

Transparency International Zambia

Public Finance Management and Utilisation Project

*Report on
Strategies and Tools for Civil Society Monitoring of
Public Finance Management in Zambia*

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Lusaka

Prepared by

**Nchite Roy
&
Nsana Stuart**

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ACRONYMS AND ABBREVIATIONS

AAP	Assessments and Action Plans
ABB	Activity Based Budgeting
ACC	Anti-Corruption Commission
AFRONET	Inter Africa Network for Human Rights and Development
AG	Auditor General
BOZ	Bank of Zambia
CBO	Community Based Organisation
CCPJD	Catholic Commission for Peace, Justice and Development
CDF	Constituency Development Fund
CFAA	Country Financial Accountability Assessment
CO	Controlling Officer
CPAR	Country Procurement Assessment Report
CSO	Civil Society Organisation
CSPR	Civil Society for Poverty Reduction
DEC	Drug Enforcement Commission
DfID	Department for International Development (of the United Kingdom)
DPP	Director of Public Prosecutions
EAZ	Economics Association of Zambia
EJP	Economic Justice Programme
ESAC	Economic and Social Adjustment Credit
FFTUZ	Federation of Free Trade Unions in Zambia
FMS	Financial Management System
FODEP	Foundation for Democratic Process
FSC	Fiscal Sustainability Credit
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
HIPC	Heavily Indebted Poor Country
IFMIS	Integrated Financial Management Information System
IG	Inspector General (of Police)
INDECO	Industrial Development Corporation Limited
JCTR	Jesuit Centre for Theological Reflection
MoFNP	Ministry of Finance and National Planning
MoLGH	Ministry of Local Government and Housing
MTEF	Medium Term Expenditure Framework
NGO	Non Governmental Organisation
NGOCC	Non Governmental Organisations Coordinating Committee
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PE	Personal Emoluments
PEM	Public Expenditure Management
PEMFAR	Public Expenditure Management Financial Accountability Review
PER	Public Expenditure Review
PFM	Public Finance Management

PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Service Capacity Building Programme
PSRP	Public Service Reform Programme
PHI	Presidential Housing Initiative
RDC	Recurrent Departmental Charge
RIZES	Revenue Institutions in Zambia – Enhanced Support
ROSC	Reports on the Observance of Standards and Codes (of Fiscal Transparency)
SOE	State Owned Enterprise
TIZ	Transparency International Zambia
TNDP	Transitional National Development Plan
VAT	Value Added Tax
ZCCM	Zambia Consolidated Copper Mines Limited
ZCTU	Zambia Congress of Trade Unions
ZESCO	Zambia Electricity Supply Corporation Limited
ZICA	Zambia Institute of Certified Accountants
ZIM	Zambia Institute of Marketing
ZIMCO	Zambia Industrial and Mining Corporation Limited
ZNTB	Zambia National Tender Board
ZPA	Zambia Privatisation Agency
ZRA	Zambia Revenue Authority

EXECUTIVE SUMMARY

Introduction

This study was conceived out of the recognition that public finances can contribute directly to the reduction of poverty and the general welfare of the majority of Zambians. According to the various Auditor General's reports, Zambia appears to have serious challenges in the manner public finances are managed.

Background

At independence, the Zambian economy was considered one of the best in Africa but bad internal economic management practices and a couple of external economic shocks in the 1970s and 1980s triggered the current persistent economic downturn. The economy remains undiversified (still heavily dependant on mining) despite numerous attempts to diversify it. Zambia is now classified among the poorest countries in sub-Saharan Africa and among the most indebted in the world. Additionally, Zambia is ranked as the 11th most corrupt country in the world according to the Transparency International Corruption Perception Index.

The subject of public finance management is so cardinal to any country that in Zambia, Transparency International Zambia (TIZ) initiated a project specifically dedicated to public finance management and utilisation in Zambia. Research, a consultative process of major stakeholders and ordinary citizens that included holding workshops and public discussions and a media campaign were conducted. The ultimate goal of all these efforts was to arrive at a set of proposals that would make the bedrock of the recommendations and strategies on better public finance management contained in this report for submission to the Ministry of Finance and National Planning (MoFNP).

Administrative and Legal Structures in Public Finance Management

There are four main categories of institutions that interface in the management of public finance: the multilateral donor agencies; government ministries and agencies; government watchdog bodies; and civil society. Multilateral donor agencies use assessments were based on questions covering the critical elements of public expenditure management (PEM) systems to assess capabilities necessary for tracking public spending.

The MoFNP, operating through other ministries and agencies, normally co-ordinates most of the functions pertaining to the management of public finance. The local councils, apart from receiving public funds from the MoFNP, collect further revenues through property taxes, local levies, and licence fees, among others for the provision of services within their boundaries.

Apart from the mainstream government setup, the legal provisions provide for the establishment of bodies such as the Office of the Auditor General (AOG) and the Anti – Corruption Commission (ACC). In the context of public finance management, the OAG is responsible for the assessment and audit of the budget outcome while the ACC would have to prosecute any official who is cited for impropriety.

The main pieces of legislation that interface with the management of public finances are:

- the Republican Constitution;
- the Finance Act – Chapter 347;
- The Public Audit Act of 1980;
- the Privatisation Act; and
- The Tender Board Act.

Apart from the above pieces of legislation, there are few other pieces of legislation that have a bearing on the management of public finances. Some of these are:

- The Financial Regulations;

- The Prohibition and Prevention of Money Laundering Act;
- The Loans and Guarantees (Authorisation) Act; and
- The Local Government Act

The essence of public finance management is to facilitate the implementation of national policies through the preparation of national budgets, appropriation of funds, and reporting the actual financial outcomes against the budgeted. At the local government level, the Ministry of Local Government and Housing (MoLGH), through local councils, generates revenue from internal and external sources for the provision of services in areas under the local authorities. The MoLGH also administers the Constituency Development Fund (CDF).

Government has further established several funds some of which are reflected in the budget while others are not. There are also state owned enterprises in which government has equity interest. After the liquidation of the Industrial Development Company (INDECO) and the Zambia Industrial and Mining Corporation (ZIMCO), the oversight responsibilities over these companies are now spread thinly over the responsible ministry, MoFNP and the ZPA often with no clear financial performance targets.

Still under the subject of public finance management procedures, the management of Zambia's domestic and external debt is the responsibility of the MoFNP and the Bank of Zambia (BOZ) through the Investment and Debt Management Department at the MoFNP and the International Division of the Economics Department at BOZ.

Government Reforms

The government has in the past few years tried to improve its performance in public finance management. It is undertaking the Public Expenditure Management and Financial Accountability Review (PEMFAR) with support from the World Bank.

The government has had a long standing vision of achieving a fully decentralized and democratically elected system of government. However, very little progress has been made so far in implementing the decentralisation policy.

Civil Society Involvement in Public Finance Management

On the sidelines of government structures, the civil society (regarded as the third sector) plays various roles including fighting against corruption, monitoring government's delivery of social services, government's budgetary matters (revenue and expenditure), and monitoring the protection of human rights. The leading organizations involved in fighting corruption are TIZ, Integrity Foundation, Inter African Network for Human Rights and Development (AFRONET), the Foundation for Democratic Process (FODEP), and the Partnership Forum.

Organisations directly or indirectly involved in matters of public finance management include:

- TIZ through focusing attention on the advocacy for the establishment of systems that promote transparency and accountability both in economic and political governance of the country;
- the Jesuit Centre for Theological Reflection (JCTR) through the Jubilee Zambia programme that fights for the cancellation of Zambia's debt;
- The Catholic Commission for Peace, Justice and Development (CCPJD), the development wing of the Roman Catholic Church in Zambia that frequently advises government on various matters ranging from poverty to the HIPC initiative and the budget and hosting a pre and post budget discussion;
- The Economics Association of Zambia (EAZ) by providing a forum for members to be involved in matters of public finance management such as hosting a pre and post budget analysis and hosting the Revenue Institutions in Zambia – Enhanced Support (RIZES) project (in

collaboration with the Department for International Development of the United Kingdom); and

- The Zambia Institute of Chartered Accountants (ZICA) through the advice to government on fiscal management.

Various other civil society groups including the labour movement undertake advocacy activities pertaining to public finance management in Zambia.

Recommendations

This study recommends a multi-pronged approach towards solving the problem. This includes legal reforms, strengthening of watchdog institutions, administrative reforms and civic education.

Legal Reforms

The following legal issues have been identified as requiring urgent reform to ensure better public finance management:

- (i) Legal reforms to strengthen autonomy of all supervisory / watchdog institutions;
- (ii) The freedom of information bill needs to be re-introduced and passed into an Act of Parliament and should draw a clear definition of what constitutes state secrets;
- (iii) Existing penalties need to be reviewed;
- (iv) The Loans and Guarantees (Authorisation) Act needs to be amended to make the loan contracting process more open to the public;
- (v) The systematic protection of whistleblowers, media practitioners and persons mandated to enforce the law from victimization through administrative codes has to be entrenched in the Zambian constitution; and
- (vi) Local councils should be legally compelled to publicly publish their budgets and annual financial reports.

Strengthening of Watchdog Institutions

In this category, the study suggests addressing the following:

- (i) The appointment and tenure of office of chief executives of supervisory/watchdog institutions should be a parliamentary rather than presidential function; and
- (ii) There is need to have adequate appropriation of finances and other resources to support the activities of watchdog institutions.

Administrative Reforms

The report proposes the following:

- (i) A review of the powers of the speaker of Parliament needs to be undertaken as part of the parliamentary reforms with a view to having the Speaker's powers reduced to those of a chairperson or moderator;
- (ii) Government needs to build on the budget reforms already begun with the aim of strengthening parliamentary oversight on public expenditures;
- (iii) Current efforts aimed at making the budget preparation process more consultative and participatory are welcome and should be broadened;

- (iv) The current Public Service Reform Programme (PSRP) should seriously address the issue of improvements in the remuneration packages for public service workers; and
- (v) Government should engage in a consultative process with key stakeholders in coming up with an action plan and implementation strategy for the decentralisation policy whose implementation is long overdue.

Civic Education

Government should deliberately encourage directly or indirectly (such as through CSOs) educational campaigns on the role of supervisory/watchdog institutions and on the content and other civic matters to make the general public more alert to instances of abuse of public office. Important public documents like the few mentioned above should be made available through the council offices and public libraries to the people.

The appraisal also brings out the following advocacy recommendations for civil society organisations:

- Encouragement of speedy implementation of the PEMFAR recommendations and work plans;
- Usage of the AG's report and PAC recommendations to call for the punishment of offenders to counter the lack of enforcement of existing financial management rules and regulations;
- Calling for political independence of COs and employment of professionals in accounting and procurement departments;
- Advocating for the decentralisation of the OAG to provincial level and supporting the employment of well qualified staff as internal auditors;
- Collaborating with watchdog institutions to sponsor constitutional amendments that create stiffer penalties for erring officers;
- Building strategic partnerships among civil society groups to share information with district level Civil Society structures;
- Supporting the setting up of constituency offices (especially for Members of Parliament);
- Supporting the implementation of the PSRP;
- Supporting constitutional amendments that make watchdog institutions totally independent and report directly to Parliament;
- Lobbying for the employment of Permanent Secretaries and other professionals in the public service and in watchdog institutions through the open market;
- Conducting community sensitisation programmes to counter the public's lethargic attitude towards abuses of public funds and corruption;
- Conduct training in monitoring and evaluation (M&E) with district level structures;
- Lobby for the advertising of tenders through the district council offices;
- Coordinate efforts with the decentralisation secretariat and CSOs in lobbying government to speed up the implementation of the decentralisation policy;

- Build capacity of councillors to fully participate in council activities and also explain council decisions to the people. CSOs should further advocate for minimum educational levels for councillors in urban and rural councils; and
- Advocate for amendments to the ACC Act especially with regards to the lack of protection for “whistle blowers”.

1.0 INTRODUCTION

This study was conceived out of the recognition that public finances are perhaps the most important resource that Zambia has that can contribute directly to the reduction of poverty and the general welfare of the majority of Zambians. Needless to note, finances in Zambia are in short supply compared to the demand for their usage therefore judicious usage of these resources requires the comprehensive and participatory involvement of all stakeholders.

According to the various annual reports prepared by the Auditor General (AG), Zambia appears to have serious challenges in the manner in which public finances are managed. It is reasonable to expect that funds lost through bad financial management practices could have been used to finance the perpetual budget deficits that are pushing the country into a vicious circle of unsustainable debt and poverty.

1.1 Background

The economic malaise that Zambia has found herself in is rather sad considering that this country has a very economically sound past. At independence, the economy was considered one of the best in Africa. Bad internal economic management practices and a couple of external economic shocks in the 1970s and 1980s triggered the current persistent economic downturn. Mining, the driving force in the Zambian economy, declined for a long time, dragging down the other sectors that depend on it. No major substitutes from other economic sectors came aboard. This has resulted in a reduction in gainful employment and in failure by the state to provide basic services such as education, health, and clean water that it provided in the past. From the mid 1990s, the HIV/AIDS pandemic and other diseases have worsened the poverty situation further.

The economy remains undiversified (still heavily dependant on mining) despite numerous attempts to diversify it. Zambia is now classified among the poorest countries in sub-Saharan Africa with a per capita income fluctuating at about US \$300 for the last couple of years. The country is also among the most indebted in the world such that it qualified for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative in December 2000. The depressed economic situation has also partly led to an increase in cases of corruption to the extent that Zambia is now ranked as the 11th most corrupt country out of 146 countries according to the Transparency International Corruption Perception Index.

Ironically, Zambia has largely enjoyed peace unlike other countries in the region that have had worse calamities and cases of civil war. Most fundamentally however, the failure of Zambia's economy over the past thirty years, evidenced by worsening macroeconomic indicators (see table 1-1 below), has had the most telling effect on poverty in the country.

Table 1-1: Zambian Macro-Economic Indicators, 1970s – 2002

Indicator (in percent)	1970s Average	1980s Average	1990s Average
GDP Growth Rate	1.5	1.4	0.3
CPI Inflation Rate ¹	10.2	36.1	70.9
Domestic Savings/GDP	33.2	14.0	7.1
Investment/GDP	30.2	16.2	14.1
Interest Rate (lending rate)	7.8	16.0	54.7
Exchange Rate (Kwacha/US \$)	0.7	4.8	903.1
External Debt/GDP	64.5	171.9	204.1

Source: World Bank (2003)

The country's poverty and poor economic performance could therefore be largely be attributed to poor economic policies and mismanagement of public finances.

The subject of public finance management is so cardinal to any country that, in Zambia, Transparency International Zambia (TIZ) initiated a project specifically dedicated to public finance management and utilisation in Zambia.

1.2 Objectives and Methodology of the Study

The project on public finance management had three major objectives. These were to:

- Identify gaps in current legislation and advocate for reforms to make the system more accountable;
- Make policy and administrative recommendations and influence reforms to watchdog institutions, and;
- Mobilise civil society support and input in calling for changes that will contribute to dealing with issues of abuse of public funds.

In order to achieve the above objectives, research was used as the major strategy for identifying the weaknesses in public finance management. The outcomes of the research were two reports that shed more light on *Public Finances Management in Zambia* (PFM) and suggested *Systems of Tracking and Documenting the Abuse of Public Funds*.

Then a consultative process of major stakeholders and ordinary citizens that included holding workshops and public discussions was conducted in four provinces namely:

¹ The 1990s average inflation rate was high because of the very high inflation in the first half of the 1990s (not reported).

- Lusaka province (within Lusaka district);
- Luapula province (in Mansa and Samfya districts);
- Copperbelt province (in Kitwe and Luanshya districts); and
- Eastern province (in Chipata and Petauke districts)

A synthesis of the main findings of the two studies and summary reports of the public discussions are attached at appendix I.

Thereafter, a campaign was launched in Lusaka using radio, television and print media as a channel for encouraging public discussion and debate on these issues. A public discussion was also held at which various stakeholders and ordinary people were invited.

The ultimate goal of all these efforts was to arrive at a set of proposals that would make the bedrock of the recommendations and strategies on better public finance management contained in this report. The whole process was deliberately consultative and participatory to ensure that the recommendations presented are a reflection of a broad based consultative process that takes into account the various views and situations of stakeholders at district and national level. A policy makers' workshop was conducted particularly to bring on board the views of stakeholders at national level from both the civil society and the government. Through the media campaign, ordinary people were afforded an opportunity to peek into the intricacies of financial management in Zambia and make their voices be heard regarding the way forward.

This report is therefore a culmination of a year's work on the study of the management and utilisation of public funds that TIZ launched in August 2003. The report is primarily intended for submission to the Ministry of Finance and National Planning (MoFNP), which is charged with the responsibility of ensuring proper financial management although it is hoped that many other stakeholders and ordinary citizens will find it useful in widening their scope of understanding and also as an advocacy tool.

1.3 Limitations of the Study

The public finance management and utilisation project enjoyed a lot of support. However, like many other undertakings, it suffered from the following major limitations:

- Half hearted commitment from government officials to participate in proposing and reviewing proposals made by grassroots citizens. It was only in very rare circumstances that government officials would turn up for the workshops even when invitations would have been sent to them in good time;
- Insufficient knowledge on the part of some citizens (especially in rural districts) on matters of public finances and the procedures involved; and

- Limited financial resources to conduct a more thorough tour of all the provinces to collect people's proposals. Only seven districts were visited around the country. (However, this limitation is mitigated by research data collected and the media campaign conducted).

1.4 Organisation of the Report

This report is composed of six sections. Following this introductory section, the next one (section two) provides insight into the administrative and legal framework of public finance management in Zambia. The following section discusses some of the reforms that government is undertaking within the field of public finance management. Section four looks at the involvement of civil society in aspects of public finance management. Drawing from the report in general, section five gives a summary. Furthermore, it provides recommendations on how to improve the situation.

2.0 ADMINISTRATIVE AND LEGAL STRUCTURES

This section presents the administrative and legal structures in the management of public finances in Zambia. The section is divided into four main parts. The first part highlights the exogenous bodies – the multilateral donor agencies and their monitoring aspects. The second part looks at public finance management aspects of government ministries and government bodies. The third and fourth parts discuss the pieces of legislation on public finance management.

2.1 Multilateral Donor Agencies

Multi-lateral donor agencies include the World Bank, the IMF, and the European Union among others. Each of these has a mechanism for tracking public expenditure for the recipient countries. Even though the mechanisms have slight variations, they are generally similar.

Some of the instruments used to assess public finance management systems are:

- The World Bank Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), and Country Procurement Assessment Reports (CPARs);
- IMF Reports on the Observance of Standards and Codes of Fiscal Transparency (Fiscal ROSCs);
- IMF–World Bank Public Expenditure Tracking Assessments and Action Plans (AAPs) for Heavily Indebted Poor Countries (HIPC)s);
- European Commission audits of public financial management systems; and
- The United Kingdom Department for International Development (DfID) assessments of fiduciary risk.

As a follow-up to the March 2001 Board paper entitled “*Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries*”, the IMF’s Fiscal Affairs Department and the World Bank’s Poverty Reduction and Economic Management Network in collaboration with other departments of the IMF and the World Bank prepared a paper (in March 2002) that sought the Board’s concurrence on the approach to tracking poverty-reducing spending of public finances. The assessment mechanism used in this paper can be used as an indicator of some of the tools multi-lateral donor agencies use to monitor public finance management. The earlier paper² reported on the

² *Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries*

preliminary desk assessments of the capacity of 25 HIPCs to track poverty-reducing public spending.

The assessments were based on 35 questions covering the critical elements of public expenditure management (PEM) systems. From the questions, fifteen (15) indicators were chosen to represent the PEM system capabilities deemed necessary for tracking poverty-reducing public spending.

- Seven (7) indicators related to budget preparation;
- Four (4) related to execution; and
- The last four (4) related to reporting.

The total number of benchmarks met was viewed as an indicator of the quality of a country's PEM system. Using this methodology, the assessors were able to determine the status of the country they were assessing: whether satisfactory in tracking with a small amount of upgrading of the PEM systems; requiring some upgrading; or requiring substantial upgrading.

However, results were supposed to be taken with caution. For instance, those countries suggested requiring substantial upgrading did not imply that they could not track poverty-reducing spending at all. What they possibly suggested was that the accuracy and timeliness of data was likely to be relatively weak. Effective tracking of poverty-reducing spending was deemed to require PEM systems with some minimum level of capacity in each of the three areas: budget formulation, execution, and reporting.

2.2 Government Ministries and Bodies

In this part of section two, there are seven components: Parliament as the legislative wing of government; MoFNP as the overall ministry in charge of public finances; the MoLGH as the ministry in charge of the local government authorities – the local representatives of the central government at the grassroots; ZRA as the tax collector; the quasi-public sector entities; the Anti-Corruption Commission; and the Office of the Auditor General.

2.2.1 Parliament (The Legislature)

Parliament is the legislative wing of government and holds the executive wing accountable (including in the management of public finances) through a number of measures. The Zambian Parliament, like its many other counterparts in the commonwealth, operates through the committee system. Parliamentary committees may be defined as a composition of a number of Members of Parliament specifically named or appointed to consider, inquire into, or deal with particular matters or bills (Chibesakunda, 2001). These committees enjoy the same powers, immunities and privileges as the

Parliament itself. Examples of these committees include the Public Accounts Committee, the Committee on Estimates and the Committee on Ways and Means. It is for this reason that parliamentary committees are referred to as “miniature parliaments.”

2.2.1.1 Public Accountability of Parliament

During what is termed ‘question time’ at the beginning of each day, Members of Parliament may ask ministers questions requiring oral answers. Ministers are also required to make interim statements regarding the operations of their ministries. Members of Parliament can also move a motion requesting the government to do something or state their position on a particular matter.

Members of the public can petition Parliament to take action in relation to some issue that they wish Parliament to put right. Government departments and ministries are also obliged to submit their annual reports detailing their income and expenditure and other activities before Parliament each year. This is in order to enable Parliament to review the performance and operations of each ministry or public institution.

2.2.1.2 Budget Oversight

The budget function of Parliament is to authorize government expenditure and revenue collection measures. At the beginning of each financial year the government puts forward proposed annual estimates of revenue and expenditure (in form of a budget). Parliament sitting as the Committee of Supply debates these proposals.

After this, the Estimates Committee examines the estimates of each ministry, department and statutory body contained in the Yellow Book. Any expenditure that takes place outside of this authorization is regarded as unconstitutional. Additional expenditure is authorized through an ‘excess expenditure’ or ‘supplementary estimates’ bill depending on whether the spending has already been incurred or not.

Any new taxation must be debated in the Committee of Ways and Means to ensure that the public is not unduly burdened and that the new taxes are justified.

2.2.1.3 Public Accounts Committee (PAC)

The PAC of Parliament is mandated to examine the accounts showing the appropriation of sums granted by the National assembly to meet the public expenditure, the report of the AG on the accounts of government and such other accounts.

When the AG’s report is presented to the National Assembly, it is first examined by the PAC which then tables it before the whole House for debate and adoption. The PAC has powers to summon witnesses, question them and demand explanations. The PAC,

however, lacks powers to punish erring officers. The responsibility of dealing with erring officers is passed on to the executive. The executive is required to submit a Treasury Minute or Action Taken Report to the National Assembly after six months outlining what measures it has taken to correct the anomalies that were pointed out by the PAC.

2.2.2 The Ministry of Finance and National Planning (MoFNP)

The MoFNP has the primary responsibility of co-ordinating most of the functions pertaining to the management of public finance. However, it normally operates through other ministries and agencies or bodies. For instance, during the budget formulation phase, it relies on the input of the ZRA for projections on the tax revenues that could be collected. Similarly during the execution phase, the MoFNP disburses funds to other ministries and bodies that execute government programmes.

2.2.3 The Ministry of Local Government and Housing (MoLGH)

Of all the government ministries receiving public funding from the MoFNP, perhaps special mention should be made of the MoLGH. The MoLGH is responsible for the lower level of government, i.e. local authorities. Apart from receiving public funds from the MoFNP through the MoLGH, local authorities collect further revenues through property taxes, local levies, and licence fees, among others for the provision of services within their boundaries. These funds are used for the provision of services in areas under the local authorities. Expenditures are normally based on cash availability. Local authorities are supposed to submit annual budgets sixty (60) days before the year end to the Minister of Local Government and Housing (MoLGH) for approval.

The MoLGH is also charged with the responsibility of administering the Constituency Development Fund (CDF) through the local authorities. These funds come from the national treasury at the MoFNP.

2.2.4 The Zambia Revenue Authority (ZRA)

Established by an Act of Parliament in 1993, the ZRA is responsible for collecting all tax revenues on behalf of government. It is supervised by a board, appointed by government from the public and private sectors. The board in turn is answerable to the Minister of Finance who is accountable to Parliament for the performance of ZRA. The authority is financed from the government budget for its operations. Even though ZRA's annual financial statements are audited by an independent firm of auditors, its accounts are also examined by the AG. The accounts are also presented to Parliament.

For operational purposes, ZRA does not normally give ad-hoc exemptions from taxes. Exemptions are given through Statutory Instruments.

2.2.5 Quasi – Public Sector Entities

Under the quasi-public sector entities, the report presents an overview of public funds and state owned enterprises.

2.2.5.1 Public Funds

Government has established several funds reflected in the budget. Their expenditures are reported in the Government annual accounts. See table 2-1 for a list of some of the funds with the corresponding ministry mandated to manage them.

Other funds have been established outside the budget, otherwise called extra-budgetary funds. In this case, the inflows into the funds do not reflect in the national budget while the expenditures are also not incorporated in the government Appropriation Accounts. The Road Fund and the Pensions Fund are two of the major sources of extra-budgetary expenditures.

Although the Road Fund (established by an Act of Parliament) is government owned, it is driven by the private sector with public sector participation. The main sources of income are the fuel levy and grants from donors. The external auditor for this fund is appointed by the AG from the private sector.

Table 2-1: List of Budgetary Funds

Responsible Department/Ministry	Fund
Community Development & Social Services	Africa Housing Fund
Copperbelt Province	Dag Hammarskjold Trust Fund
Energy & Water Development	Rural Electrification Fund
Home Affairs	Prisons Welfare Fund
Local Government & Housing – Loans & Investments	Africa Housing Fund
Local Government & Housing	Constituency Development Fund District Innovation Fund Gwembe Special Fund Local Authority Superannuation Fund National Water & Sanitation Council Trust Fund
Finance & National Planning – Loans & Investments	Enterprise Development Fund Zambia Social Investment Fund
Sports, Youth and Child Development	Youth Development Fund

Source: World Bank (2003)

Through its board, the Roads Fund is accountable to Parliament (to which it presents annual reports). Stakeholders of the fund are informed through annual workshops and can access the annual reports (including audited financial statements) from the internet.

2.2.5.2 State – Owned Enterprises (SOEs)

When nationalisation was the fashionable way of managing the economy, government incorporated the Zambia Industrial and Mining Corporation (ZIMCO) and the Industrial Development Corporation (INDECO) to manage the SOEs. With the drastic change of government policy in 1992 to pursue privatisation, government established the Zambia Privatisation Agency (ZPA) and liquidated INDECO and ZIMCO. This abrupt shift in policy created a vacuum in the financial supervision of the SOEs. The oversight responsibilities over these companies are now spread thinly over the responsible ministry, MoFNP and the ZPA often with no clear financial performance targets. When targets are set they often have conflicting commercial and political indicators.

Out of the 280 SOEs that were up for privatisation in 1992, there are less than thirty remaining to be privatised or restructured. Many of these SOEs in their current form are not profitable. Some (such as ZESCO, Nitrogen Chemicals, Zambia National Commercial Bank and the Food Reserve Agency) are owed large amounts by government and government related institutions. Some of these claim that the major obstacle to debt collection however, is government ownership that does not for instance allow aggressive debt collection in good time such as appointing receivers or liquidators.

Government mechanisms for setting or approving borrowing limits for most of the SOEs are either weak or non-existent. In some cases, government has provided loan guarantees to these companies. The end result of this policy (lapse) has been the existence of unsustainable debts on the books of the SOEs that are eventually passed on to government to liquidate, thus a burden on the ordinary tax payer.

2.2.6 *The Anti-Corruption Commission*

The Anti-Corruption Commission (ACC) is fundamental in the management of public finances as it acts as a safeguard institution in case of abuse of the trust and authority entrusted to the public officials. It acts as a watchdog in case of any impropriety on the part of the public finance managers.

The ACC was established under the Anti-Corruption Commission Act No. 42 of 1996, which repealed the Corrupt Practices Act No. 14 of 1980 or Chapter 91 of the Laws of Zambia. The amendments greatly empowered the Commission by strengthening its autonomy in terms of making its own procedures and the delegation of its functions and powers.

The President however, still maintains a presence in the ACC. The Commission's powers to fundraise are subject to the approval of the President. The ACC's report is also sent to the President for onward transmission to Parliament. One advantage, on the other hand, is that the ACC has the power to make recommendations based on its findings to any appropriate authority, which must within thirty days thereafter report to the ACC as to the action taken by that authority.

Structure and Security of Tenure

The ACC has a two-tier structure. It is made up of a *commission* which is a policy setting body. The commission is chaired by a person holding or has held high judicial office. He/she is assisted by four other commissioners. Commissioners are appointed by the President subject to ratification by the National Assembly for a renewable term of three years. The Commissioners are immune from civil and criminal proceedings for anything done in their official capacity under the ACC Act. However, they are obliged to disclose any special interests that they have.

The ACC also has a *directorate* which is the implementing body. It is headed by a Director-General who is appointed by the President subject to ratification by the National Assembly. He must be a person holding or has held high judicial office and must be a full-time employee of the ACC. He enjoys security of tenure until the age of sixty-five. His removal from office is thus possible only upon specified reasons and following the fulfilment of a lengthy procedure initiated by a resolution of the National Assembly.

Powers and impartiality

The Director-General acts under the direction of the commission and is empowered to make Standing Orders for managing the ACC's operations and staff. He also has investigative powers except over issues that fall under the State Security Act³.

The Director-General has powers to search suspects subject to the issue of a warrant by a magistrate. Furthermore, a court order is required to access bank accounts and records making it rather difficult to quickly access information relating to criminal financial activities. The written consent of the DPP is required before any offence can be prosecuted

2.2.7 The Office of the Auditor General (OAG)

The OAG is established under article 121 of the Constitution. The AG is appointed by the President subject to ratification by the National Assembly. The AG's responsibility is to audit all public accounts and satisfy himself/herself that the public funds are properly received, expended and accounted for. His/her brief extends to accounts of parastatals, statutory corporations, and every private institution which received a government grant, subsidy or subvention in any financial year.

However, the AG's access to the records, books, reports or other documents as well as the premises of the Defence Forces and the Zambia Intelligence Security Service is severely restricted. He/she can be denied access or entry to the premises if that might prejudice the security, defence or international relations of the country or the

³ The effect of the Act is to shift the primary provision for the offences of corruption from the Penal Code and primary responsibility for the investigation of corruption from the police force to the ACC.

investigation or detection of offences, or involve the disclosure of any matters or deliberations of a secret or confidential nature of the Cabinet or any sub-committee of the Cabinet. It is therefore a remarkable achievement that in recent times the AG carried out an audit of the defence forces.

Article 121(6) of the Constitution provides that the AG, in the exercise of his/her duties, shall not be subject to the direction of any other person or authority. The AG enjoys security of tenure and vacates office at the age of sixty years. His/her removal from office can only come about as a result of the decision of the National Assembly, following recommendations by a judicial tribunal.

The Public Audit Act confers immunity on the AG and his/her staff from any action and proceedings in respect of the findings of any audit, examination, or inspection carried out by him/her in the exercise of his/her functions. It is also an offence for any person to obstruct or resist the AG or person acting under his/her authority in the exercise of his/her functions.

Article 121(4) of the Constitution requires the AG to send an annual report to the President, who is required to table it before the National Assembly. The AG, however, is authorized by the Public Audit Act to prepare a special interim or other audit report relating to his/her investigations if he/she has reason to believe that delay in reporting serious irregularities in expenditure of public funds through the annual report may occasion financial loss to the government or prejudice effective financial control.

2.3 Main Pieces of Legislation

The main pieces of legislation that interface with the management of public finances are:

- the Republican Constitution;
- the Finance Act – Chapter 347;
- The Public Audit Act of 1980;
- the Privatisation Act; and
- The Tender Board Act.

This list is not exhaustive but for the purposes of this report, focus will be placed on these five.

2.3.1 The Republican Constitution

Part X of the Republican Constitution of Zambia deals with Finance. It gives Parliament the authority of approving government revenue and expenditure proposals. The government cannot spend any funds unless they are voted for by Parliament. It is also the exclusive mandate of Parliament to impose and regulate taxes – the main source of government revenue. In other words, Parliament exercises oversight over the generation and utilisation of public finances.

Articles 114 -121 of the Constitution also define the financial management roles of the President as the head of the executive wing of government, the Minister responsible for finance and the Auditor General. The articles further provide for annual appropriation Acts, supplementary and “excess” estimates and supplementary, and “excess expenditure” Acts.

In principle, the Constitution extends the Westminster system of financial control and reporting system in the management of public finances.

2.3.2 The Finance (Control and Management) Act

The Finance (Control and Management) Act-Chapter 347 of the laws of Zambia is the main legislation that defines the roles and responsibilities for financial management within the executive arm of government. The Act reposes substantial authority in the Minister of Finance for the management, supervision, control and direction of all matters relating to the financial affairs of the country. The minister of finance is responsible for designating a controlling officer (CO) for each head of expenditure provided for in the annual budget.

The Finance (Control and Management) Act also makes mention of the role of internal audit, albeit very briefly and without clear definition.

2.3.3 The Public Audit Act

The Public Audit Act of 1980 defines the roles, responsibilities, and reporting obligations of the Auditor General (AG). The Act gives the AG authority to audit books, records and reports of institutions in which government has an interest just as the Finance (Control and Management) Act gives the AG authority to scrutinize the financial affairs of government departments and statutory corporations for audit purposes. However, the Public Audit Act empowers the AG to follow up records of institutions beyond those prescribed in the Finance (Control and Management) Act to include every private institution that receives a government grant, subsidy or subvention in any financial year. Under the Public Audit Act, the AG has authority to request from independent auditors of parastatals any document, reports, or information relating to the accounts of parastatal

companies. The AG is further empowered to have access, for the purposes of audit scrutiny, to all contracts involving government or its agencies and enterprises.

2.3.4 The Privatisation Act

The Privatization Act provides for the establishment of the Zambia Privatisation Agency (ZPA) and the privatisation and commercialisation of state-owned enterprises. The Act contains provisions intended to enhance transparency in this process. All proceeds from completed sales of shares and assets must be deposited into a Privatisation Revenue Account established by the Minister of Finance at the Bank of Zambia.

The Act stipulates that the Minister of Finance and Parliament will exercise oversight over the privatization process.

2.3.5 The Zambia National Tender Board (ZNTB) Act

The Zambia National Tender Board Act, CAP 394 of the laws of Zambia, provided for the establishment of the Zambia National Tender Board (ZNTB). The ZNTB is responsible for regulating and controlling procurements on behalf of the government. Therefore, it is part of ZNTB's responsibility to:

- Formulate regulations for procurement on behalf of the government;
- Regulate the procedures for the award of contracts on behalf of government; and
- Advertise tenders for procurement on behalf of government.

The Act further provides for the establishment of tender committees to facilitate procurements at parastatal, ministry, provincial, district, city, and municipality levels. Only procurements above certain specified limits are referred to the Central Tender Committee of the ZNTB for authorisation. The financial limits for each tender committee level are attached at appendix II. The Act (in section 16) also provides for the establishment of an Inspectorate Unit to monitor all contracts placed under the jurisdiction of the Act.

2.4 Other Relevant Pieces of Legislation

Apart from the above pieces of legislation, there are few other pieces of legislation that have a bearing on the management of public finances. Some of these are discussed below.

2.4.1 The Financial Regulations

The Finance Act is complemented by a subsidiary piece of legislation called 'Financial Regulations' which contains general financial rules and procedures, some MoFNP finance/treasury regulations and circulars, accounting guidelines and other procedures and instructions such as stores regulations. The internal audit function is also explained in the financial regulations.

2.4.2 The Prohibition and Prevention of Money Laundering Act

The Act provides for the establishment of the Anti-Money Laundering Authority and an Anti-Money Laundering Investigations Unit. The major objective of the Act is the prohibition, prevention and detection of money laundering in Zambia. This is to be achieved by different means and the adoption of certain measures.

2.4.3 The Loans and Guarantees (Authorisation) Act Chapter 366

The Loans and Guarantees (Authorisation) Act chapter 366 of the laws of Zambia empowers the Minister of Finance to raise loans from time to time (from within and outside the country) on behalf of the government as he or she deems fit. The ceilings on such loans are authorized from time to time by resolution of Parliament.

The law requires the Financial Report to provide a statement on the particulars of debt charges paid in that particular year with regard to loans raised under the Act. Loans are raised through several ways including the issue of bonds or stock, issue of treasury bills, or by agreement in writing.

2.4.4 The Local Government Act

The Local Government Act (CAP 281 of the laws of Zambia) of 1991 governs the conduct of the 72 local councils in Zambia. Section 61 of this Act sets out the functions and powers of the councils.

Section 29 (1) of the Local Government Act makes all meetings of a council open to the public except in some exceptional circumstances. However, section 29 (2) allows a council, by resolution, to exclude the public from a meeting during the whole or any part of the proceedings whenever publicity would be prejudicial to the public interest by reason of the confidential nature of the business to be transacted or for other special reasons stated in the resolution and arising from the nature of that business or of the proceedings.

3.0 GOVERNMENT REFORMS

In any organisation, changes are an on-going phenomenon. Similarly, government has been instituting some changes regarding its operations. In this section, we highlight some of the operational changes that have a bearing on the management of public finances.

3.1 Government Reforms in Financial Management Systems

The government has in the past few years tried to improve its performance in public finance management. Most efforts are still on paper and the process on implementation is quite slow. This is mainly because the reform process itself is heavily dependant on donor support and requires a lot of political will. Furthermore, there are a number of other non financial matters that directly impact on financial management that need to be attended to in order to ensure sustainable implementation of programmes such as the Public Service Reform Programme (PSRP) and the Public Service Capacity Building Programme (PSCAP). Some of these interlinking programmes require time and training to be effectively implemented.

Within the overall framework of the PSRP, government is undertaking the Public Expenditure Management and Financial Accountability Review (PEMFAR) with support from the World Bank. The main aim of PEMFAR is to enhance the utilisation and management of public resources. Five core pillars underlie the foundation of this programme, namely:

- Reviving medium and long term planning;
- Moving away from incremental budgeting to activity based budgeting;
- Introducing integrated financial management information systems;
- Undertaking accounting reforms; and
- Undertaking capacity building.

Reviving Medium and Long Term Planning

Pursuant to this objective, government has devised a Transitional National Development Plan (TNDP). The plan takes into account the Poverty Reduction Strategy Paper (PRSP). Through the TNDP, government hopes to improve the allocation of resources over time. Due to the complexity of objectives and strategies, government has with effect from the 2004 budget introduced the Medium Term Expenditure Framework (MTEF) which will further streamline the management of resources. The MTEF however, is highly dependent on the preparation of strategic plans and work plans by ministries which form

the overall national budget. It is feared that there might not be sufficient capacity in the ministries for this micro detail to be done on time.

Activity Based Budgeting (ABB)

Government is moving away from the traditional (and subjective) incremental budgeting system to ABB. Expenditure estimates are built costing the programmes and activities making the work plans of a ministry or department and thus set the targets for performance. To achieve this MoFNP, is in the process of introducing the ABB software. Some government ministries and departments are already using this but it is yet to be completely rolled out.

Integrated Financial Management Information Systems (IFMIS)

The IFMIS is intended to enhance the monitoring and evaluation mechanism of public funds. Through IFMIS, financial, administrative and control systems of government are being overhauled. Secondly, financial management information will be easily accessible than was previously the case. IFMIS will complement the current Financial Management System (FMS) in providing vital information. A team of skilled personnel to man the IFMIS implementation has been hired and some training is being conducted for personnel in government departments.

Accounting Reforms

A commitment has been made to the donors that Zambia will review the Finance Act. The general orders are also being targeted for harmonisation but this still remains to be done. Furthermore, government has made a commitment to reduce arrears to domestic suppliers but this is proving to be an uphill battle. To its credit however, government has in the past two years managed to significantly reduce its domestic borrowing thereby freeing up more money to the private sector to borrow at reduced interest rates.

Capacity Building

Through PSCAP, public service employees are being afforded training opportunities. The PSCAP is also focussing on purchase of equipment such as computers to enhance productivity of public service workers. Other efforts have been with widening and improving the collection of Non Tax Revenue which has been streamlined by being passed on to commercial banks through Revenue Transit Accounts under the office of the Accountant General and not line ministries.

3.2 Decentralisation and Financial Management

The Zambian government has had a long standing vision of achieving a fully decentralized and democratically elected system of government. This has been born out of the realization that over centralization of authority and resource management has

adversely affected public service delivery. Decentralization is also seen as a means of empowering the citizens to exercise control over their local affairs and fostering meaningful development which requires some degree of authority to be decentralised to provincial, district and sub-district levels as well as councils.

The main activities targeted under this programme include:

- Development and implementation of a comprehensive strategy and action plan to facilitate effective decentralization;
- Harmonizing legal provisions, building adequate human and institutional capacity;
- Constructing and rehabilitating the infrastructure, and;
- Improving and broadening the financial base of local governments.

Very little progress has been made so far in implementing the decentralisation policy. While the process began as far back as 1992, the policy itself was only adopted in 2002. A secretariat to specifically oversee the implementation process has been set up but no tangible results are being seen that suggest that government is serious about this policy. The policy has ten years (10) years from the time of adoption. Two years have been spent so far with negligible results, if any.

In spite of this reluctance, Zambia seems to favour the decentralisation policy. The arguments in favour of decentralisation are as follows:

- Political stability will be secured by active participation of the local people in development activities and in politics through voting and other practices such as civic education, which will strengthen democratic accountability;
- Lower level participation in development and politics would be a basis for training in political leadership which would create a seedbed for prospective political leaders to develop skills in policy making, political party operations and budgeting. This could enhance the quality of political leadership;
- Accountability will be enhanced because local representatives will be more accessible to the local populace and will thus be more closely accountable for their policies and outcomes than distant national political leaders (or public servants). A vote at local elections will be a unique mechanism for the local community to register its satisfaction or dissatisfaction with the performance of its representatives;
- Responsiveness of government will be improved because local representatives will be best placed to know the exact nature of the local needs and how they can be met in a cost-effective way;

- Locally specified plans will be tailor made for local areas using detailed and up to date information; and
- Motivation of field-level personnel will be enhanced when they have greater responsibility for the programme they manage.

4.0 CIVIL SOCIETY INVOLVEMENT IN PUBLIC FINANCE MANAGEMENT

The civil society in Zambia continues to be regarded as the third sector (with the first and second sectors being government and business respectively) because of the cardinal role it plays in the different development processes of the country (PACT Zambia, 1996). Civil society is composed of non-governmental organisations (NGOs), community based organisations (CBOs), churches, trade unions, among others.

The Societies Act⁴ provides the legislative framework for the operation of NGOs, CBOs and churches. A few organisations are created under the Companies Act⁵ as companies limited by guarantee while others are formed under the Land (Perpetual Succession) Act⁶. Trade Unions are regulated by the Industrial and Labour Relations Act⁷.

These organisations play various roles including fighting against corruption, monitoring government's delivery of social services, government's budgetary matters (revenue and expenditure), and monitoring the protection of human rights. The leading organizations involved in fighting corruption are TIZ, Integrity Foundation, Inter African Network for Human Rights and Development (AFRONET), the Foundation for Democratic Process (FODEP), and the Partnership Forum.

Organisations directly or indirectly involved in matters of public finance management include TIZ, the Catholic Commission for Peace, Justice and Development (CCPJD), FODEP, Economics Association of Zambia (EAZ), the Zambia Institute of Chartered Accountants (ZICA), and the Jesuit Centre for Theological Reflection (JCTR).

Various civil society groups have been undertaking advocacy activities pertaining to public finance management in Zambia. Some of these advocacy activities are discussed below.

4.1 Transparency International Zambia (TIZ)

The overall objective of TIZ is to develop sustainable capacity in the civil society, media, public and private sector to effectively fight corruption and promote high integrity and good governance in Zambia. It is against this background that TIZ is focusing attention on the advocacy for the establishment of systems that promote transparency and accountability both in economic and political governance of the country.

TIZ therefore, has been undertaking an initiative that seeks to identify and highlight, *why* and *where*, leakages in the administration of public finances occur as well as mobilising support for necessary reforms and improvements in the system. This will build on TIZ

⁴ Cap. 119, Laws of Zambia.

⁵ Cap. 388, Laws of Zambia.

⁶ Cap. 186, Laws of Zambia.

⁷ Cap 269, Laws of Zambia.

activities undertaken in the past that focused on the problems of efficient service delivery, accountability and transparency of the local authorities in Zambia and subsequently led to the development of policy recommendations aimed at addressing these problems. The final output is the set of recommendations being made to the MoFNP.

TIZ realises that plugging these financial loopholes will call for concerted efforts in the introduction of transparent and effective monitoring systems to promote accountability on the government side and the CSOs aiming to monitor the process. Government has already instituted some reforms to address this problem. However, such measures can only succeed if they are part of a comprehensive strategy of strengthening the management of public finances at all levels which brings on board all sectors.

4.2 The JCTR / Jubilee Zambia

The JCTR is hosting a programme called the Jubilee Zambia programme. This programme arose from the need to fight for the cancellation of Zambia's debt in 2000, the year in which the country was officially recognised internationally as being among the most indebted in the world through its qualification for debt relief under the HIPC initiative. Many CSOs and even government leaders have also acknowledged that debt has reached unsustainable levels. The thrust of the Jubilee programme however goes further and demands for better accountability of the financial resources available and realistic borrowing that will not drag the country into more debt.

4.3 The Catholic Commission for Justice, Development and Peace (CCJDP)

The CCJDP is the development wing of the Roman Catholic Church in Zambia. Through its Economic Justice Programme (EJP), the CCJDP is becoming one of the foremost commentators on matters of public finance. The CCJDP is a frequent advisor to the government on various matters ranging from poverty to the HIPC initiative and the budget. The programme has been releasing a number of position papers on contentious issues of public finance management. The CCJDP also has a pre and post budget discussion which has become a popular forum for organisations and ordinary citizens involved in public finance management to critically analyse the budget and its implications on people's livelihoods.

4.4 The Economics Association of Zambia (EAZ)

The EAZ is a body of professionals in various fields. It provides a forum for members to be involved in matters of public finance management. The EAZ has been hosting a pre and post budget analysis each year at which recommendations are made to the government on various fiscal policy matters. The EAZ is also, in collaboration with the Department for International Development (DfID) of the United Kingdom, hosting the Revenue Institutions in Zambia – Enhanced Support (RIZES) project. The project looks

at revenue and expenditure with the long term goal of supporting government to achieve a ‘*pro-poor, pro-growth fiscal policy framework*’. It has predominantly been providing support to the ZRA and the MoFNP.

4.5 The Zambia Institute of Certified Accountants (ZICA)

ZICA is an important institution representing the interests of certified accountants. The institute is also a major player in advising government on fiscal management. The institute was also vice-chair of the banned HIPC Tracking and Monitoring team⁸ that provided important insights into the management of HIPC funds in the country.

4.6 The Labour Movement

The labour movement in Zambia is very vibrant and influential. It is composed predominantly of the two mother bodies, the Zambia Congress of Trade Unions (ZCTU) and the Federation of Free Trade Unions in Zambia (FFTUZ). Unions are affiliated to either of these two mother bodies. Apart from fighting for the rights of the members, the unions’ advocacy work has predominantly been targeted at agitating for better financial management since better financial management would lead to better incomes for workers and consequently many more people who are dependant on those workers.

⁸ The HIPC Tracking and Monitoring Team was composed of civil society organizations namely: Civil Society for Poverty Reduction (CSPR), ZICA, EAZ, CCJDP, Non-Governmental Organizations Coordinating Committee (NGOCC), JCTR, CIP, ZIM, Zambia Association of Public Finance. It was constituted by the Minister of Finance and Economic Development in the year 2001 but was banned from conducting its work in April 2004. This was for apparently ‘operating illegally’.

5.0 RECOMMENDATIONS AND CONCLUSIONS

This section has three parts: a summary of the report; recommendations arising out of the identified weaknesses; and lastly the conclusions. Perhaps it is worthwhile pointing out that the recommendations are in two parts: recommendations as contained in the report submitted to MoFNP (government); and the recommendations specifically for CSO.

5.1 Summary

The purpose of this study is to contribute to the improvement of the public finance management and utilisation system in Zambia. It considers the adequacy and shortcomings of the legal and administrative systems in place. TIZ recognises and appreciates the efforts that the government is putting in place. Government's acceptance and enthusiastic involvement in the development of the PEMFAR report is testimony of these efforts. Government is implementing some of the recommendations arising from PEMFAR, and this is commendable. However, we also realise that TIZ and other civil society organisations can still play a part in ensuring that suggested systems are implemented and monitoring and evaluation mechanisms are sharpened.

5.2 Recommendations to Government

The recommendations of this report are in four main categories:

- Legal reforms;
- Strengthening of watchdog institutions;
- Administrative reforms; and
- Civic education.

Each of these is discussed as a sub-section.

5.2.1 Legal Reforms

There are a number of weaknesses with the current legislation as it relates to matters of public finance management. Some of these weaknesses have already been identified by the government and other stakeholders. The suggestions made in the PEMFAR report of reforming laws on procurement are already being attended to and possibly a bill will be introduced in Parliament soon.

The following legal issues however need urgent reform to ensure better public finance management:

- (i) Legal reforms to strengthen autonomy of all supervisory/watchdog institutions as free standing entities while at the same time defining their relationships with each other in the most cost effective and efficient way possible. In order to ensure transparency and accountability, supervisory/watchdog institutions must incorporate representatives of NGOs in their executive boards;
- (ii) The freedom of information bill needs to be re-introduced and passed into an Act of Parliament. The Act should further draw a clear definition of what constitutes state secrets;
- (iii) Existing penalties need to be reviewed to ensure that they are a suitable deterrent for offenders. For instance, punishment for abuse of office or corruption needs to be made stiffer than is currently the case.
- (iv) The Loans and Guarantees (Authorisation) Act needs to be amended to make the process more open to the public so that every interested party knows what the money will be used for and the repayment mechanisms in place. This will substantially reduce the power that is vested in the Minister of Finance as the only one who can negotiate and procure loans for the country. The current system exposes the country to too much debt and possible corruption;
- (v) The systematic protection of whistleblowers, media practitioners and persons mandated to enforce the law from victimization through administrative codes has to be entrenched in the Zambian constitution. Further, individuals who report cases of impropriety (whistle blowers) need not be compelled to testify in the open courts if they feel threatened should they do so; and
- (vi) The local councils are about the lowest level of government representation at the grassroots. However, it is almost fashionable for councils across the country to shield operational affairs from public scrutiny. For this reason, it is recommended that councils be legally compelled to publicly publish their budgets and annual financial reports. Additionally, it should be made a little more difficult for councils to exclude the public from their meetings.

It must be noted that without political commitment, it is difficult to bring about substantial changes that will yield tangible benefits to the country.

5.2.2 Strengthening of Watchdog Institutions

Watchdog institutions provide the checks and balances necessary to contain the propensity of leaders to gravitate towards abuse of their power and authority. The current problem is not necessarily that Zambia lacks the institutions, but that the institutions are not strong enough to bite and leave a permanent mark that will be a reminder to all (including the perpetrator of the crime) that the law is alive and effective in the country.

The politicisation of the chief officers of these institutions also makes the matter more complex. There is therefore need to address the following:

- (i) The appointment and tenure of office of chief executives of supervisory/watchdog institutions should be a parliamentary rather than presidential function. Reforms should be made to rationalize the President's powers vis-à-vis watchdog institutions. Specifically, the reforms should revise the reporting procedures so that they report directly to the public or to Parliament such as through mandatory annual reports, free Government Gazette available country-wide, and even through independent public/private media. This would eliminate any discretion regarding who may be investigated and prosecuted by the institutions for corruption or abuse of office. Supervisory/watchdog institutions should direct themselves (through their independent boards) on their daily operations. The emphasis of these institutions should be to let the law take its course. Reforms should ensure that the institutions have autonomy over recruiting and remuneration of operational officers so that they are sufficiently motivated; and
- (ii) There is need to have adequate appropriation of finances and other resources to support the activities of watchdog institutions. Thus, supervisory/watchdog institutions should be assured of funding directly from the national treasury, eliminating any room for manipulation by government which may force such institutions to tow the ruling party or government line.

5.2.3 Administrative Reforms

Some of the weaknesses noticed in the management of public finance in Zambia relate to the administrative procedures in place. Sufficient provisions are not made to ensure that people have trust and confidence in the government and its institutions. The systems in place are quite weak and sometimes (even when they are available) are simply ignored. We therefore propose the following:

- (i) A review of the powers of the speaker in Parliament needs to be undertaken as part of the parliamentary reforms with a view to having the Speaker's powers reduced to those of a chairperson or moderator. He should not, for instance, have power to block a motion (which we fear, can in some instances be done on political grounds) nor have discretionary powers over the appointment of parliamentary committee members;
- (ii) Government needs to build on the budget reforms already begun with the aim of strengthening parliamentary oversight on public expenditures. In particular, the role of the PAC needs further power to make it follow through recommendations that it makes and demand action from law enforcement wings within a specific time frame. We further propose having a

representative of law enforcement agencies as part of the PAC to ensure that the law enforcement agencies have first hand information on the deliberations;

- (iii) Current efforts aimed at making the budget preparation process more *consultative* are welcome. However, this process should be done much earlier in the year and be more *participatory* so that people making submissions are not hurried. This will also serve to reduce the time for budget preparation so that the budget would actually start being presented to Parliament in January or earlier.
- (iv) The current PSRP should seriously address the issue of improvements in the remuneration packages for public service workers. Current public service salaries are too low thus they act as a major disincentive to the workers and a possible excuse for impropriety; and
- (v) Government should engage in a consultative process with key stakeholders in coming up with an action plan and implementation strategy for the decentralisation policy whose implementation is long overdue.

5.2.4 Civic Education

An educated citizenry is a necessary ingredient to the blossoming of a democratic state. Government has the cardinal role of informing its citizens and not concealing information. The current situation whereby most citizens have never even seen (and possibly even heard) of the Republican Constitution, the Yellow Book, or the AG's report is unacceptable. These documents are public documents which should be readily available.

Therefore, we strongly recommend that government should deliberately encourage educational campaigns on the role of supervisory/watchdog institutions and on the content and meaning of the Parliamentary and Ministerial Code of Conduct, Chapter 16 of the Laws of Zambia, and other civic matters to make the general public more alert to instances of abuse of office. Important public documents like the few mentioned above should be made available through the council offices and public libraries to the people.

5.3 Recommended CSO tools for Advocacy on PFM

Based on the views presented by a cross section of society during the implementation of this project, the following advocacy strategies are recommended for civil society organisations:

- Encourage the speedy implementation of the PEMFAR recommendation and work plans. This could probably help address the problem of weak public finance administrative and regulatory framework, including the problem of ghost workers;

- Use the AG's report and PAC recommendations to call for the punishment of offenders to counter the lack of enforcement of existing financial management rules and regulations;
- It has been observed that there is weak supervision of accounting staff in government institutions. CSOs should therefore call for political independence of COs and employment of professionals in accounting and procurement departments;
- Advocate for the decentralisation of the office of the Auditor General to provincial level and support the employment of well qualified staff as internal auditors in order to avoid delays in detecting cases of abuse of public funds;
- Collaborate with watchdog institutions to sponsor constitutional amendments that create stiffer penalties for erring officers as lack of stiff sanctions against officers who abuse public funds has been identified as one of the weak points;
- Build strategic partnerships among civil society groups to share information with district level Civil Society structures so as to improve information flows on matters of public finances, management systems and controls;
- Support the setting up of constituency offices (especially for Members of Parliament) in order to increase the knowledge on the rights of ordinary citizens to hold their elected leaders accountable for public finance use;
- Support the PSRP especially as it relates to improvement of the poor conditions of service of public service workers;
- Support constitutional amendments that make watchdog institutions totally independent and report directly to Parliament so that their financial and political autonomy may be enhanced;
- Lobby for the employment of Permanent Secretaries and other professionals in the public service and in watchdog institutions through the open market preferably after advertising;
- Conduct community sensitisation programmes to counter the public's lethargic attitude towards abuses of public funds and corruption and increase their awareness of the operations of watchdog institutions ;
- In response to the lack of popular participation in the scrutiny of people appointed to public office (including political leaders), CSOs should conduct community sensitisation programmes and should try to have a say on people appointed;

- Conduct training in monitoring and evaluation (M&E) with district level structures to enhance the capacity at district and sub district level of monitoring development projects;
- Lobby for the advertising of tenders through the district council offices in order to reduce on the ignorance, especially at district and community levels, of procurement procedures involving government contracts;
- Coordinate efforts with the decentralisation secretariat and CSOs in lobbying government to speed up the delayed implementation of the adopted decentralisation policy;
- It has been observed that there is low participation by grassroot citizens in the decision making process of their councils. CSOs should therefore build the capacity of councillors to fully participate in council activities and also explain council decisions to the people. CSOs should further advocate for minimum educational levels for councillors in urban and rural councils;
- Advocate for amendments to the ACC Act especially with regards to the lack of protection for “whistle blowers”.

Appendix III provides a matrix of the above recommendations in a more detailed format. It gives the observed problem, objective of CSOs in trying to solve that problem, proposed advocacy strategy, proposed activities, and finally the proposed CSO group(s) suitably placed to undertake that activity.

5.4 Conclusions

This report has identified a number of weaknesses and strengths in the governance system of this country. A truly democratic government is one which allows its citizens to share in the governance of the country. After 40 years of political independence, Zambia needs to reflect on the past and chart the best way forward. From an economic powerhouse on the continent, this country has been reduced to one that is heavily in debt and at the mercy donor countries and/or agencies. We believe that with proper financial management, not all is lost.

The government has the biggest responsibility to ensure that this is achieved. Leadership is a challenge and a privilege. It is a challenge in that there are a lot of pressures on all sides to perform to the expectations of many interest groups. However, it is also a privilege which can be utilised to turn things around. The Zambian government has shown remarkable commitment to fighting corruption and the abuse of public resources. More effort has been exhibited in the past two years than in the preceding ten (10) years. Stolen resources are being recovered. Suspected perpetrators are either in court, being investigated or have already been convicted. The government has gone further in showing commitment to implement the work plans suggested under PEMFAR. We

believe that PEMFAR is a timely report that could bring about the turnaround this country needs. However, Zambia's heavy dependence on goodwill from donors makes the whole process susceptible or rather vulnerable.

On the other hand, government needs to seriously consider the recommendations and/or suggestions brought to its attention by interest groups like TIZ. There are a lot of areas, as listed above that need to be addressed quickly. This country cannot afford to drag its feet when its citizens are wallowing in poverty and dejection. Some have argued that Zambia is not necessarily poor but probably just faces major challenges in the management of its resources such as finances. There is therefore urgent need to attend to the identified flaws in the system to make it more relevant.

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Appendix I: Summary Report of Civil Society Activity Plan on Public Finances Management

OBJECTIVE	STRATEGY	ACTIVITIES
1.To strengthen public finance administrative and regulatory framework	Review administrative procedures and legislation that relate to public finance management	<ul style="list-style-type: none"> • Lobbying Government and Parliament • Networking with other civil society organizations
2.To promote enforcement of existing rules and regulations	Raise public awareness on the need for observance of financial rules, regulations and procedures	<ul style="list-style-type: none"> • Seminars/workshops • Lobby relevant Parliamentary committees • Initiate public petitions, including petitioning the Chief Justice
3.To strengthen supervision of the management and utilization of public finances	Strengthen the capacities of the Accountant-General, Controlling Officers and Internal Auditors	<ul style="list-style-type: none"> • Lobby for the administrative autonomy of the Accountant-General and Internal Auditors vis-à-vis unethical interference
4.To expedite early detection of cases of abuse of public funds	Review and strengthen reporting systems	<ul style="list-style-type: none"> • Conduct research on the efficacy of existing financial reporting systems • Lobby for enforcement of effective reporting systems
5.To promote accountability and transparency in the management and utilization of public finances	To provide information on the operations of the public financial management system	<ul style="list-style-type: none"> • Raise public awareness through dissemination workshops, radio programmes and other public campaigns
6.To devise appropriate sanctions against officers guilty of abuse of public funds	To review legislation relating to various forms of abuse of public funds	<ul style="list-style-type: none"> • Conduct research • Disseminate research findings • Network with other civil society organizations • Lobby for appropriate legislation
7.To promote retention of qualified staff in watchdog institutions	Review conditions of service for staff in watchdog institutions	<ul style="list-style-type: none"> • Lobby for the financial independence of watchdog institutions
8.To promote efficiency in the operations of watchdog institutions	Review the operations of watchdog institutions	<ul style="list-style-type: none"> • Conduct research • Advocate for functional and financial independence of these institutions
9.To establish mechanisms/systems for monitoring and tracking of public expenditures	Review existing mechanisms of monitoring and evaluation of public expenditures	<ul style="list-style-type: none"> • Conduct research • Lobby for the development of participatory mechanisms of monitoring and evaluation of public expenditures • Network with other civil society organizations • Identification and prioritization of areas where abuse of public funds is most common • Establish a data base on the management and utilization of public finances
10.To promote popular participation in the scrutiny of people appointed to public offices	Review and strengthen current systems of scrutiny of appointments to public office	<ul style="list-style-type: none"> • Conduct research • Advocate for systems that encourage popular participation in the scrutiny of people appointed to public office • Lobby Parliament • Lobby Government

Appendix II Procurement Thresholds under the ZNTB Act

Government Ministries, Departments, Municipalities, Schools & Health Boards.

Approved Purchase Limits	Approving Authority
Procurement Unit Not Established	
Informal procurements - values from K5 million up to K30 million	Tender Committee
Above K30 million (formal tenders)	Central Tender Committee (ZNTB)
Procurement Unit Established	
Values from K5 million up to K30 million (informal tenders)	Tender Committee
Above K30 million (formal tenders)	Central Tender Committee (ZNTB)
Certified Procurement Units	
Category A	
<ul style="list-style-type: none"> • Values from K30 million up to K200 million (formal tenders) • Above K200 million (formal tenders) 	Tender Committee Central Tender Committee (ZNTB)
Category B	
Values from K30 million up to K500 million (formal tenders)	Tender Committee
Above K500 million (formal tenders)	Central Tender Committee (ZNTB)
Category C	
Values from K30 million up to K1.2 billion (formal tenders)	Tender Committee
Above K1.2 billion (formal tenders).	Central Tender Committee

Procurement Thresholds for Parastatal Bodies (Other than Municipalities)

Approved Purchase Limit	Approving Authority
Small Parastatal Bodies (Without Tender Committee)	
Values up to K5 million (informal tenders)	Chief Executive
Values above K5 million	Central Tender Committee (ZNTB)
No Procurement Units	
Values from K5 million to K30 million (informal tenders)	Tender Committee
Above K30 million (formal tenders)	Central Tender Committee (ZNTB)
Uncertified Procurement Unit	
Values between K5 million up to K30 million (informal)	Tender Committee
Above K30 million (formal tenders)	Central Tender Committee (ZNTB)
Certified Procurements Units	
Category A	
Values from K30 million to K200 million (formal tenders)	Tender Committee
Above K200 million	Central Tender Committee (ZNTB)
Category B	
Values from K30 million to K1.2 billion (formal tenders)	Tender Committee
Above K1.2 Billion (formal tenders)	Central Tender Committee (ZNTB)

Appendix III CSO Tools Matrix for Advocacy on Public Finance Management

No	Observation	Objective	Proposed Advocacy Strategy	Proposed Activities	Proposed Civil Society Group/s
1	Weak public finance administrative and regulatory framework	To strengthen public finance administrative and regulatory framework	Encourage the speedy implementation of the PEMFAR recommendation and work plans	<ul style="list-style-type: none"> • Monitor implementation of PEMFAR and advise GRZ on half yearly basis 	<ul style="list-style-type: none"> • CCJDP • TIZ
2	Lack of enforcement of existing financial management rules and regulations	To promote the enforcement of existing financial rules and regulations	Use the Auditor General's report and PAC recommendations to call for the punishment of offenders	<ul style="list-style-type: none"> • Publicise the findings of the AG and PAC annually • Have joint CSOs' calls for prosecution of individuals known to have abused funds 	<ul style="list-style-type: none"> ○ TIZ ○ (Interested • CSOs)
3	Weak supervision of accounting staff in government institutions	To strengthen the supervision function of controlling officers in government institutions	Call for political independence of COs and employment of professionals in accounting and procurement departments	<ul style="list-style-type: none"> • Lobby for the open market employment of PSs • Monitor the implementation of PEMFAR recommendations 	<ul style="list-style-type: none"> • CCJDP • All other Good Governance CSOs
4	Delays in detecting cases of abuse of public funds	To improve the rate at which cases of public funds abuse are detected	Advocate for the decentralisation of the office of the Auditor General to provincial level and support the employment of well qualified staff as internal auditors	<ul style="list-style-type: none"> • Support calls for a law on protection of whistle blowers • Support the PSRP and PSCAP 	<ul style="list-style-type: none"> • TIZ • All other Good Governance CSOs
5	Lack of stiff sanctions against officers who abuse public funds	Have in place stiff penalties for officers and their collaborators found to be abusing public funds	Collaborate with watchdog institutions to sponsor constitutional amendments that create stiffer penalties for errant officers	<ul style="list-style-type: none"> • CSO collaborations in sponsoring constitutional amendments that introduce stiffer penalties • Public exposure of individuals of officers abusing public funds 	<ul style="list-style-type: none"> • All Good Governance CSOs
6	Inadequate information on matters of public finances, management systems and controls	Make information available on matters of public funds abuse	Build strategic partnerships among civil society groups to share information with district level Civil Society structures	<ul style="list-style-type: none"> • Establish advice centres in conjunction with district based CSOs 	<ul style="list-style-type: none"> • AVAP • TIZ • All other interested Governance CSOs

No	Observation	Objective	Proposed Advocacy Strategy	Proposed Activities	Proposed Civil Society Group/s
7	Inadequate knowledge on the rights of ordinary citizens to hold their elected leaders accountable for public finances use	To increase citizen's accessibility to information on the responsibilities of their elected leaders	Support the setting up of constituency offices	<ul style="list-style-type: none"> • Distribute copies of the local government act • Conduct research and distribute results on the roles and responsibilities of MPs 	<ul style="list-style-type: none"> • ZCEA
8	Poor conditions of service of public service workers	To advocate for better conditions of service for public service workers	Support the PSRP	<ul style="list-style-type: none"> • Support and monitor the implementation of the PSRP 	<ul style="list-style-type: none"> • All Good Governance CSOs
9	Lack of financial and political autonomy of most watchdog institutions	To advocate and lobby for the total autonomy of all watchdog institutions	Support constitutional amendments that make watchdog institutions totally independent and reporting to parliament	<ul style="list-style-type: none"> • Support and sponsor constitutional amendments that make watchdog institutions independent and reporting to parliament 	<ul style="list-style-type: none"> • All Good Governance CSOs
10	Appointment procedures of senior government officials such as Permanent secretaries and heads of watchdog institutions being done by the president	To ensure independence of senior public service staff in government and heads of watchdog institutions	To lobby that the employment of permanent secretaries and other professionals in the public service and in watchdog institutions be done on the open market (advertised)	<ul style="list-style-type: none"> • Lobby that PSs and heads of watchdog institutions be hired by the PSC on the open market and report to parliament • Advocate that the PSC comprises members from CSO 	<ul style="list-style-type: none"> • All Good Governance CSOs
11	The public's lethargic attitude to abuses of public funds and corruption	To encourage an attitude of group responsibility on matters of corruption and public funds abuses	Conduct community sensitisation programmes	<ul style="list-style-type: none"> • Conduct Civic education campaigns 	<ul style="list-style-type: none"> • ZCEA • TIZ • CCJDP
12	Lack of popular participation in the scrutiny of people appointed to public office (including political leaders)	To advocate for popular participation in the scrutiny of people appointed to public office	<ul style="list-style-type: none"> • Conduct community sensitisation programmes • CSOs having a say on people appointed 	<ul style="list-style-type: none"> • Conduct radio and TV debates of candidates for public office • Publish CVs of candidates • Insist on candidates declaring their assets • Lobby parliament to include more CSOs in scrutinising people to be ratified 	<ul style="list-style-type: none"> • CCJDP/PLP • TIZ • FODEP • AVAP

No	Observation	Objective	Proposed Advocacy Strategy	Proposed Activities	Proposed Civil Society Group/s
				<ul style="list-style-type: none"> • Conduct educational. Campaigns 	
13	Insufficient capacity at district and sub district level to monitor development projects	Build capacity in monitoring and evaluation of district projects through DDCCs	Conduct training in M&E with district level structures	<ul style="list-style-type: none"> • Conduct training of DDCCs in M&E • Conduct capacity building workshops for RDCs 	<ul style="list-style-type: none"> • TIZ • Urban Insaka • Other Interested Good Governance CSOs
14	Ignorance, especially at district and sub district level of procurement procedures of government contracts	To increase the participation of grassroots businesses in development projects in their areas	Lobby for advertising of tenders through the district council offices	<ul style="list-style-type: none"> • Facilitate the transmission of info on tender opportunities to districts • Support the decentralisation policy • Monitor and advise GRZ on the recommendations on procurement in PEMFAR report 	<ul style="list-style-type: none"> • TIZ • Other Interested Good Governance CSOs
15	Delay in implementation of the adopted decentralisation policy	Advocate for the implementation of the decentralisation policy	Coordinate efforts with the decentralisation secretariat and CSOs in lobbying GRZ	<ul style="list-style-type: none"> • Channel information on progress made on the decentralisation policy to district structures • Advocate for implementation of the policy 	<ul style="list-style-type: none"> • All Good Governance CSOs
16	Low participation by grassroots citizens in the decision making process of their councils	Increased participation of people at grassroots level in decisions of their council	<ul style="list-style-type: none"> • Build capacity of councillors to fully participate in council activities and also explain council decisions to the people • - Advocate for minimum educational levels for councillors in urban and rural councils 	<ul style="list-style-type: none"> • Build capacity of councillors to fully participate in council activities • Advocate for minimum educational level for councillors in urban and rural councils • - circulate copies of the local government act through councils and constituency offices of MPs 	<ul style="list-style-type: none"> • Urban Insaka • FODEP • Other Interested Good Governance CSOs
17	Ghost workers being a drain on public resources	Reduction in numbers of ghost workers appearing on GRZ payroll	Advocate for the implementation of PEMFAR recommendations	<ul style="list-style-type: none"> • - Support and monitor the implementation of PEMFAR recommendations on IFMIS 	<ul style="list-style-type: none"> • CCJDP/EJP • All Interested Good Governance CSOs

No	Observation	Objective	Proposed Advocacy Strategy	Proposed Activities	Proposed Civil Society Group/s
18	Insufficient information on the operations of watchdog institutions	Increased information on the operations of watchdog institutions	Community sensitisation programmes	<ul style="list-style-type: none"> • Avail copies of reports on various research findings to district structures • Conduct sensitisation workshops • Circulate brochures from the watchdog institutions 	<ul style="list-style-type: none"> • All Good Governance CSOs
19	Lack of a law on protecting of whistle blowers	Advocate for the passing of a law that protects whistle blowers	Advocate for amendments to the Anti Corruption Act	<ul style="list-style-type: none"> • Collaborate with ACC in supporting a law that will ensure that whistle blowers are protected by the state (i.e identity and not compelled to testify) 	<ul style="list-style-type: none"> • TIZ • All Interested Good Governance CSOs

