforms are realized by 2015.

I would like to thank everyone who has been involved in preparing this strategy, especially the PFM Technical Committee, and look forward to achieving its objectives as we move into the implementation phase.

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MINISTER OF FINANCE

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3 LIST OF ACRONYMS

ABB	Activity Based Budget
AG	Accountant General
APR	Annual Progress Report
BO	Budget Office
CPs	Cooperating Partners
GRZ	Government of the Republic of Zambia
GWM&E	Government Wide Monitoring and Evaluation
IDM	Investment and Debt Management Department
HRA	Human Resources and Administration
IFMIS	Integrated Financial Management Information Systems
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MIS	Management Information System
MLGH	Ministry of Local Government and Housing
MTEF	Medium Term Expenditure Framework
MoF	Ministry of Finance
NEMC	National Economic Management Cycle
NPD	National Planning Department
PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Accountability
PEMFA	Public Expenditure Management and Financial Accountability
PFM	Public Financial Management
PS	Permanent Secretary
PSRP	Public Sector Reform Program
SNDP	Sixth National Development Plan
ST	Secretary to the Treasury
TC	Technical Committee
TSA	Treasury Single Account
ZAMMOD	(Macroeconomic Model and Simulator of Zambia)
ZIPS	Zambia Institute of Purchasing and Supplies
ZPPA	Zambia Public Procurement Authority
ZRA	Zambia Revenue Authority

4 EXECUTIVE SUMMARY

4.1 INTRODUCTION

Good practice in public financial management indicate that sound economic, fiscal and budget policies are critical for making effective use of domestic revenue, domestic and external debt and foreign grants. This is vital not only to attaining the goals identified in our medium and long term development plans, but also to achieving internationally agreed targets such as the Millennium Development Goals (MDGs). To attain the developmental goals, improving the effectiveness and efficiency of spending will require further strengthening of our fiscal institutions, including the entire PFM system. By promoting transparency and accountability, and enhancing governance and results orientation, a more effective PFM system reduces wasteful spending, enhances value for money, and makes our citizens and other stakeholders more assured that public expenditure is used for its intended purposes. It is in this regard that this PFM reform strategy, the first comprehensive one in the country, has been prepared. The strategy builds on the achievements of the previous and on-going public sector reforms, especially on the Public Expenditure Management and Financial Accountability Reform (PEMFA) programme undertaken between 2005 and 2012.

The design of this Public Financial Management (PFM) reform strategy for 2013-2015 is based on an assessment of reforms to date; the 2010 PEMFA Secretariat Exit Report, April 2011; the PEMFA Programme Evaluation, August 2010; the Public Expenditure and Financial Accountability (PEFA) Assessment and Update Report, June 2008, and consultative meetings with key PFM stakeholders. Close linkage with other public sector reforms, like decentralization, has also been created. In addition, the results of the PEFA Assessment 2012 were also used to inform and foster the implementation of the specific reform areas and respective implementation plans as well as strategic plans of the involved institutions.

The PFM reform strategy is to be implemented under ten complementary components. All the components consist of already on-going reform processes, and specify key programmes, activities and steps planned for the coming three years. In the process of prioritizing and sequencing the proposed PFM reform strategy, two of the cross-cutting thematic areas (capacity building; legal and regulatory changes) were decided to be mainstreamed within the identified reform areas instead of being treated as separate reforms. Based on the recommendation of the Cabinet, special activities have been identified to strengthen the local government auditing function.

4.2 OBJECTIVES AND COMPONENTS OF THE PFM REFORM STRATEGY

The PFM reform strategy for Zambia has applied a holistic, systemic view of the public financial management system in order to consolidate macroeconomic stability. Structural reforms under the Public Sector Reform Programme are focused on the creation of more fiscal space, improvement of public expenditure and financial management as well as of tax administration, and expansion of the tax base. The ultimate goal of the PFM reform strategy is to **ensure efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery**. Improvements

with regards economic management, revenue mobilization, public expenditure and financial management, budget execution as well as fiscal decentralization all contribute towards the macroeconomic objectives of the SNDP and Vision 2030. Furthermore, enhanced financial management systems and standards promote good corporate governance practices in the public service, and therefore strengthen state legitimacy and enhancement of democratic structures in Zambia.

The ten components of the PFM reform strategy (2013-2015) were identified on the basis of a comprehensive consultation process and experiences with such reforms in the past, and the issues raised and included in the strategy are the agreed priorities for Zambia. The specific institutions responsible for the identified reform areas designed their implementation plans for the coming years based on the GRZ objectives, existing priorities and realistic timeframes. This approach adopted for the Zambian PFM reform strategy therefore is one based on the demand and needs identified by the Zambian stakeholders. The approach used in designing the strategy was based on Zambian experiences, the need to finalize on-going reform processes and the urgency for further improvements that are required for enhancing public financial management in the country. The ten components and responsible lead institutions for the PFM reform strategy are shown in Table 1 below:

Table 1: The Ten Components of the PFM Reform Strategy

	Name of Component	Lead Institution/Department
C1	Integrated Planning and Budgeting	NPD, BO (Ministry of Finance)
C2	Debt Management	IDM (Ministry of Finance)
C3	Government Investments	IDM (Ministry of Finance)
C4	Domestic Revenues	ZRA, BO, Accountant General
C5	Fiscal Decentralization	BO, MLGH (Decentralization Secretariat)
C6	IFMIS and Cash Management	IFMIS Project / Accountant General (Ministry of Finance)
C7	Public Procurement	Zambia Public Procurement Authority, Zambia Institute of Purchasing and Supplies
C8	Enhanced Internal Audit and Control	Internal Audit (Ministry of Finance)
C9	Monitoring and Evaluation	M&E Department (Ministry of Finance)
C10	Restructuring of Ministry of Finance	HRA Department (Ministry of Finance)

5 CHAPTER 1: INTRODUCTION

5.1.1 BACKGROUND

Public Financial Management refers to the legal and institutional framework for supervising all phases of the budget cycle, including formulation and preparation of the budget, budget execution and expenditure management, internal controls and audit, procurement, monitoring and reporting arrangements, and external oversight and audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective delivery of public services. A solid and strong PFM system, thus, provides a framework through which it's possible to reduce and avoid wastage in the use of public resources, and ensure that public funds are used appropriately for the intended purpose.

The design of this Public Financial Management (PFM) reform strategy for 2013-2015 is based on an assessment of reforms to date; the PEMFA Programme Evaluation, August 2010; the 2010 PEMFA Secretariat Exit Report, April 2011; the Public Expenditure and Financial Accountability (PEFA) Assessment and Update Report, June 2008, and consultative meetings with key PFM stakeholders. Necessary and close linkage with other public sector reforms currently implemented, like decentralization, have been established in order to ensure synchronized and smooth processes heading to the same direction. In addition, the results of the PEFA Report 2012 were also used to inform and foster the implementation of the specific reform areas and respective work plans, as well as strategic plans of the involved public institutions. Based on the recommendation of the Cabinet, special activities have been identified and incorporated for strengthening local government auditing function.

The approach to the design of the strategy is therefore one **based on the Zambian experience** from the past, **existing priorities**, previous and **on-going reform processes**, and **additional action needed** as defined in the respective participating institutions' strategic plans. Additionally, a response to the demands for PFM reform in various areas, as identified by key stakeholders, was also utilised. Furthermore, the Sixth National Development Plan (SNDP) also provided areas under which reforms were deemed necessary.

5.1.2 ACHIEVEMENTS IN PFM FROM EARLIER REFORMS

The Government has since 2005 been undertaking reforms under the auspices of the PEMFA programme. The programme had thirteen components, for which a number of achievements were recorded. These included:

- Initial attempts to strengthen the linkage between the annual budget and medium and long term development plans through the Constitution of Zambia (Amendment) Act, 2009, that changed the budget cycle. The Amendment provides for the budget for the next financial year to be laid before the National Assembly, not later than the second week of October. As a result of this Amendment, programme implementation is now undertaken over a full calendar year beginning 1st January, as opposed to the previous arrangement where the budget was approved in February leaving only nine months for programme implementation.
- Establishment and initial development of socio-economic simulation model ZAMMOD, which has allowed for improved data analysis and planning, observable in the improved

quality of macroeconomic and fiscal frameworks used in the preparation of annual budgets and medium-term planning documents (MTEF, NDP), whereas further development and expansion of the model as well as continued capacity development measures have been bilaterally supported through Germany, GIZ;

- Consolidation and further development of the MTEF and ABB, which were put in place prior to PEMFA;
- The efficiency of the Auditor General has markedly improved. Supported through the PEMFA programme and bilateral long-term assistance arrangements (Norway), the Office of the Auditor General has been decentralizing, and its capacity has been enhanced. This has resulted in more timely provision of reports of the Auditor General to the National Assembly;
- Significant progress with regards the public procurement: The Public Procurement Act was enacted into law through a statutory instrument in December 2008, and the Zambia Public Procurement Authority (ZPPA) was established.

5.1.3 CHALLENGES FROM EARLIER REFORMS

In spite of the achievements that GRZ has attained over the years to improve the performance of its PFM system, some challenges still remain and therefore, there is need for continued efforts to further strengthen the system and allow for sustainable change. The key studies that have identified these areas include the PEMFA Programme Evaluation, August 2010; and the Public Expenditure and Financial Accountability (PEFA) Assessments of 2008 and 2012. Also, the involved institutions and members of the PFM Technical Committee (TC) have elaborated and documented additional challenges, based on their own experiences, during the preparation process of the PFM reform strategy. The key challenges identified include:

- Introduction and utilization of IFMIS has not been fully achieved. The implementation of the IFMIS system experienced many problems and setbacks especially in the introduction phase;
- The annual budgets and MTEF are not yet fully reflecting the priority programmes for national development as stated in the national development plans or sector strategies. Also, the legal framework to ensure programme or performance based budgeting has not yet been established;
- Whilst there has been some useful and important progress in some key areas of debt management, the PEFA indicators do not provide any evidence for improvements in its sustainability;
- There has been only little evidence of progress regarding improvement of internal audit related PEFA scores. In order not to lose momentum, the on-going reforms and changes should be continued and intensified, and the internal audit function further strengthened. It was further observed that there is non-response to audit queries;
- There has been insufficient leadership by the senior management of Government to implement the activities of the PEMFA programme. PEMFA was strongly considered a donor programme, driven by the interests of external stakeholders instead of domestic necessities to improve the overall fiscal discipline and allocation of resources to priority needs in order to achieve efficient and effective delivery of public services;
- In assessing the situation ex-post, the involved GRZ institutions have indicated lack of ownership from implementers caused by a mismatch between CPs' positions and implementers' expectations as well as lack of capacity (low staffing, poor technical skills, inadequate equipment) and resistance to change as major difficulties in the process;

- Lack of consensus by donors, complicated planning procedures, tedious procurement procedures, unclear guidance and delays in approval of work plans caused significant delays in budget releases and, respectively, in the implementation of the planned activities. Variations between the estimated budgets and approved ones also negatively impacted the progress of the reforms, and lack of involvement of relevant stakeholders in the planning phase.

5.1.4 FURTHER SURROUNDING FACTORS

Additionally, progressing implementation of other public sector reforms require concerted action and further reform steps in the area of public finances. In the advancing process of decentralization, the capacities of local level administration must be enhanced regarding cash management and financial management, procurement, auditing, M&E and budgeting, among others. Moreover, the financial sustainability and independence of the local level government must be ensured in order to devolve central functions of Government. Furthermore, in the strengthened attempts to broaden the tax base to ensure sufficient public funding and become independent from external development assistance, Government must be able to enhance domestic revenue collection. Core activities regarding these areas have been included in the new strategy.

To enable evidence-based planning and decision making in the use of public finances and respecting all budgetary allocations, strengthening and establishing an appropriate monitoring and evaluation system (incl. adequate management information systems to deliver data and information in timely manner) has become increasingly important, too. Improvements with regards economic management, revenue mobilization, public expenditure and financial management, budget execution as well as fiscal decentralization will all contribute towards better achievement of macroeconomic objectives, as defined and agreed upon in the SNDP and Vision 2030. Improved system of public finances has a positive impact on the poor, too, through more efficient service delivery. Additionally, enhanced participation, ownership and transparency will strengthen state legitimacy and enhancement of democratic structures within Zambia.

6 CHAPTER 2: REFORM STRATEGY

6.1 PFM REFORM STRATEGY APPROACH

The PFM reform strategy for Zambia has applied a holistic, systemic view of the public financial management system in order to consolidate macroeconomic stability, one of the key objectives in the Sixth National Development Plan (SNDP). Structural reforms under the Public Sector Reform Programme are largely focused on the creation of more fiscal space, the improvement of public expenditure and financial management, improvement of tax administration and the expansion of the tax base. Improvements with regards to economic management, revenue mobilization, public expenditure and financial management, budget execution as well as fiscal decentralization all contribute towards the macroeconomic objectives of the SNDP. In addition enhanced financial management systems and standards promote good corporate governance practices in the public service. Furthermore, improved system of public finances enhances accountability in the use of public resources in Zambia.

The PFM reform strategy is needed to further improve government's capacity and systems to utilize public funds towards meeting the growth and employment targets for the medium term, and ultimately those of Vision 2030, which is to be a prosperous middle income country. This will require building human resource capacity, putting in place modern and effective systems and procedures for effective financial management and reporting, strengthening institutional framework for the PFM in accordance with international best practices. The PFM reform approach adopted by the Government is 'strengthened approach to supporting PFM reforms', which consists of three main elements: Country-led PFM reform strategy and realistic implementation plans (underpinned by Government led objectives and financing, annual work plans, M&E framework); Coordinated donor multi-year programmes and budgets that deliver the support needed in timely manner and is aligned with Government's PFM reform strategy and identified needs; and Common information pool (M&E reports, PEFA assessments).

The theme of the reforms is to accelerate the implementation of PFM reforms in order to improve service delivery to Zambian citizens. In line with the SNDP, an "Enhanced PFM System" is one which is efficient, effective, and transparent and one which "reduces opportunities for corruption." The ultimate goal therefore, is to ensure efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. This requires strengthening all key components of the PFM system, from the revenue collection and mobilization through the credibility of the budget to internal and external controls, procurement, accounting and monitoring and evaluation, all implemented within a medium term time horizon. The most urgent reform measures have been included in the PFM reform implementation plans.

6.2 GUIDING PRINCIPLES FOR THE REFORM STRATEGY

6.2.1 Key Principles Followed in the Design of the Strategy

In developing the PFM Reform Strategy, the principles that were followed in the process of developing the strategy, were informed by lessons learnt so far including the successes and

challenges that have been encountered by the Government in earlier reforms. The principles include:

6.2.1.1 Political Leadership

Government is committed to further reforms and has provided effective political will and leadership, and will continue to do so. Since the functional managers cannot drive these changes on their own and several ministries and levels of government are involved, the success of the PFM reform strategy requires unambiguous and vigorous political championship and leadership at the highest levels of the government administration. The Zambian Government has shown considerable championship through the Secretary to the Treasury taking responsibility for heading the development of the PFM reform strategy and Cabinet approving the principal areas for the PFM reform strategy.

6.2.1.2 Comprehensiveness of the PFM Reform Strategy

The PFM reform strategy includes key components of the PFM system as well as the cross-cutting issues related to capacity building, public procurement, and internal controls and audit among others. The design of the reform strategy is based on a holistic, comprehensive approach to cover all the dimensions of public financial management rather than a multitude of separate reform efforts in form of action plans for different aspects of PFM and the different departments involved. Therefore, the strategy consolidates and co-ordinates the different reform components, which is reflected by the joint planning approach bringing together government officials from all responsible institutions and departments identifying the linkages, dependencies and synergies. Also the reform progress will be jointly reviewed.

The approach puts emphasis on the management of various linkages and dependencies between the PFM reform components for greater impact and for better management to achieve success in the implementation of the PFM reforms. The comprehensive approach helps to build awareness and responsibility in the PFM system of the linkages which exist, and the joint responsibility for the performance and end results of the system.

6.2.1.3 PFM Oversight and Management Arrangements mainstreamed within existing GRZ structures

The successful implementation of the PFM reform strategy requires clearly scheduled and synchronized implementation plans, for all the components identified within this strategy. The institutional set-up will as far as possible build on existing organizational structures of GRZ. The PFM reform strategy will not be treated as a stand-alone project using own organisational arrangements, but rather as a reform process implemented through and within existing responsibilities and structures, and following existing reporting lines. This means effectively that the Secretary to the Treasury is overall responsible for the implementation of the reform, who in turn reports to the Public Sector Reform Programme Steering Committee, which is responsible for all structural reforms in the public sector and monitors their progress.

For the daily work – planning and implementation of activities, ensuring progress; coordination and communication between the involved institutions – component managers will be responsible. The component managers are the responsible Directors of the lead institutions or

departments. Putting them at the forefront of the reforms rather than setting up an independent secretariat outside government structures ensures the implementation of the PFM reform activities as part of the departmental / institutional priorities. The performance monitoring of the components as well as the overall coordination of the PFM reform is the responsibility of the Accountant General. Cross-MPSA reform taskforces should be established on an ad-hoc basis to deal with specific PFM outputs under the overall stewardship of MoF (Accountant General). The use of existing GRZ structures and improved coordination both logistically and conceptually ascertains that links and dependencies between components are recognized and addressed. Effective coordination of the reforms is an important consideration to ensure that greater impact can be realized and the PFM reform outputs are achieved efficiently and effectively.

6.2.1.4 PFM Reform Measures Derived from Strategic Plans and On-going measures

The implementation plans have been designed and issued by the responsible institutions and departments. They are based on the existing priorities and strategic plans, Government's understanding of necessary steps to improve the PFM system, and realistic time frames. The estimated budgets indicate external funding requirements where necessary, but are predominantly based on GRZ own allocations. Any external support, technical or financial, must be aligned with Government priority measures as defined in the implementation plans.

6.2.1.5 Close Linkages with Other Public Sector Reforms

The PFM reform strategy is implemented in close coordination and collaboration with other public sector reform programmes. Especially, the linkages with structural reforms related to decentralization are important and synchronizing the activities necessary.

6.2.1.6 Use of Principles of Paris Declaration in supporting the PFM Reform Strategy

Any support delivered to the implementation of the PFM reform strategy must comply with the principles of Paris Declaration on Aid Effectiveness, which was signed by all the Cooperating Partners organized under OECD. The Paris Declaration on Aid Effectiveness is considered a key point of reference for efforts to make aid more effective. It aims to expedite achievement of the Millennium Development Goals (MDGs) by raising the effectiveness of international development cooperation, and is based on five core principles: ownership, alignment, harmonisation, managing for results and mutual accountability. In Zambia, these principles have been implemented fairly well in the past. The ownership of GRZ for this PFM reform strategy is high, as expressed also in principles 1,3 and 4 above, and Zambia's leadership must be respected by the Cooperating Partners (CPs) supporting the strategy implementation. The assistance should be clearly **aligned** with the objectives and programmes of the strategy as documented in the implementation plans, and GRZ systems and procedures be used to procure goods and services related to the strategy implementation. The support should be delivered in harmonized and well-coordinated manner and the PFM reform strategy monitoring and reporting system be used for reporting purposes in order not to increase GRZ reporting burden. Respective CP working groups, like the PFM CP group and its thematic sub-groups, should be used to coordinate the technical and financial support measures. The template for the implementation

plans, which incorporates also the contributions of external support, will be used to monitor and manage the results and to enhance mutual accountability.

6.3 COMPONENTS OF THE REFORM, THEIR OBJECTIVES AND CORE PROGRAMMES

6.3.1 REFORM COMPONENTS

The public financial management reforms are to be implemented in ten components (see Table 2). For each component, a number of key objectives have been agreed. The objectives are derived from the SNDP as well as from the strategic plans of the various institutions involved in the reform process, mainly the Ministry of Finance (MoF), Ministry of Local Government and Housing (MLGH/Decentralization Secretariat), Zambia Revenue Authority (ZRA), the Zambia Public Procurement Authority (ZPPA) and Zambia Institute of Purchasing and Supplies (ZIPS). This deliberate approach was to avoid introducing new objectives for the components as these have already been identified by the responsible Government institutions. A further point to note is that having implemented PFM related reforms in the past, since 2005 under the PEMFA auspices, most of the reform measures are largely on-going activities. Where these have not been identified, inclusion of the measures is on the basis of needs assessment undertaken in the preparatory phase of the strategy.

Table 2: Ten components of the PFM reform strategy

	Name of Component	Lead Institution/Department
C1	Integrated Planning And Budgeting	NPD, BO
C2	Debt Management	IDM
C3	Government Investments	IDM
C4	Domestic Revenues	ZRA
C5	Fiscal decentralization	BO, MLGH (Decentralization Secretariat)
C6	IFMIS and Cash Management	IFMIS Project / Accountant General
C7	Public Procurement	ZPPA, ZIPS
C8	Enhanced Internal Audit and Control	Internal Audit
C9	Monitoring and Evaluation	M&E Department
C10	Restructuring of Ministry of Finance	HRA Department (MoF)

6.3.2 OBJECTIVES AND CORE PROGRAMMES OF THE COMPONENTS

The objectives, core programmes with activities, outputs and milestones, where seen useful by the components, are all documented in the implementation plans attached to this strategy document and shall not be repeated here. The implementation plans additionally include budgetary needs (GRZ and external funding), planned start and end dates for the activities, column for dependencies between the programmes and activities, and for risk to achieve the objective (Annex 1 to the strategy). The outcome indicators to measure results and progress are included in the M&E framework of the strategy as Annex 2.

6.3.2.1 Component 1: Integrated planning and budgeting

Objective of the component: To improve the development planning and budgeting processes to enhance the development and service delivery impact of the public sector. Core programmes include:

- Development of the Planning and Budgeting Legislation
- Designing of the change process
- Capacity building on all administrative levels to ensure compliance to Planning and Budget Act
- Development of the Manuals (Planning, Budgeting, M&E)
- Sensitization on Budget and Planning Act and its impact on processes.

6.3.2.2 Component 2: Debt Management

Objective of the component: To efficiently manage public debt in order to meet in a timely manner Government's financing needs at minimum cost and acceptable degree of risk. Core programmes include:

- Public Debt Management Strategy
- Development of the debt policy
- Maintain debt at sustainable levels
- Development of Public debt management procedures manual
- Review and harmonisation of debt laws
-
- Reorganisation of Investment and Debt Management Department
- Development of guidelines for contingent liability management (on-lending, issuance of guarantees, parastatal debt and contingent liabilities)

6.3.2.3 Component 3: Government Investments

Objective of the component: "To effectively manage investments in State-owned enterprises in order to maximize returns on Government investments". Core programmes include:

- Government Investments Portfolio Management
- Improved corporate governance and increased efficiency in the management of SOE's
- Development of SOE policy
- Development of legal framework for management of SOE
- Development of a comprehensive database on SOE's and grant aided institutions
- Monitoring and evaluation mechanisms for SOE's and grant aided institutions developed
-

6.3.2.4 Component 4: Domestic Revenues

Objective of the Component: To Optimize revenue collection, enhance the professionalism and productivity of the workforce; and develop and improve infrastructure. Core programmes include:

- Enhancing electronic applications and tax administration
- Improve compliance
- Strengthen taxation related capacity
- Expansion and modernisation of Chelstone Training Centre
- Upgrading existing office infrastructure
- Expanding tax base
- Enhancement of non-tax revenue collection

6.3.2.5 Component 5: Fiscal Decentralization

Objective of the Component: “To put in place a comprehensive and transparent transfer and reporting mechanism, and to deepen the policy of fiscal decentralization as a means of improving service delivery by the local authorities”. Core programmes include:

- Harmonisation of the Local Government Act with the Public Finance Act, 2004
- Development of a detailed procedure for inter-governmental fiscal transfer.
- Capacity building of local authorities (Change Management)

6.3.2.6 Component 6: IFMIS and Cash Management

Objective of the component: “To enhance financial management systems and standards in order to promote good financial management and corporate governance practices in the public service”. Core programmes include:

- Establish Treasury Department
- Treasury Single Account Implemented
- Cash Flow Forecasting
- Banking Relationships
- Expand coverage of TSA
- Conduct General standard course on public financial management for accountants and internal auditors in both central and local government
- IPSAS adopted by the GRZ (Modified cash basis IPSAS by 2020)
- IFMIS implementation central government
- IFMIS implementation in the Local Government

6.3.2.7 Component 7: Public Procurement Reforms

Component 7 has two objectives as follows:

- (i) To strengthen ZPPA's oversight and regulatory role in public procurement
- (ii) To strengthen ZIPS capacity to establish and maintain quality standards of purchasing and supply professionals. Core programmes include:
 - Strengthening Procurement management in specific Sectors and ZPPA
 - Strengthening of ZPPA and promoting policy reforms
 - Introducing Information Technology in the procurement systems (e-GP)
 - Introducing Social Accountability in procurement monitoring, communication and behavioural change

- Enhancement of ZIPS Institutional Set up and legal framework review Education Programme Development and implementation

6.3.2.8 Component 8: Enhanced Internal Audit and Control

Objective of the component: To strengthen internal control systems in order to promote transparency and accountability in the use of public resources. The programmes to achieve this objective and to enhance the Internal Audit function include:

- Alignment of internal audit work to International Auditing Standards and Development of the curriculum for the Public Sector Internal Auditors;
- Introduction of internal audit quality assurance systems;
- Strengthening the value of internal audit;
- Introduction of risk management framework;
- Introduction of the specialised audits.
- Strengthening of Audit Committees in the Public Sector
Implementation of the recommendation from the consultancy on institutional review of internal audit (i.e Roll out the use of ACL to other MPSAs, training and Purchase of equipment)

6.3.2.9 Component 9: Monitoring and Evaluation

Objective of the component: “To strengthen monitoring and evaluation systems in order to provide evidence-based development planning, budgeting and programme implementation”. Core programmes include:

- Establishment of M&E functions in all MPSA's
-
- Development of the MIS
 - Define requirements for Management Information System
 - Develop Master Project Plan and Budget plan for the MIS
 - Implementation of MIS in 4 key MPSAs and MoF
 - Implementation of MIS in 5 further MPSAs
 - Implementation of MIS in 6 further MPSAs
- Budget Execution Monitoring Implemented

6.3.2.10 Component 10: Restructuring of Ministry of Finance

The objective of the component is “To optimize the organizational structure of Ministry of Finance to ensure efficient work processes and service delivery against Ministry of Finance mandate and strategic objectives”. Core programmes include:

- Situational Assessment of the Ministry
- Process mapping
- Development of a new structure

- Development of Implementation Plan & communication strategy
- Ministerial reorganisation (introduction of new structure, review of job description, staff placement and reorientation)
- Monitoring and evaluation of the operationalization of the structure

6.4 SUMMARY OF INDICATIVE BUDGET AND PROPOSED FINANCING

Based on the key programmes and activities to be conducted in order to achieve their objectives, the components' implementation plans indicate the following tentative budgets for the next three years. The annual funding needs are included in the detailed implementation plans:

Table 3: Summary of indicative budget and proposed financing

COMPONENT	TOTAL INDICATIVE GRZ BUDGET (ZMW)				TOTAL INDICATIVE EXTERNAL BUDGET (ZMW)			
	2013	2014	2015	TOTAL	2013	2014	2015	TOTAL
INTEGRATED PLANNING AND BUDGETING	6,203,214	8,000,000	-	14,203,214	100,000	5,000,000	5,100,000	10,200,000
DEBT MANAGEMENT AND PUBLIC INVESTMENTS (IDM)	2,544,464	2,750,000	2,650,000	7,944,464	2,510,345	1,555,019	1,394,636	5,460,000
DOMESTIC REVENUES (TAX AND NON TAX)	29,396,934	50,857,446	3,428,391	83,682,771	68,609,512	18,261,783	586,986	87,458,280
FISCAL DECENTRALIZATION	-	-	-	-	-	2,839,200	6,246,240	9,085,440
IFMIS AND CASH MANAGEMENT	27,517,087	27,089,731	26,844,731	81,451,549	15,819,116	31,049,050	7,404,234	54,272,400
PUBLIC PROCUREMENT (ZPPA,ZIPS)	4,008,300	12,048,000	11,401,650	27,457,950	15,543,532	4,700,449	1,727,059	21,971,040
ENHANCED INTERNAL AUDIT AND CONTROL	880,000	1,088,000	1,064,800	3,032,800	1,871,600	1,716,700	3,621,000	7,209,300
MONITORING AND EVALUATION	3,560,000	2,250,000	1,200,000	7,010,000	1,689,331	1,119,673	931,096	3,740,100
RESTRUCTURING MINISTRY OF FINANCE	-	-	-	-	350,000	125,000	1,350,000	1,825,000
TOTAL	74,109,999	104,083,177	46,589,572	224,782,748	106,493,435	66,366,874	28,361,251	201,221,560
AMOUNT IN US\$ @K5.50/\$1				40,869,591				36,585,738

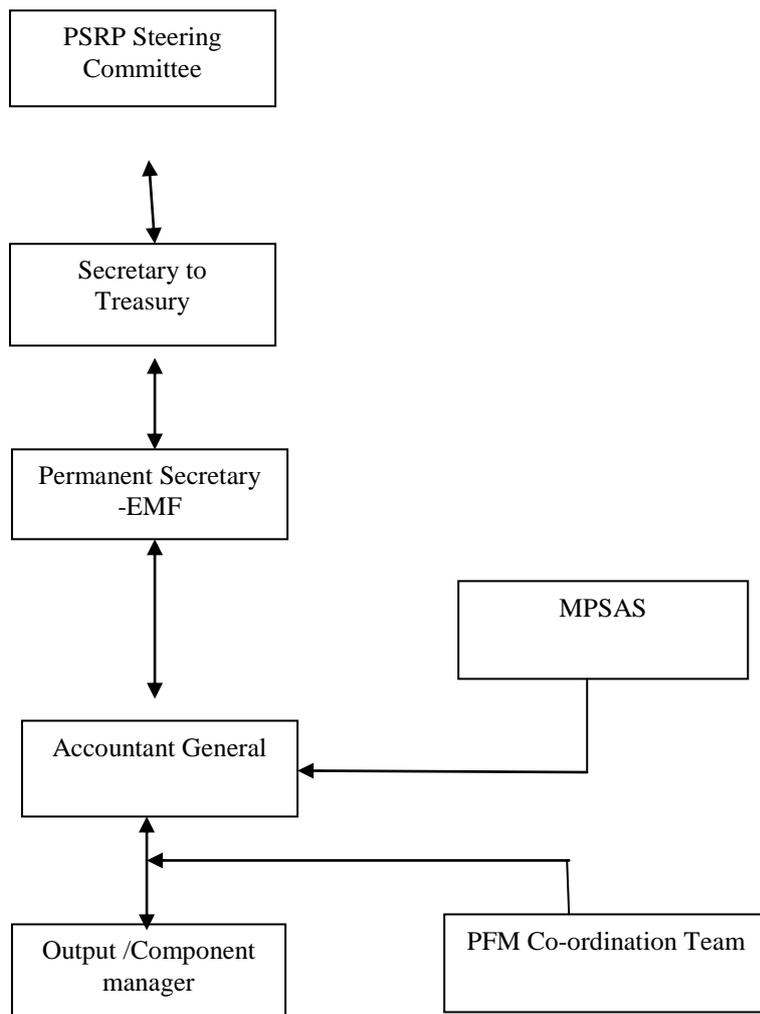
7 CHAPTER 4: STRATEGIC IMPLEMENTATION FRAMEWORK

7.1 INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

The successful implementation of the PFM reform strategy requires that activities are initiated and commence early in the implementation period. This means that as far as possible existing structures will be used in implementation and monitoring and evaluation of the strategy for purposes of mainstreaming and strengthening the reforms and ensuring their sustainability. The PFM reform strategy should not be treated as a stand-alone project using own organisational arrangements, but rather as a reform process implemented through and within existing responsibilities and structures, and following existing reporting lines.

The main institutional arrangements for the PFM are as follows:

Figure 1: PFM Oversight and Management Arrangements



Some of the components necessitate external technical and/or financial support to implement the activities as planned. The management arrangements regarding the external support programmes will be agreed upon with the support providers. Secretary to the Treasury (ST) is overall responsible for the implementation of the reform, which in turn is monitored by the Public Sector Reform Programme Steering Committee. On behalf of the ST, Accountant General will be responsible for monitoring the performance of the components and for the overall coordination of the PFM reform. Cross-MPSA reform taskforces will be established on an ad-hoc basis to deal with specific PFM outputs under the overall stewardship of MoF (Accountant General). For the daily work – implementation of activities and ensuring progress, coordination, communication between the involved institutions etc. – the output / component managers will be responsible. They plan, manage and monitor their respective components and ensure that sufficient financial resources are available in timely manner. Specific TORs will be drafted for these functions.

Component objectives, outputs and core activities have been defined in the respective implementation plans. The implementation plans also include timeframes and estimated budgetary contributions from GRZ and external supporters, and allow for easy progress monitoring. Also possible risks for the output achievements are stated in the plans.

7.2 MONITORING AND EVALUATION

The Monitoring and Evaluation (M&E) framework for the PFM reform strategy and its implementation will utilise the existing Monitoring and Evaluation systems and instruments. A framework for monitoring and evaluation of the PFM reform strategy has been issued. While the framework makes a clear distinction between monitoring and evaluation, it also recognises the two as complementary parts of an integrated system, aiming at controlling and determining whether planned activities are being implemented as planned (the monitoring part) and an assessment of whether or to what extent the objectives of the programme have been or are being achieved (the evaluation part). The framework defines monitoring as ‘management’s continuous examination of progress made during the implementation of an undertaking to track compliance with the plan and to take necessary decisions to improve performance’, whereas evaluation is seen as the process of determining the relevance, effectiveness, efficiency, impact and sustainability of the interventions, which in turn form basis for adjustment or redesign of reform strategies or even change of policy direction if need be.

The framework proposes progress monitoring at activity level to be done on a monthly basis; output monitoring to be done on a quarterly basis whilst evaluation should be done on an annual basis. While activity progress reports consist of the recording of activities implemented against planned activities for the period, output monitoring reports should provide brief narratives of achievements against planned outputs for the quarter. Both reports follow the structure of the implementation plan template and should report strictly against the outputs and activities set out in the plan. Outputs achieved and activities carried out outside the work plan should also be reported as achievements outside the work plan.

While the immediate responsibility for activity and output reporting rests with the various component managers or reform taskforces if in place, the Monitoring and Evaluation Department, MoF, will compile the consolidated monthly progress reports for all reform interventions and outputs as has been the case respecting the PEMFA programme. The template for MoF Monthly Performance Report shall be used.

The compilation of the consolidated narrative output report will also be the responsibility of the M&E Department based on specific inputs from the component managers and taskforces. The template for Quarterly Government Performance Monitoring shall be used in order to reduce reporting burden and to avoid duplication of efforts. The annual review/evaluation will be published as a part of the Annual Progress Report of SNDP (APR). The full M&E framework is part of this document.

7.3 CHANGE AND RISK MANAGEMENT

The existing Change Management Policy for GRZ will be utilized to ensure smooth and sustainable changes throughout the PFM reform strategy implementation. Capacity building measures for component managers will be included in the implementation plans, where necessary, to ensure that they possess the necessary skills and techniques to perform individual counselling and coaching related to the changes introduced.

Introduction of risk management and development of respective GRZ Risk Management Policy is one of the core programmes and tasks of the Office of the Controller Internal Audits. The

process to sensitize GRZ institutions on the importance of risk management and to develop a suitable risk management policy and framework for Zambia has commenced, and further measures and activities have been included in the Internal Audit and Control PFM reform implementation plan. It is expected, that the responsible leading institutions will introduce an appropriate risk management framework for their components in due cause. Costing!

7.4 RISKS TO THE ATTAINMENT OF THE PFM REFORM OBJECTIVES

In the process of designing and issuing the implementation plans, most of the PFM reform components included a number of risks for the attainment of their objectives. Furthermore, the PFM Technical Committee (TC) defined key risks – internal and external – for the achievement of the overall goals and objectives of the PFM reform strategy, and elaborated mitigating measures and strategies to avoid them. The key internal risks can be classified as political or operational. The major political risks include lack of political will, lack of sufficient information and unclear communication structures with respect to the public financial management reforms. The major internal risks of rather operational nature include issues related to high turn-over (incl. cases caused by HIV/AIDS and other diseases), changing structures and responsibilities, lack of capacity and insufficient human and financial resources, insufficient assets, poor appreciation of the PFM reforms and reforms in general, unclear or bad coordination of the reforms, lacking culture of change and life-long-learning and not existing change management strategy.

The external risks include environmental disasters and unfavourable economic conditions as well as factors related to the financing modalities and mechanisms with regards to the support from the cooperating partners (CPs). CP conditionalities, inconsistencies in the support, poor communication as well as lack of harmonization amongst the CPs have been mentioned as risks to achieve the expected targets.

In order to oppose, avoid and mitigate these risks, the following measures and strategies could be used:

With regards the political will and insufficient information, focussed sensitization of the political leadership should take place. Furthermore, informing and involving the media better in the implementation process will contribute towards increased awareness and enhanced level of information. For this reason a communication strategy will be designed and implemented addressing GRZ internal as well as external stakeholders.

With regards the operational risks related to successful implementation of the PFM reform strategy as well as achieving its targets, several approaches will be used.

- Implementation of the pay reforms, as planned, and implementing HIV/AIDS and health programmes in the involved institutions in order to avoid high turn-over;
- Adapting fast to any changes in responsibilities, structures etc. According to the advice and recommendations given in the change management and risk management strategies, which shall be developed for the Government;
- With regards lack of capacity and insufficient HR and financial resources, capacity development plans should be adopted, training plans implemented and sufficient funding for all the activities related to enhancing capacities ensured;
- All MPSAs should allocate sufficient resources for their PFM reform related activities. The estimates, resource envelope and profiles should include all the foreseen PFM related activities;

- Enhancing efficiency of and capacity on procurement processes;
- Sensitization of stakeholders – name focal point persons as responsible ones for the implementation of PFM reform related activities, and design a sensitization strategy; Develop clear guidelines incl. the respective responsibilities in order to improve appreciation of the PFM reforms and reforms in general;

With regards the external risks and factors, adapting fast to any changes with support of the risk management strategy and change management strategy should be possible in case of natural disasters or economic crises affecting Zambia. According to the support from cooperating partners, several recommendations and strategies have been proposed:

- GRZ should promote coordination amongst the CPs, issue clear communication guidelines adopting best practice of interaction, and remain in the driving seat to steer, implement and monitor the reforms;
- The CPs should adhere to the Joint Assistance Strategy for Zambia II (2011 – 2015), and align to the National Economic Management Cycle (NEMC);
- To ensure predictability of support, all CP support should be included in MPSAs’ plans and budgets.

8 CHAPTER 5: MONITORING AND EVALUATION FRAMEWORK FOR THE PFM REFORM STRATEGY 2013-2015

8.1 Introduction

Government has decided to establish a comprehensive, integrated M&E system to facilitate the monitoring of policies and programme implementation across the entire public service. This will be done by creating a Government Wide M&E (GWM&E) system, which includes formalized and harmonized tools and instruments to collect and collate information. Harmonizing the instruments and templates for M&E will ensure efficiency and reduce reporting burden, and at the same time allow for standardized quality. **Also the reforms related to improving Zambia’s Public Financial Management (PFM) system as one priority area within the Public Sector Reform Programme are being monitored using the same M&E structures and templates.** The M&E framework for the previous PEMFA programme was introduced in 2007 in the form of Performance Assessment Frameworks (PAFs), and the Monitoring & Evaluation Department, Ministry of Finance (MoF), started reporting on PEMFA progress towards the Cabinet in the ‘Monthly Progress Reporting on the Implementation of Key Development Programmes in the Country’, from April 2009. While this significantly improved the information flow to MoF management and Cabinet as far as the implementation of activities against workplans was concerned, no information was provided about achievements and impact against programme objectives and component goals (evaluation).

The M&E framework for the PFM reform strategy 2013 - 2015 builds on the existing GRZ reporting structures and templates, and the lessons learned from the PEMFA programme and the achievements made in respect of M&E to date. Thus, the proposed M&E framework recognises the existing national M&E framework and also envisages the Monitoring & Evaluation Department, Ministry of Finance, to play the key role in the monitoring and evaluation of the implementation of the PFM reforms. An independent mid-term review and post-PFM reform evaluation have been foreseen in addition to the monitoring and evaluation coordinated by the M&E Department. Also, the future Public Expenditure and Financial

Accountability (PEFA) assessments will be used to measure impact whereas the results of PEFA assessment 2012 can deliver necessary baselines.

The results and reports of the PFM reform monitoring and evaluation should be used for all reporting purposes: towards the Zambian Government, the National Assembly, citizens of Zambia as well as any external partners supporting the implementation of the reform agenda.

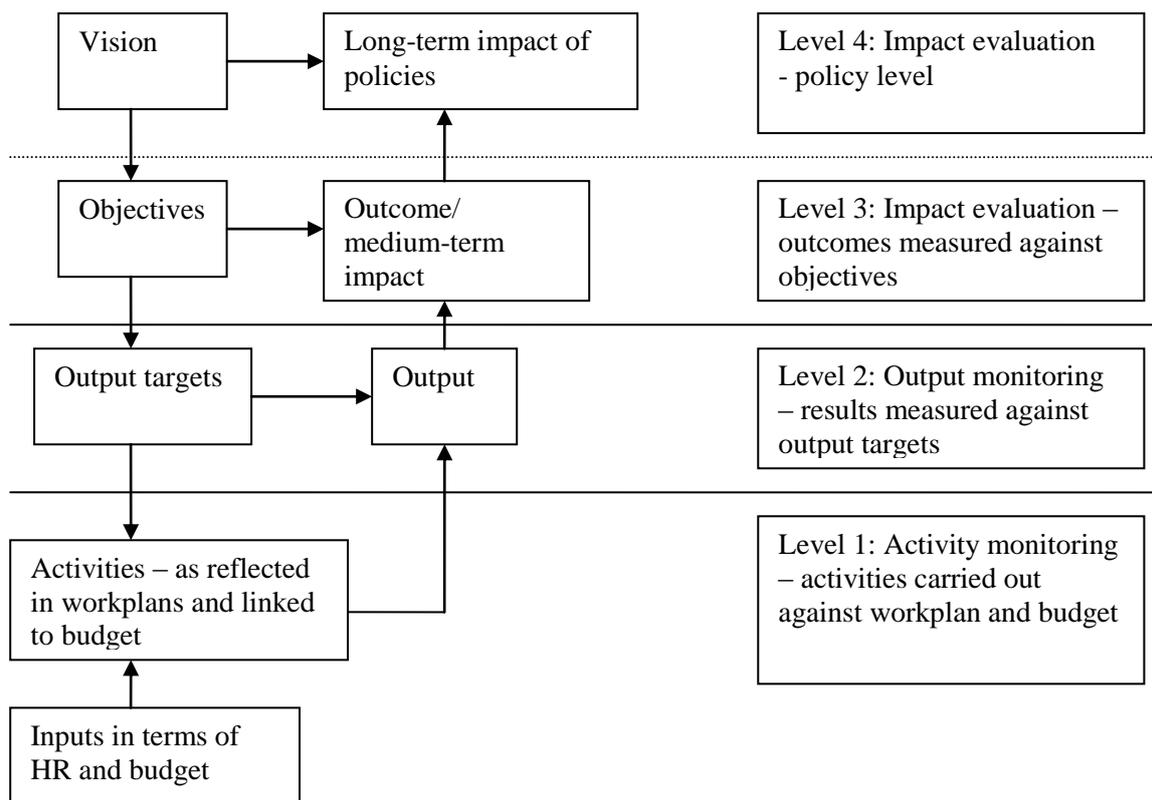
8.2 Conceptual framework

M&E is an integral part of performance management, which in turn forms part of any public sector reform. While different in purpose, scope, and required techniques, monitoring and evaluation in this context are considered as complementary parts of an integrated system, aiming at controlling and determining whether activities are being implemented as planned (the monitoring part) and an assessment of whether or to what extent the objectives of the programme have been or are being achieved (the evaluation part).

While monitoring can be defined as *'management's continuous examination of progress made during the implementation of an undertaking to track compliance with the plan and to take necessary decisions to improve performance'*, the meaning, purpose and scope of evaluation is wider. Evaluation aims at determining the relevance, effectiveness, efficiency, impact and sustainability of the interventions and forms the basis for adjustment or redesign of reform strategies or even change of policy direction if need be. Due to its complexity, evaluation also makes use of more sophisticated methods and tools to establish causal chains, and to determine which factors influence or result in which outcomes.

The PFM reform M&E framework should be easy to understand and simple to apply. Since the reform activities are based on strategic plans of the responsible institutions, national development plan and programmes as well as on-going measures within the reform components, also the M&E framework will use the respective existing reporting structures and instruments. There will be no duplication of reporting, the same template for generating M&E reports will be used for differing purposes. Furthermore, the Implementation Plans were already issued using the same template all the MPSAs have to use for their monthly monitoring purposes starting in January, 2013, and they will be used for the monitoring purposes, too. The framework serves a two-pronged purpose, namely to provide management with regular (monthly) information about progress made against the implementation plans (monitoring) and achievements against set objectives or goals and output targets.

Figure 2 below depicts the interrelationship between a classic performance management model and the associated M&E framework.



The fourth level (vision) is less relevant in the present context for 2013-2015, as it relates to impact evaluation against objectives and long term political targets as set out in the SNDP and Vision 2030. The levels 1-3 are important for the present PFM reforms and their M&E framework. This structure is also in line with the Performance Chain Framework presented in the Monitoring and Evaluation framework of the Sixth National Development Plan (SNDP) developed by the Monitoring & Evaluation Department, MoF.

8.3 Activity and output monitoring

Progress monitoring at activity level will be done on a monthly basis, whereas output monitoring will be done on a quarterly basis. Since the template used includes the outputs as well as the activities, it is up to the individual components to decide which information they need for their own management and reporting purposes. While activity progress reports consist of the recording of activities implemented against planned activities for the period, the quarterly output monitoring reports provide brief narratives of achievements against planned outputs for the quarter as well as information on budgetary releases and expenditure. Both reports follow and use the structure of the implementation plan and report strictly against the outputs and activities set out in the plan. As the template foresees, dependencies between the programmes, activities and outputs can be indicated and risks occurred reported on. Outputs achieved and activities carried out outside the plan can also be reported.

The immediate responsibility for activity and output reporting rests with the various component managers responsible for the daily implementation of the programmes within their components. The Monitoring and Evaluation Department, MoF, will compile the consolidated monthly

progress reports for all reform interventions and outputs. The agreed upon template will be used, which was successfully piloted for MoF Monthly Performance Reporting and is currently being introduced to all MPSAs.

The compilation of the consolidated quarterly narrative outputs report will also be the responsibility for the M&E Department based on specific inputs from the component managers. The format for Quarterly Government Performance Monitoring shall be used in order to reduce reporting burden and to avoid duplication of efforts since PFM reforms belong to the core GRZ reforms and programmes reported on in the quarterly performance report. The same template – used for Implementation Plans already and monthly monitoring – will be used and the information on budget releases and expenditure as well as dependencies between the activities and outputs and risks included.

The results and reports of the PFM reform activity and output monitoring will be used for all reporting purposes: towards the Zambian Government, the National Assembly, citizens of Zambia as well as any external partners supporting the implementation of the reform agenda. The template used incorporates into the budgets the releases and expenditure related to GRZ as well as Cooperating Partners (CPs) funding, so quarterly output monitoring reports can easily be used for CPs purposes, too.

A table on Objectives, output indicators and outcome indicators for all the ten components of the PFM reform strategy is attached as Annex I to this document.

The monthly and quarterly reporting by individual component managers form a basis for the consolidated monitoring reports, which are compiled by the M&E Department. They are forwarded to the Accountant General as overall responsible for the coordination of the reform implementation. The Accountant General reports on the overall progress towards the Secretary to the Treasury, who uses the reports to inform the Public Sector Reform Programme (PSRP) Steering Committee.

8.4 Evaluation

As mentioned above, evaluation of reform is wider than monitoring, as its aim is to provide management with in-depth information regarding the effects or impact of reform interventions against the objectives and output targets set for the reform.

Apart from the PEMFA evaluation, 2010, and the Public Expenditure and Financial Accountability (PEFA) assessments of 2008 and 2012 as well as the on-going FNDP Final Evaluation¹, the impact of PFM reform interventions and activities have not been measured or assessed systematically. While the repeated PEFA assessments provide valuable checks on outcomes and impacts of the reform measures implemented, annual progress reviews will be conducted and included in the Annual Progress Reports (APR) by the Monitoring & Evaluation Department in addition to the monitoring already in place. The future PEFA assessments will be used to measure impact and outcomes of the reform measures stated in the PFM reform strategy

¹ The FNDP evaluation component of “Supportive policy environment” is measuring the impact of selected reform programmes and policies in achieving the FNDP targets of poverty reduction and wealth creation. Following policies and programmes aimed at improving the efficiency and effectiveness of the Public Sector are especially looked at: Private Sector Development Programme, Financial Sector Development Programme, Decentralisation, and Public Expenditure Management and Financial Accountability reforms (PEMFA).

2013-2015 whereas the results of the PEFA assessment 2012 deliver the necessary baselines. If need arises, external assistance will be requested should the exercises exceed existing capacity.

An independent mid-term review and post-PFM reform evaluation have been foreseen in addition to the above mentioned monitoring and evaluation performed and coordinated by the M&E Department. The possibility to include the PFM reform mid-term review as part of the planned mid-term review of the SNDP will be considered as well as including the post-PFM reform evaluation as part of the foreseen SNDP evaluation since PFM reforms build a crucial part of the Public Sector Reforms stated in the SNDP. As is the case with the activity and output monitoring, the results and reports of the PFM reform evaluations will be used for all reporting purposes: towards the Zambian Government, the National Assembly, citizens of Zambia as well as any external partners supporting the implementation of the reform agenda.