THE POWER OF PUBLIC INVESTMENT MANAGEMENT
Transforming Resources into Assets for Growth

COUNTRY CASE STUDY
Zambia: Rebuilding a Broken Public Investment Management System

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2014
This case study is one of a number of country cases in the Public Investment Management Series. The country case studies accompany the volume, “The Power of Public Investment Management: Transforming Resources into Assets for Growth”, World Bank (2014), and apply a common methodology to assess PIM systems globally.
The chapter follows the diagnostic methodology as outlined in Rajaram et al. (2010). The diagnostics is based on interviews, a survey questionnaire with government officials, CSOs, and private sector and desk review of related documents. The paper identifies the weaknesses in processes and institutions that contribute to poor outcomes of public spending. The Government has been conducting a number of reforms in this field, such as overarching public financial management and procurement reforms. However, the public investment management (PIM) remains largely inefficient and certain key functions of project evaluation are missing or in rudimentary forms. To succeed, all the pieces of reforms have to be woven into a coherent framework targeting the weakest links in the PIM system. Multiple factors, including the absence of necessary institutions, unclear institutional mandates, weak capacity, lack of vertical and horizontal coordination, and misaligned incentives drive the inefficiency of PIM. This also implies that pure technical solutions do not guarantee success. As a result this paper suggests that strengthening of the challenge function of the Ministry of Finance in Zambia is critical for better PIM but a gradual, incentive-compatible approach is probably necessary in the current context.

Zambia is a large country with a low-density (13 persons per square kilometer on average) and sparsely distributed population, which is a problem for designing a sound public investment policy. For social cohesion, investments in infrastructure would need to be carried out in numerous remote places, whereas from an economic perspective, these investments can hardly be justified.

Zambia experienced strong economic growth during the period 1999–2009, with real GDP growth averaging 5 percent per annum. However, this did not reach the historical highs of the first decade after independence. In addition, growth has not translated into a significant decline in poverty, especially in rural areas. The 2006 “Living Conditions and Monitoring” survey (CSO 2010) revealed that 59 percent of the population lived below the national poverty line. This is similar to the 58 percent in 2004 but lower than the 67 percent in 1998. Despite this improvement, poverty levels in rural areas remain high, at 77 percent in 2006 and 2004 and 83 percent in 1998 (CSO 2010). In the last few years while urban poverty declined, rural poverty has remained comparatively high.

Since the early 2000s Zambia has been recovering the progress made in the early 1960s to 1970s in school enrollments; maternal mortality; and infant, child, and under-five mortality. Education indicators have improved, with increases in primary school enrollment and declining drop-out rates. The primary completion rate increased to 72 percent in 2005 from 63.6 percent in 2000. Health indicators have also shown some improvement since the early 1990s; both rural and urban infant mortality fell considerably between 1990 and 2000.

However, since the mid-1970s, the gains in social indicators achieved after independence were reversed in line with a decline in incomes. After 1985 the quality of primary education deteriorated significantly. Much of the increase in enrollment had been the result of increased class sizes and double, triple, and quadruple shifts. Maternal mortality worsened during 1996–2002. There has been deterioration in some additional indicators. Access to improved water dropped from 49 percent of households in the early 1990s to around 34 percent in the early 2000s. Similarly, access to improved sanitation dropped to 18 percent of households in the early 2000s, from 27 percent of households in the 1990s. Immunization rates, although good compared to the rest of Africa, appear to be declining.

Since donors have reduced their capital expenditures in the country, Zambia increasingly needs efficient public investment.\(^1\) While domestic financing accounted for one-quarter of public investment in 2005 and three-quarters by donors, by 2009 the situation had almost reversed, with donor funding accounting for less than 40 percent. A greater percentage of capital expenditures are financed domestically than in the past, and this trend is projected to continue.

The recurrent trend in public investment in Zambia is that capital expenditures remain low compared to current expenditures and even wages (see annex 1).\(^2\) The ratio of capital expenditures to current expenditures has decreased significantly recently and was situated at less than 25 percent in 2009. Since resources for capital expenditures seem to be decreasing (or stable recently at approximately 4 percent of GDP) (see annex 2), a goal for the country must be to enhance
efficiency of public spending. Another recurrent trend regarding public investment in Zambia is that the ratio between actual and budgeted expenditures is between 60 and 80 percent for all major sectors except education. This may signal various underlying problems but the absorption challenge of effectively spending the annual allocated budget, especially capital budget, stood out as a major stumbling block to enhancing overall public investment management (PIM) efficiency.\(^3\)

This chapter follows the diagnostic methodology outlined in Rajaram et al. (2010). The assessment covers eight critical stages of public investment management (PIM): investment guidance and preliminary screening, formal project appraisal, independent review of appraisal, project selection and budgeting, project adjustment, facility management, and project evaluation. Box X.1 summarizes the essential features of a good PIM system. The diagnostic is based on both interviews and a survey questionnaire with government officials, civil society organizations, and the private sector, as well as on a literature review of related documents. The research identifies the weaknesses in processes and institutions that contribute to poor outcomes and focuses on the “must have” bare-bones institutional features that would mitigate major risks and provide an effective process for managing public investments.

The Government of Zambia has been conducting a number of reforms, notably public financial management (PFM) and procurement reforms. The most recent, the 2010–12 medium-term expenditure framework (MTEF), reemphasizes the direction for improving public spending through better prioritizing of programs and projects and achieving better “value for money spent.” However, the PIM system remains largely inefficient, and certain key functions of project evaluation are missing or present in rudimentary form.\(^4\) To succeed, all the pieces of the reforms have to be woven into a coherent framework targeting the weakest links in the PIM system. Multiple factors, including the absence of necessary institutions, unclear institutional mandates, weak capacity, lack of vertical and horizontal coordination and misaligned incentives drive the inefficiency of PIM. This also implies that pure technical solutions do not guarantee success. In the current political and institutional setting, a gradual pragmatic approach to PIM reform, including improving the challenge function of the Ministry of Finance (MOF), is probably necessary to make an ultimately beneficial impact.

In Zambia sector ministries are authorized to plan and implement their own sectoral investments. The investments are guided by the National Development Plan, the Medium Term Expenditure Framework (MTEF), and the annual budget. Within the government ministries, the planning departments play a cardinal role in investment planning. There is no challenge system either from the top (MOF) or from within the sectors; project rationale and economic returns are not challenged in general, which may lead to bad project selection. Availability of resources is what normally dictates whether an investment will be made or not. Typical are incomplete investments due to the inadequate capital budgeting process, where resources may be available in one year but would not necessarily be available the next. Apart from major investments, sectors do not systematically carry out detailed analysis (cost-benefit analysis, cost effective analysis) of the investments they make. Coupled with the inability of MOF to play the challenging role, this leads to a proliferation of projects that are incomplete or fail to yield the expected benefits, or simply end up
costing more than budgeted—and the problems are a result of multiple factors, including ubiquitous delays in payments.

The following section summarizes institutional arrangements for capital budgeting and implementation. After that is a thorough assessment of the PIM operations. The chapter concludes with a summary and policy recommendations.

**Current Institutional Framework and Ongoing Reforms**

MOF has two divisions: Financial Management and Administration, and Budget and Economic Affairs (see annex 3). As a central agency, it is responsible for providing guidance for and monitoring the PIM process. However, in practice, the MOF does not play its role adequately. Some recent PFM reforms go in the right direction, but major steps are still needed to improve the current situation. The governance context and political economy of reforms in Zambia might cause weak oversight of the MOF in PIM.

The rebirth of national planning and the consequent establishment of the Monitoring and Evaluation (M&E) Department represent commendable strides forward in PIM. Formally, the department’s mandate has included a wide range of responsibilities for project monitoring and evaluation—particularly, tracking budget execution, monitoring fiscal releases against budget, and identifying actions as necessary to get the budget back on track (MOF 2009) To carry out these mandates, M&E is supposed to coordinate with other major departments in the MOF, specifically, the Budget Office, Accountant General’s Office, and Planning and Economic Management Division (Figure 1.1).
The country has been implementing public sector reforms aimed at building institutional capacity since 1993 with minimal success. These institutional weaknesses impact on the effectiveness of public investment management. The extreme low capacity of the M&E Department, the lack of legal foundations for and a culture of cross-institutional coordination, the absence of a consolidated database of proposed and completed projects, and the missing central guidelines for project appraisal in general, and for ex post evaluation in particular, all contribute to constraints that eventually confine evaluation to a mere ad hoc procedure. The M&E Department’s monitoring reports end up exclusively focusing on measuring and tracking disbursements against the budget allocated to Ministries Provinces and Spending Agencies (MPSAs); they do not present timeliness of implementation, total cost management during construction, or expected benefits of completed projects.5

The recent restructuring of MOF has led to further fragmentation of its planning and budgeting functions, resulting in available staff resources being spread too thinly; for example,
individual analysts in the Budget Office may oversee several major ministries and have very little time available for the analytical tasks involved in the policy-led budget process. Analytical capacities in MOF in some key areas, such as public investment appraisal, are limited. The absence of systems and processes that would guide the functioning of these departments has led to a further weakening of the ministry. The Accountant General’s office is supposed to have information on all public investments made, in progress, or planned; however, such information is not available. Sectors are supposed to maintain their own registers. Nonetheless, their completeness is not verified by an independent internal source. The implementation of an asset management module in the Integrated Financial Management Information System (IFMIS) is intended to address this weakness; in reality, however, that implementation has been delayed.

Zambia has in place a system of oversight institutions with both internal and external checks and balances, instituted by different institutions whose combined role is to ensure that the country has accountable, transparent, and credible institutions that can limit inefficiencies in public spending, thereby making public resources safe from wrongdoing. These institutions have usually failed to fully implement their stated mandate, mainly because some Controlling Officers are functioning at the whim of the appointing authority. This trend has been entrenched since 2003 with the introduction of performance contracts in the Zambian public service. Due to the politicization of the civil service, the sanctioning system is weak and collusion between auditors and controlling officers occurs rather frequently (Mwangala 2010). Governance challenges that have come to light over the years—most recently in the health sector—also explain the lack of progress in implementing changes or reforms to improve service delivery to the public or the failure over the years of the executive branch to follow through on public policy implementation. Political interference during project selection and project management seems to be pervasive in some sectors and could explain the relatively low value-for-money for capital spending.

Patronage and governance challenges do not explain all the problems in the public service, nor the inability of the executive to follow through stated policy priorities. Multiple factors, including the absence of necessary institutions, unclear institutional mandates, weak capacity, lack of vertical and horizontal coordination and misaligned incentives drive the inefficiency of PIM. To succeed, all the pieces of reforms have to be woven into a coherent framework and certain governance reforms have to be undertaken in parallel with technical measures targeting the weakest links in the PIM system.

**Assessment of PIM in Zambia**

The 2011–13 Medium Term Expenditure Framework emphasizes that public investment will target diversification through increased investment in economic and social infrastructures and an improved legal framework for PFM. In recent years, the Government has taken steps to improve public investment efficiency, such as the following:

- As of the middle of July 2013, the Planning and Budget Act was approved by the cabinet and was intended to be presented to Parliament in the current sitting. The Act would
legislate the planning and budget process for the public service and, as such, would tend to enhance the quality of planning and budgeting of capital expenditures.

- Revised development strategies were published and are used as basis for project screening.

- PFM reform, in particular the introduction of the Medium Term Expenditure Framework (MTEF) and Activity Based Budgeting (ABB), has laid the groundwork for linking capital planning and budgeting.

- Procurement reform has been launched. A new Public Procurement Act has been enacted, creating the legal foundation for enhancing quality of procurement to achieve value for money and to mitigate fiduciary risks.

Efforts are being made to streamline facility management—with the first critical step to be toward full accounting and registering state assets, regardless sources of funding.

While scaling up public investment may create opportunities for growth, critical challenges and pressing needs for enhancing quality of PIM remain. The following assessment addresses the existing issues at each of the eight distinct but interconnected stages of the PIM.

**Box 1: Essential Features of a PIM System**

The following elements would minimize major risks and provide an effective process for managing public investments:

1. **Investment Guidance and Preliminary Screening.** A first level screening of all project proposals should be undertaken to ensure that they meet the minimum criteria of consistency with the strategic goals of Government.

2. **Formal Project Appraisal.** Projects or programs that meet the first screening test should undergo more rigorous scrutiny of their cost-benefit or cost-effectiveness. The project selection process needs to ensure that projects proposed for financing have been evaluated for their social and economic value. The quality of ex ante project evaluation depends very much on the quality of the analysis, which, in turn, depends on the capacity of staff with project evaluation skills, as well including that of Chile, indicates that consistent investment in training in project evaluation techniques is an important aspect of an effective PIM system.

3. **Independent Review of Appraisals.** Where departments and ministries (rather than a central unit) undertake the appraisal, an independent peer review might be necessary in order to check any subjective, self-serving bias in the evaluation.
4. **Project Selection and Budgeting.** The process of appraising and selecting public investment projects must be appropriately linked to the budget cycle, even if the project evaluation cycle runs on a different timetable.

5. **Project Implementation.** Project design should include clear organizational arrangements and a realistic timetable to ensure the capacity to implement the project.

6. **Project Adjustment.** The funding review process should have some flexibility to allow changes in the disbursement profile to take account of changes in project circumstances. Each funding request should be accompanied by an updated cost-benefit analysis and a reminder to project sponsors of their accountability for the delivery of the benefits.

7. **Facility Operation.** Asset registers need to be maintained and asset values recorded. Ideally, countries should require their operating agencies to compile balance sheets, on which the value of assets created through new fixed capital expenditure would be maintained.

8. **Ex post Project Evaluation.** Ex post project evaluation of completed projects should focus on the comparison of the project’s outputs and outcomes with the established objectives in the project design. Good practice suggests that the project design should build in the evaluation criteria and that learning from such ex post evaluations is used to improve future project design and implementation.

*Source: Rajaram et al. 2010.*

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**Investment Guidance and Preliminary Screening**

The Government is well aware of the critical importance of investment guidance and the preliminary screening of investment proposals. Formally, the Government published a number of long- to medium-term planning instruments that in turn are used to guide annual budget preparation in general and public investment in particular. Nevertheless, the inadequate quality of such planning instruments, the lack of a key legal framework for PIM, the bureaucratic approach and lack of accountability toward screening project proposals—all combined—effectively dictate the de facto functioning of this first stage of the project evaluation process.

Previously the planning function was undertaken by the National Commission for Development Planning (NCDP), which was headed by a senior permanent secretary. The NCDP was responsible for all planning and for the preparation of the National Development Plans. The commission was discontinued in the early 1990s, as the planning function was transferred to the MOF. However, the planning function was not deliberately integrated into the MOF functions, thus this function has not been implemented properly, especially with the advent of the cash budgeting
process. As the country's fiscal performance improved and the need for planning began to reemerge, MOF prepared the Poverty Reduction Strategy Paper (PRSP) and later the Transitional National Development Plan in 2001. By the time the Fifth National Development Plan (FNDP) 2006–10 was being drafted, the new Planning Department was established at MOF. The new institutional developments are intended to enhance coordination and guidance on public investment processes at the macro level and to foster results-based monitoring of the FNDP and subsequent development plans. At a later stage, the Planning Department was further restructured to include a full division with several departments and was renamed the Planning and Economic Management Division (PEMD) (see annex 4).

The MOF has not been able to effectively exercise its mandates due both to the serious lack of capacity in managing the public investment function and to the absence of transparency and accountability as a result of the absence of a uniform, robust legal framework. There is no law that legislates the planning or budgeting process; instead, call circulars are issued at the beginning of every budget cycle. The absence of such key legislation has led to ambiguity in the entire chain of the project proposal process—from preparation, initial screening, appraisal, budgeting, to implementation and monitoring. The critical stages of the public investment process are managed mainly by the implementing line ministries. In recent years, the Government has introduced various planning instruments, including (1) National Long Term Vision 2030; (2) Transitional National Development Plan; (3) Fifth National Development Plan (FNDP) 2006–2010, a successor to the Poverty Reduction Strategy Paper (PRSP); (4) sector and regional strategies; and (5) the MTEF. The FNDP specifies the strategy and vision for the country’s development for a five-year period and is supposed to anchor the design and preparation of sectors and regional strategies as well as the MTEF. Within this framework the process of project identification relies on a top-down, bottom-up approach, in which the FNDP, sector, and regional strategies are supposed to provide a strategic framework and guidelines for prioritizing public investments, given the resource envelopes estimated in MTEF. While there is an established process for screening project proposals for basic consistency with government policy and strategic guidance, this process has become merely a formal exercise for a number of reasons, including the low quality of the planning and sector strategies.

Although overarching, the FNDP has numerous internal limitations, including the lack of a robust macro-fiscal framework or guidance for sector and regional development policies and strategies. As a result, the strength of the linkage between the FNDP and MTEF on budget widely varies across MPSAs. The sector strategies in general reflect an “optimism bias” and are typically prepared without a coherent link to credible resource estimation. These strategies are broadly defined and overly ambitious, and as such they can easily accommodate any investment proposals and make the prescreening process a simple formal exercise, while the MOF has not been able to develop clear uniform guidance on project identification and appraisal.
Formal Project Appraisal

Two different modalities apply to appraisal of donor-financed and government-financed project proposals. While donor-financed investment proposals follow the donor-specific procedures for project initiation, appraisal, supervision, and monitoring, government-financed projects follow completely different internal procedures. Donor-financed projects are not normally re-appraised by Government, whereas government-financed projects are not subject to a rigorous appraisal process.

The key challenges regarding government-financed projects are as follows: (1) inadequate legal framework and lack of publicized and transparent guidance for project appraisal, and (2) weak institutional capacity and lack of incentives for effective training and deployment of staff to appraisal function.

The whole process of screening and appraisal of project proposals is the exclusive responsibility of Ministries Provinces and Spending Agencies (MPSA). The MPSAs, in turn, generally do not consult with MOF, and are not obliged to obtain the views of MOF on the appraisal process (which is not sufficiently equipped anyhow). Neither the M&E Department nor other departments of the newly established Planning and Economic Management Division have any formal role in providing guidance for MPSAs to carry out systematic ex ante or ex post evaluation of economic and social costs and benefits of proposed projects.

In effect, there is an institutional separation between planning and budgeting on the one hand, and appraisal, implementation, and M&E on the other—such deficiency remains intact despite recent effort to restore the national planning function and to restructure the MOF. Institutional fragmentation of reforms—without support of a new solid legal foundation and commensurate human resource development, including measures aimed at enhancing institutional capacity—seems not to work.

Good practice requires that the Government issues formal and well-publicized guidance on (1) general procedures for formal appraisals that specify the types of proposals subject to rigorous mandatory cost-benefit or cost-effectiveness analyses, and identify appropriate institutional arrangements for the process, and (2) whether the technical aspects of project appraisal are commensurate with the state of technical capacity at MPSAs. In Zambia, there is no such document. Without integrated guidance on PIM and a new law on planning and budgeting, the MPSAs have discretionary latitude to conduct cost-benefit analysis (CBA) or any other types of formal appraisal of project proposals.

Some line ministries formally conduct CBAs for proposed projects that they deem to be significant, producing measurable economic benefits. (For cases where economic benefits cannot be readily measured—typically projects in social sectors like health and education—cost-effectiveness analysis (CEA) is conducted in lieu of CBA.) However, there is neither formal guidance nor a set of thresholds that could transparently and uniformly determine the proposals to be subject to CBA or CEA. The Road Development Agency (RDA) follows the appraisal guidelines of donors engaged in
implementing road projects with substantial investment costs and with almost half of the total financing being sourced from donors. RDA staff conduct CBA for major trunk and main roads where expected traffic is high and it is feasible to estimate their economic benefits.

However, it is still an open question as to both the quality and reliability of such CBA estimates and whether they exert any discernible impact on the final project selection decision. Without central guidance, this process becomes ad hoc, lacking in technical rigor and open to the abuse of rendering an optimism-biased justification to accept economically inefficient, but politically motivated proposals. In CBA, for example, the final appraisal outcomes can be manipulated to go either way, depending on numerous macro and micro project-related assumptions and on the way the shadow price of costs and benefits are estimated. In interviews conducted for this study, a number of government officials acknowledged that the results of CBAs, regardless of their quality, are more often than not overlooked and trumped by political decisions. In addition, there is no mandatory requirement for line ministries to maintain a systematic inventory of their appraised projects. Some sectors have registers of their projects and assets; however, MOF does not have a complete database of this information.

**Independent Review of Appraisal**

To avert the common tendency for optimism bias in project appraisal and to protect the integrity of the process requires a functional mechanism for independent review. This process would be a thorough and objective review of appraisals that would provide recommendations with regard to the following core areas:

- Objectivity and quality of appraisals,
- Disciplined completion of project appraisals prior to budget,
- Systematic maintenance of an inventory of appraised projects ranked by priority for budgetary consideration, and
- Clarity of responsibilities distinguishing between minor projects that may be dealt with at the departmental level, and those requiring substantive justification of an approval decision.

However this independent review function is largely missing from the current appraisal process. A Sector Advisory Group (SAG) has been established, but its responsibility is confined to engagement in group does not deal with the significant independent review tasks listed above.
Box 2: Sector Advisory Groups

The Sector Advisory Group (SAG) is a consultative forum, comprising representatives from key stakeholders active in a particular sector. Stakeholders in SAG include Government, cooperating partners, CSOs and representatives of the private sector. The SAG’s main responsibilities are as follows:

- Review sector performance in relation to the implementation of sector policies and strategies as identified in the FNDP.
- Discuss intrasectoral allocation of resources and related expenditures.
- Make recommendations for the future focus of activities in the sector and on policy reforms necessary during the implementation of the FNDP.
- Ensure that cross-cutting issues are mainstreamed into the sector programs and activities.
- Identify institutional, legal, and administrative frameworks for effective and efficient implementation of sector programs.

*Source: MOF 2009c.*

Budgeting and Project Selection

The isolation between budgeting and project selection is the Achilles’ Heel in the Zambian PIM system. Though the introduction of the medium-term expenditure framework (MTEF) represents one of the biggest strides in public financial management—contributing to progress in matching resource potential and capital spending planning—a number of critical issues remain. These issues are as follows:

1. The quality of MTEF still needs to be improved; the MTEF and other capital planning instruments (such as the NDP) require a stronger macro-fiscal framework and realistic fiscal forecasts.⁸

2. The disconnection of the MOF from project planning and evaluation conducted at MPSA’s level tends to break the link between the budget cycle and the specific project appraisal and selection process; the MOF’s active role remains confined to establishing sector envelopes with no downstream follow-up.

3. The role of MTEF in capital spending becomes compromised as it has not been underpinned by a comprehensive legal framework governing the budgeting and investment planning processes.
4. The disconnection between strategic capital planning, budgeting, and project selection—in combination with the missing independent review function in PIM—in effect, heavily discounts the gatekeeper function to ensure that only socially and economically viable projects are selected to enter the budget negotiation and appropriation processes.

Interviews with senior officials at MOF, as part of the study for this chapter, indicated that consistency in prioritizing resource allocation has been less than optimal. In setting MPSA resource ceilings, the MTEF and budgeting process reflect the multi-year needs for capital budgeting. Particularly, higher priority for allocation of funds is supposed to be given to completion of ongoing project construction, rather than to new capital spending commitments. Such procedures follow international best practice. However, priorities undergo frequent ad hoc shifts, in which new, politically charged projects trump efficiency requirements, rerouting financing from ongoing projects to these newly prioritized ones. Uncertainty and chronic insufficiency of budgeting for completing ongoing projects contributes to cost overruns as implementing agencies are unable to purchase in bulk the materials for construction and maintenance. The Ministry of Works and Supply (MSW 2008a) highlights that much needed materials are actually bought from local suppliers at the highest, retail price. The separation between budgeting and project evaluation provides disincentives for MOF to cooperate in project implementation; in addition, it drives the Ministry out of a position from which it is able to ascertain if forward costs and recurrent expenditures are appropriately managed by MPSAs.

Even though Zambia applies performance budgeting, known as Activity-based Budgeting (ABB), the absence of uniform guidelines for project identification and appraisal leads to the unintended consequence of poor budgeting at the MPSAs. The MPSAs define and propose public spending programs for ABB in a wide range of ways. Typically, overcommitted investment programs—that can easily get passed through initial prescreening under the cover of typically ambitious sector strategic plans—run the risk of inefficient technical resource allocation across projects within the same MPSA and the resultant project delays and incompleteness. Allowing an excessive number of project proposals to jump over any formal gatekeeping barrier results in two problems—the burden on budgeting and resource allocation and the inefficiency of resource utilization due to low absorption capacity.

Another problem is the longstanding interagency coordination issue throughout the budgeting and project selection processes. Institutionalized procedures for assembling a database of project proposals and providing a formal system of project ranking for financing has been lacking despite the recent fundamental reforms in strategic planning at MOF. The basic issue is that the Planning and Economic Development Division of the MOF does not get access to timely, periodically updated information on capital planning at the sector and regional levels. Without the basic financial information about project design—including construction period, estimated project life, total project costs, and annual investment and recurrent outflows—the MOF is not able to exercise its supervisory and gatekeeping function. The absence of a comprehensive project database prevents MOF from efficiently tracking and monitoring expenditures during the construction
period, as well as in the ex post evaluation. The role of MOF becomes further diminished in managing project aid. Project aid is not recorded in the government account, but rather, it is lumped under department level in the budget. The MOF thus cannot track the commitment and performance of individual aid financed projects. Reform is under way to ensure all project financing is channeled through the Treasury Single Account.

Poor project design, budgeting, and selection—and the disconnection between these processes—have led to fundamental inefficiencies. As a case in point: in the 2008 budget, the inadequate budget ceiling meant that only 30 percent of government houses were rehabilitated (MWS 2008). Inadequate budgeting for maintenance may reflect the vested interest in financing new projects.

Project Implementation

The nonexistent procedures for management of all foreseeable costs (total and annual investment costs) and the lack of central, uniform guidelines hamper efficiency in project implementation. Budgeting focuses more on annual cost control rather than total cost control. The lack of central guidelines for project implementation and the absence of effective mechanisms for institutional coordination contribute to the diminishment of the roles of the two key central agencies, the MOF and the Ministry of Works and Supply (MWS). MOF in practice does not have a substantial role in the project cycle after the annual budget ceilings are allocated. The MPSAs effectively receive their own resource envelopes, prepare project proposals, and conduct their own procurements and implementation. The MWS is mandated to facilitate infrastructure development (roads and construction) in addition to numerous responsibilities such as housing, government printing and gazetting, office accommodation and maintenance, and management of government properties. Despite such wide ranging activities, the MWS faces seemingly insurmountable difficulties: inadequate human (both staffing level and skills) and financial resources (MWS 2008). Its role is confined to reviewing technical specifications of construction at the design stage, auditing completed construction projects, and issuing certificates. While it retains a certain role in the technical aspect of projects, it is excluded from direct involvement in setting capital spending priorities and from the entire project appraisal process.

While the MWS is formally charged with a supervising role, line ministries typically bypass it for its technical inputs in the budgeting for rehabilitation of government buildings, commissioning consultancies, and executing civil works, or signing the memorandum of understanding (MOU) documents with donors for civil works. Due to the lack of cooperation from line ministries, the MWS plays a marginal role in providing technical information and specifications to contractors and consultants in civil works—information that should have become a vital part of the documents or contract documents.

Reforms in procurement have long been under way and still continue, but current procurement and contracting practices do not guarantee value for money in project implementation. The Public Procurement Act was approved in October 2008; however, procurement practices have not changed because of the delay in preparation of procurement
regulations. And because the Zambia Public Procurement Authority has not fully taken up its role as a regulatory authority and continues to play a procurement role, the capacity development of procuring entities is slow and uncoordinated. Competitive bidding is either not strictly feasible or enforceable due to a number of challenges, including (1) the lack of effective checks and balances for implementing agencies that are directly responsible for procurement and (2) the limited market/supply of qualified contractors available.

The MWS (2008a) in its Strategic Plan Mid-Term Review alludes to perceived corruption in the construction sector, particularly at tendering stage. Box X.3 summarizes the weaknesses in the procurement system that affects both the timeliness and quality of project implementation. The MWS document further highlights common issues in construction: delayed commencement and completion of projects are extensive due to poor budgeting, erratic funding and consequential delayed payment to contractors and consultants. While no official statistics on project delays have been systematically collected, the MWS revealed to this project's interviewer that, generally, construction is completed within two to three years after commencement, but it is currently common for government-funded projects to observe substantial delays as long as five years.

Due to the absence of uniform guidelines for project preparation and implementation, implementing agencies are not under pressure—nor do they have any vested incentives—to prepare periodic progress reports and to establish a comprehensive database that could have helped trace progress and detect early symptoms of project delays and incompleteness. Without quality progress reports and a database, the MPSAs and central agencies (in particular, the MOF and MWS) have no capacity to identify and analyze the root causes of incompleteness or cost overrun. Such implementation problems can be attributed to multiple factors: unrealistic or over-optimistic design, poor project appraisal and selection, underfunding during the construction period, outright corruption, or even lack of technical capacity to control cost and quality of construction. Thereby the lines of institutional accountability become blurred. The problems tend to perpetuate; responsible agencies fail to prepare feedback action for the next cycle of project design, appraisal, implementation, and evaluation.

Box 3: The Procurement System in Zambia

The most recent OECD-DAC (2007) assessment of the public procurement system in Zambia identifies the following major deficiencies:

- Excessive use of selective tendering in place of open competitive tendering due to time constraints is the norm.
- While procurement is part of the country’s financial management system, procurement planning has not been integrated into the budgeting process; the Zambia National Tender Board (ZNTB) (now Zambia Public Procurement Authority, ZPPA) is completely dependent
on the MOF for its funding, and therefore its independence as a regulatory body is questionable.

• There is no system and procedure for collecting and monitoring national procurement statistics.
• The appeals mechanism in the current procurement system is inadequate and does not contain the basic tenets of an acceptable appeals mechanism.

These weaknesses are being addressed through recent public procurement reforms. The 2008 Public Procurement Act was adopted to replace the Zambia National Tender Board Act (2002) and established a new legal framework for public procurement. The Zambia National Tender Board has been renamed the Zambia Public Procurement Authority (ZPPA). It clearly defines the regulatory functions of the ZPPA as separate from the procuring functions of the various MPSAs. The Act also stipulates that open bidding must be the norm for competitive procurements. The new law allows for arbitration as a means for redressing any complaints.


Project Adjustment

Updating project financial or economic analysis is not mandatory for MPSAs to receive the next tranche of project financing. Change in completion plans or investment costs is usually done or presented on an ad hoc basis, only when the implementing agencies need to request for additional funds to cover cost overrun or for funds already budgeted but not allocated in a timely manner.

The Monitoring and Evaluation Department is responsible for supervising the process of monitoring project implementation at the MPSAs and facilitating the development of M&E systems. Of these functions, the M&E implements budget monitoring and tracking the use of resources for ultimate service delivery. The department is currently launching an R&D program aimed at improving the use of evidence-based planning and decision making. Hence it should be actively involved in the project adjustment process. However, M&E faces an uphill battle due to the following challenges:

• Currently the M&E Department is seriously understaffed, with only six officials to carry out its ambitious mandates.
• Coordination—internally in MOF or externally with the MPSAs—is particularly difficult. The department cannot collect the required data and information in a complete and timely manner. A strong legal framework that requires other agencies to cooperate remains lacking.
• Active monitoring of project implementation does not exist. Implementing agencies are not required to prepare and submit periodic project progress reports to M&E Department. The Department in turn has to passively chase after them to track their
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budget spending while it has no direct role to condition onward financing decisions on implementation adjustments if proved necessary.

- No effective mechanism is in place to systematically track performance, or even to prevent the continued financing of ongoing projects whose benefits do not justify the costs of public spending. In this regard, the systematic use of supplementary budgets in some sectors can even be an incentive not to carefully prepare the ex ante economic analysis and instead to mislead policy makers and the public on projects costs (and possibly lead to pervasive corruption).

**Facility Operation**

Another issue is that there has been a lack of a mandatory comprehensive asset registry of public assets. MPSAs record new assets in their books, but they are not required to compile an integrated database and submit it to central agencies (particularly the MOF). Asset registry becomes even more ad hoc for those public assets acquired with donors’ additional budget funds. While line ministries are supposed to register new facilities and vehicles with MWS, this project’s interview with the ministry pointed out the common problem of non-registration of donor-financed vehicles.

The Government is developing a mechanism to undertake the inventorying and registration of public property. However, the process has been significantly delayed. The establishment of a database of government property—originally scheduled to be operational by 2007—was also postponed at the end of 2008, by which time only 10 percent of the work plan was completed. Without a functional asset registry, the MWS can not effectively carry out its mandate to facilitate the construction and maintenance of public buildings in order to ensure adherence to set standards. The MWS undertook an ambitious plan to develop an up-to-date register of all government property by December 2010 (MWS 2008).

The MWS is mandated to manage all public investments in terms of fixed and moving assets. However, over the years the ministry has lost control over the management of public investments as the sectors have taken an active role in planning, implementing, and monitoring their own investments. The MWS still has some control over two areas of investment, namely, construction of public buildings and control of public service motor vehicles. In theory, all construction in the public service is supposed to be monitored and approved by the buildings department of MWS. MWS is supposed to have a full register of all construction being undertaken, as they are supposed to approve the plans as well as issue the certificates of complement for the construction work. However, the MWS buildings department is not adequately staffed, therefore the sectors are in the practice of engaging consultants and supervisors from the private sector. The Controller of Government Transport is in charge of all motor vehicles procured by the Government. He maintains the register and issues the government number plates. The register is incomplete because a large number of vehicles are procured by development partners who do not insist on government registration plates. Thus the MWS register remains substantially incomplete, given the extent of project and program financing by development partners in all sectors whose staff usually purchases motor vehicles.
Project Evaluation

Ex post evaluation exists only in a rudimentary form in Zambia. Currently there is no formal institutional arrangement that would allow for effective central monitoring and capturing the evaluation results for learning, communicating, and drawing lessons for new project cycles. MPSAs are responsible for making all decisions on project selection, implementation, and tracking service deliveries, whereas the newly established M&E Department in the MOF does not play a direct role in project evaluation.

Conclusions and Policy Recommendations

Although the Government has conducted a number of critical reforms, the PIM system remains largely inefficient, and certain key functions of project evaluation are missing or in rudimentary form. This study’s diagnostic assessment indicates that in the current institutional and governance context of Zambia, a gradual approach would be more realistic to increase efficiency of the PIM. There are no easy, quick fixes. Following is a set of broad recommendations for reforms in the order these interventions should be performed, from the short to the long term.

**Project review.** As a first step, the M&E department of the MOF should undertake a review of the completion of capital spending contracts for selected ministries (with the assistance of the Office of the Auditor General). Based on this review, data should be disseminated and used to initiate a discussion between line ministries and the MOF on procedures for preparation of future investment proposals.

**Monitor progress.** As part of the budget allocation process, in order to receive the next tranche for financing ongoing investments under construction, MPSAs are required to submit an annual progress report and to start building and updating their database of their project portfolio. The MOF should be mandated to review and consult with the MPSAs as necessary about the progress report to ensure the quality of project implementation justifies continued financing.

**Build legal framework.** Enhancing the legal framework for PIM is critically needed. While the risk of divergence between its de jure legal framework and its de facto application at sector level is critical, building a solid legal framework governing PIM helps address two long existing problems: (1) ad hoc, uncommitted cooperation among agencies for collecting data on a timely basis and (2) limited use of monitoring reports and analyses. As described, the Planning and Budgeting Act is still to be presented to Parliament. There is clearer understanding in the Government that the Act would be essential in establishing the legal basis for aligning and integrating planning and budgeting processes and for enhancing strategic and priority investment setting and transparency, accountability and good governance in project appraisal, selection, implementation, and evaluation. The lack of this critical law and supporting legislation creates ambiguity in the institutional mandates and accountability of central and line ministries, which in turn masks the efficiency and accountability problems across all stages of PIM. Without a legally binding requirement for coordination in PIM, both central agencies and the MPSAs have no incentives to build their own capacity to support public investment evaluation. The central agencies—MOF and to some extent
the Ministry of Works and Supply — either are bypassed by the MPSAs during project appraisal and selection or do not have clear authority to enforce MPSAs to engage in the evaluation process. The missing link through this vertical communication channel drives a wedge between the project evaluation and the budgeting process. On the other hand, in the absence of both vertical and horizontal checks and balances, MPSAs may exhibit moral hazard in giving higher priority to new projects versus rehabilitation of existing facilities, and to larger versus smaller scaled projects. All projects can be covered by loosely defined and often unrealistically ambitious sectoral strategic plans. MPSAs have no vested interests in self-monitoring implementation progress, updating economic and financial analysis during construction (that may expose them to the risk of project cancellation), and conducting ex post evaluation.

**Create PIM guidelines.** The MOF should be mandated with preparing central, uniform guidelines for public investment evaluation. The establishment of the new PEMD creates opportunities for the MOF to focus their limited resources on providing guidance for and monitoring of project prescreening and evaluation. Central guidance and monitoring serves as a check and balance in the context of decentralized project identification and selection. Giving the MOF a clear mandate to exercise its central role in preparing guidance for and monitoring different stages of appraisal, and establishing a transparent legal basis for institutional coordination between MOF and MPSAs would alter institutional incentives and hold MPSAs accountable for building capacity and integrating project appraisal and budgeting in order to ensure overall efficiency of PIM.

The MOF will need to establish a transparent, uniform guidance manual for project design, appraisal, and selection. The manual has to be consistent, transparent, yet sufficiently detailed for standard application across sectors. It should provide clear step-by-step appraisal and spell out specific sanctions against violations of the guidelines and incentives for compliance. The manual needs to be supported and sustained by the new planning and budget act and its supporting legislation. A pilot approach is also worth consideration; the manual can be applied to a selected sector and then reviewed and revised for rollout out in a well sequenced manner. In any case, selection criteria for project appraisal need to be widely disseminated to the public and discussed in order to make them as transparent as possible in order to limit potential political interference in support of white elephants.

**Improve project appraisal.** In the medium to long term, improving level and specialized skills in project appraisal at both central agencies (MOF and Ministry of Works and Supply) and MPSAs is critically important. This institutional capacity-building must be integrated into an overall HR reform strategy. The existing staff scattered in different departments of the MOF and MDSAs potentially have the capacity to quickly learn and adapt to new skills. Training has to be a long-term, consistent process. However, training staff alone is not a sustainable solution — it must be combined in a comprehensive human resources reform program that provides incentives and motivation to attract new and retain existing qualified staff.

**Unify appraisal process.** In the long term, the general guidance for best practice is to unify the appraisal process for both donor and government financed projects. But it is worth noting that this
is only feasible when basic capacity is built and when appropriate government procedures and institutional arrangements are sufficiently developed. This implies the value of further technical assistance support from donors in this critical area. The development-policy lending for Vietnam Public Investment Reform (World Bank 2009; 2011) represents a model for such donor support in this important but often neglected area of PFM. Currently donors in Vietnam partner with government agencies to create a comprehensive aid project database (information gateway) as a first step toward integrating procedures for appraisal of donor- and government-financed projects. Within the context of donor coordination, the Government of Zambia should probably require from donors gradual and regular information on donor-financed project and start to update this database in responsible line ministries.
Notes

1. It is also worth noting that when capital expenditures recorded a decreasing trend, FDI flows jumped in the last years. However, they seem to be related to major investments in the mining sector and may not necessarily have a major spillover effect in terms of poverty reduction.

2. In terms of investment by sector, education is by far the largest spender, followed by health (annex 3). Investment in agriculture has been rising steadily albeit at relatively lower rate since 2005. It is also worth noting that since 2007, the budget to the roads sector has increased dramatically. The evolving structural pattern of public spending in these four key sectors indicates that effectiveness in their sectoral investment would largely determine the overall investment effectiveness and poverty reduction.

3. The change of the budget cycle in 2009 is supposed to remedy part of this problem.

4. In many countries, public investment in physical assets—such as economic infrastructure or health or education facilities—that contribute to improvements in human capital is often weakened by low efficiency stemming from poor project selection and implementation. This is manifested in problems such as wasteful "white elephant" projects, delays in design and completion of projects, corrupt procurement practices, cost over-runs, incomplete projects, and failure to operate and maintain assets effectively.

5. This can also be explained by the fact that most projects are not well prepared and the M&E framework most of time is underdeveloped.

6. It is also worth noting that to date the Government has not exerted any collective effort to incorporate environmental concerns at the strategic level in project planning and prescreening. The Environmental Council of Zambia was established through the Environmental Protection and Pollution Control Act, Cap 204 of the Laws of Zambia. It assumes a wide range of responsibilities, including monitoring and enforcement of regulations and standards of all aspects of the environment, advisory, licensing, inspections, and environmental education. In 2008 alone, it reviewed a total of 208 Environmental Impact Assessment (EIA) reports (ECZ 2008). One key problem related to the efficiency of PIM is the failure to conduct environmental impact assessments prior to project design and implementation. While the ECZ is mandated with various responsibilities, it faces multiple challenges, including the insufficient number of staff, high staff turnover, and the general poor attitude toward environmental management and fiscal sustainability.

7. This is why many economists and practitioners express doubt about the usefulness of applying cost-benefit analysis or cost-effectiveness analysis in countries where rigorous appraisal processes, appropriate institutional arrangements, and capacity do not exist, or, basically, the political elites have no incentives to invest in capacity for appraising capital spending proposals.

8. This is somehow relative compared to the weakness of other links of public investment management.
9. In particular, a mechanism for maintenance of government buildings is still to be developed and the rehabilitation is further hampered by general incentives grossly biased for new construction in budgeting process.

References


Annex 1. Trends Comparison: Ratios of Wages and Capital to Current Expenditures of the Central Government (%)

Source: Zambian authorities and IMF staff.

Annex 2. Trends Comparison: Capital Expenditures vs. Foreign Direct Investment (% of GDP)

Source: Zambian authorities and IMF staff; FDI data from World Development Indicators.
Annex 3. Actual Expenditures Trend by Sector

(billion Zambian Kwachas)

Source: Zambian financial accounts.

Annex 4. Ministry of Finance

The Ministry of Finance (MOF) has three divisions: Financial Management and Administration (FMA), Planning and Economic Management, and Budget and Economic Affairs (BEA). This structure is the outcome of a recent restructuring process which included the creation of the Planning Division, headed by a Permanent Secretary, in recognition of the absence of the planning function in MOF. No formal communication has been issued to the effect that this decision has been reversed, and on the ground at the present stage, Economic Management is being managed by the Permanent Secretary of Finance and Economic Management. Further, no additional officers were recruited following the creation of the planning division. Therefore, the few officers in BEA division were spread across the departments in both BEA and PEM divisions. Consequently an effort to recruit planners below the level of principal, as the planning presence was intended to be in all provinces, was not completed. Systems and processes for the new departments that were set up have not been fully developed. Also there appears to be overlapping mandates between the departments, which would need to be harmonized.

The FMA and EM Division is managed by a Permanent Secretary who is also the controlling officer for the ministry. The Permanent Secretary (BEA) currently manages the departments falling under the BEA.
Composition of the FMA and EM Division

**FMA Department:**

- **Financial Management and Accounting Department**—responsible for ensuring that funds reach the points of service and reporting of revenues and expenditures of Government. It is also responsible for the recruitment and supervision of all the accountants in government. This office is also responsible for accounting for all government assets and investments; however, this department does not do this but trusts that the sectors maintain accurate records.

- **Centralized Computer Services Department**—responsible for the management and maintenance of government information technology systems and applications.

- **Internal Audit Department**—responsible for the internal audit function of Government. All internal auditors in government are recruited and supervised through this office.

- **Human Resources and Administration Department**—responsible for employment, staffing levels, training, disciplinary action, and other aspects of HR management and administration in MOF. The Zambia Public Procurement Authority also falls under this department.

- **Government Stores**—responsible for the procurement and sale of government stores to MPSAs.

**EM Department:**

- **Central Statistical Office**—responsible for the compilation and reporting of all national statistics.

- **National Planning Department**—responsible for the coordination of the national planning process and the development and implementation of the National Vision and the National Development Plans. The top-down and bottom-up approaches are currently not well coordinated, mainly because the National Development Coordinating Committee has never been functional.

- **Economic Management Department**—responsible for the coordination of the management of the economic program. Also responsible for the management of negotiations and signing of agreements with cooperating partners. It is also responsible for developing and the management of economic models.

- **M&E Department**—responsible for the monitoring and evaluation of the implementation of the National Vision, National Plans, and the National Budgets and preparation of monitoring reports. Existing monitoring framework has been found to be inadequate.

- **National Policy and Program Implementation Department**—responsible for the coordination of the formulation, implementation, and analysis of economic and social policies. Also responsible for the development of the Policy Analysis and Programme Implementation Frameworks. There is weak coordination among sectors due to lack of
proper policy analysis by the Policy Analysis and Coordination Division at Cabinet Office.

**BEA Division has the following departments:**

- **Budget Office**—responsible for the coordination of all aspects of budget preparation, execution and is the custodian of the government budget. It is also responsible for development of treasury management systems. No processes are in place for this office to review the budget presentations that are made by sectors especially regarding capital investment. There are no laws or processes that are used when reviewing budget submission or as a guide to the sectors when they are preparing their budget submissions.

- **Investment and Debt Management Department**—responsible for the contraction and repayment of all government loans, treasury bills, and bonds. This office is also responsible for the management of the government debt stock. It is also responsible for the supervision and investments in parastatal companies. There are no laws or procedures on approval of loans and their application.

MOF is also responsible for the supervision, with regard to policy, of the National Road Fund Agency, the institution responsible for mobilizing the resources under and management of the Road Fund.

**Annex 5. Investment Process Diagnostic in the Roads Sector**

Investments in the roads sector are expected to become the first sector in terms of public spending in the upcoming years. The Government of Zambia and donors almost equally fund this sector. In recent years, Government funding has increased significantly. Investments are made within the framework of a 10-year program (2003–13), currently being updated. According to this document, priority is given to maintenance of the existing road network. However, in terms of spending, rehabilitation continues to prevail over maintenance (approximately 70 percent of the total funding vs. 30 percent for maintenance).

**The Government strategy for the roads sector is as follows:**

1. **Investment Guidance and Preliminary Screening.** The current strategy derives from the 10-year program. Emphasis is given to maintaining roads in good condition and on the rural network. This is somehow influenced by donors’ programs, which focus at least in theory on rural roads. No independent assessment of the current strategy seems to have been carried out. Moreover, no impact evaluation seems to have been feeding the current strategy in this sector.

2. **Formal Project Appraisal.** This is currently carried out by the RDA (Road Development Agency) using the HDM-4: Highway Development Model and updated parameters, which is not so frequent in SSA. For rural roads, economic assessment is in theory ensured by local authorities, with guidance from RDA. In reality, assessment of rural roads does not seem to be properly carried out in most instances.
3. **Independent Review of Appraisal.** There is no independent review of the economic appraisal of road projects and no challenge from the Ministry of Finance.

4. **Project Selection and Budgeting.** HDM-4 is theoretically used for project prioritization. However, with the example of the approval of major projects with sole sourcing with Chinese companies, such as the Mongu-Kalabo road (with limited traffic), some projects may not be screened as rigorously as others. The Road Fund Agency funds most of the projects in the sector. Funding is allocated to the projects based on proposals/priorities set by RDA.

5. **Project Implementation.** There is no systematic record and disclosure of the number and amount of incomplete contracts. Audits in this area point out that there are abnormal delays for several projects, frequent cost overruns, and weak engineering supervision, as well as problematic financial management of some contracts.

6. **Project Adjustment/active monitoring of project implementation and adjustment.** There is no systematic record and disclosure of the number and amount of incomplete contracts. ZPPA and the Road Fund Agency have to approve cost overruns over 40 billion ZMK, which limits the power, on paper, of RDA.

7. **Asset management.** Roads assets are classified and registered. Roads classification is under review.

8. **Project Evaluation.** There is no widespread use of project evaluation, especially for rural roads. Moreover, the M&E unit of the Ministry of Finance is not involved at all in the scarce attempts done. Without impact evaluation of past projects, a possible revision of the strategy seems rather difficult.

**Annex 6. Investment Process Diagnostic in the Education Sector**

Education is the leading sector in terms of public spending in Zambia. The Government of Zambia funds 60 percent of public spending and 40 percent comes from donors. Government funding increased significantly since 2004–05. The Government recognized in the Fifth National Development Plan (FNDP) the role of education in poverty reduction and the need for early childhood education. The National Development Plan targets 4 percent of the GDP for education. MoE expenditure for 2005 was budgeted to be 2.8 percent of GDP. The Government targeted a minimum allocation of 20.5 percent of the total annual discretionary budget for the sector.

**Reforms needed for the education sector are as follows.**

1. **Investment Guidance and Preliminary Screening—**The current strategy is based on the document, “Educating Our Future” (MoE 1996). Principles and policy targets are involved in the Fifth National Development Plan. In terms of strategy, the Ministry of Education strives to ensure that every child has access to a minimum of seven years of good quality schooling in a school of parental choice. The MoE has given priority during the period 2005–2015 to upgrading all primary schools to full basic school status. No independent assessment of the current strategy seems to have been carried out. Projects are either supplied by donors or developed by the MoE. Projects developed internally in the MoE are subject to internal discussions to be selected.
2. **Formal Project Appraisal**—Projects for less than 2 million USD are not subject to formal project appraisal in most cases, especially if funded by donors.

3. **Independent Review of Appraisal**—There is no independent review of the economic appraisal of education projects and no challenge from the Ministry of Finance.

4. **Project Selection and Budgeting**—Projects developed internally in the MoE are subject to internal discussions with a strong role of the planning department and of the monitoring and evaluation technical committee.

5. **Project Implementation**—There is no systematic record and disclosure of the number and amount of incomplete contracts.

6. **Project Adjustment/active monitoring of project implementation and adjustment**—There is no systematic record and disclosure of the number and amount of incomplete contracts. CSOs are scarcely involved at this stage (contrary to the process in the design stage).

7. **Asset management**—Assets are classified and registered.

8. **Project Evaluation**—There is no widespread use of project evaluation. Moreover, the M&E unit of the Ministry of Finance is not involved in the scarce attempts done. However, some pilots seem to have been implemented, such as the school health and nutrition pilot in Eastern Province, which proved to be effective and is now being scaled out to other provinces. The MoE acknowledges however that some further research needs to be undertaken to increase impact of projects on topics, such as enrollment of orphans and vulnerable children, early childhood development, adult literacy provision, girls’ education, and high school curriculum revision assessment with reference to life skills. In addition, research is being initiated into cost-efficiency measures, such as pupil-teacher ratio at basic and high school level, low-cost construction, reduced textbook costs, and cost-recovery mechanisms, particularly for high schools and universities.

**Annex 7. Investment Process Diagnostic in the Health Sector**

The National Development Plan, in this case the Fifth National Development, is supposed to include details of Health Sector investments over the period of the plan. The National Health strategic plan is intended to derive any investment details needed from the National Development Plan. However, given the differences in timing in the preparation of the two documents, there may not be a perfect symmetry of the investments that are included in both documents. Funding for health sector investments is mainly funded by donors, with very little provision in the national budget.

Government strategy for the health sector is as follows:

1. **Investment Guidance and Preliminary Screening**—Investments in the Health Sector are derived from the National Health Strategic Plan which covers a period of five years. The strategic plan is further disaggregated into action plans, annual work plans, and budgets. The ministry has a list of investments that are planned over a period of time; when partners wish to fund particular infrastructure development, they are encouraged to finance those that have already been identified.
2. **Formal Project Appraisal**—For investments that are funded by the Government, project appraisal is carried out within the planning section of the Ministry of Health. It was not clear whether any form of cost-benefit, economic benefit, or other analysis is actually undertaken, or at best, if it is undertaken consistently across project proposals. There are no formal procedures that indicate how this analysis is to be undertaken for particular investments. Partners that fund particular investments, which are the majority, carry out their own project appraisals, which normally are agreed to by the ministry.

3. **Independent Review of Appraisal**—There is no independent review of the economic appraisal of health projects and no challenge from the Ministry of Finance.

4. **Project Selection and Budgeting**—Project selection is normally based on what the partners are interested in and are able to finance at a particular time, as public resources for investments are minimal. However, where there is a great public demand for a particular investment, the ministry will prioritize and encourage partners to finance those investments (for instance the completed and operational Cancer Hospital and the Lusaka General Hospital under construction).

5. **Project Implementation**—The ministry does not maintain complete records of the implementation status of all investments being undertaken. Through the annual external audits, periodic reviews of implementation progress are undertaken. The partners financing various investments also keep details of progress on investments.

6. **Project Adjustment/active monitoring of project implementation and adjustment**—There is no complete record and disclosure of the number and amount of incomplete investments.

7. **Asset management**—The Government maintains a cash budgeting system in which all capital expenditures are expensed at the time they are incurred (no accruals). However the ministry maintains asset registers that have details of the investments being made. The Buildings Department (Ministry of Works and Supply) also maintains records on buildings that they are involved in supervising. However the registers are not complete and there is no single depository for the information.

8. **Project Evaluation**—There is no single methodology for project evaluation. Systems for involvement of relevant sectors and support institutions are not fully developed.