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ANNEX 3

to the Commission Implementing Decision on the financing of the annual action plan in favour of the Republic of Zambia for 2022 part 2

Action Document for Partnership to Enhance Public Finance Management and Accountability in Zambia

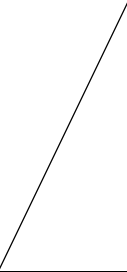
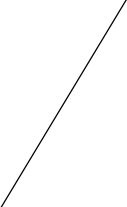
ANNUAL PLAN

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1 SYNOPSIS

1.1 Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	Partnership to Enhance Public Finance Management and Accountability in Zambia OPSYS number: ACT-61219 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
2. Team Europe Initiative	The Action may potentially contribute to a TEI, if a TEI materialises in the future. This action is nevertheless highly relevant independent of whether there will be a TEI or not.
3. Zone benefiting from the action	The action shall be carried out in Zambia.
4. Programming document	Multi-Annual Indicative Programme (MIP) 2021-2027 between the Republic of Zambia and the European Union.
5. Link with relevant MIP(s) objectives / expected results	Priority Area 3: “To build a more fair, inclusive and peaceful society in Zambia and ensure collaboration between government authorities and non-state actors” Specific objective 3.2: “Supporting public sector reform for improved delivery of public services and domestic accountability”, <ul style="list-style-type: none"> Result 3.3: “Efficiency, accountability and transparency of the public administration, enabling quality public service delivery are improved”.
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	DAC 151: Government & civil society
7. Sustainable Development Goals (SDGs)	Main SDG: SDG 16 (peace, justice and strong institutions) Other significant SDGs: <ul style="list-style-type: none"> SDG 5 (gender)
8 a) DAC code(s)	DAC 15111 - Public finance management – 50% DAC 15114 - Domestic revenue mobilisation – 25% DAC 15150 - Democratic participation and civil society – 25%
8 b) Main Delivery Channel	13000 - Third Country Government (Delegated co-operation)

9. Targets	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services		<input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	
Connectivity @		<input checked="" type="checkbox"/>	<input type="checkbox"/>	
digital connectivity energy transport health		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	

	education and research	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @ (methodology for marker and tagging under development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	<p>Budget line(s) (article, item): BGUE-B2022-14.020122-C1-INTPA</p> <p>Total estimated cost: EUR 30 000 000</p> <p>Total amount of EU budget contribution EUR 15 900 000</p> <p>This action is planned to be co-financed in joint co-financing by:</p> <p>Federal Republic of Germany (BMZ) for an amount of EUR 9 500 000.</p> <p>United States Agency for International Development (USAID) for an amount of USD 5 000 000 (equivalent to EUR 4 600 000)</p>			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	<p>Direct management through:</p> <ul style="list-style-type: none"> - Grants, including twinning - Procurement <p>Indirect management with entity(ies) to be selected in accordance with the criteria set out in section 4.4.4</p>			

1.2 Summary of the Action

After the 2021 general elections in Zambia, a new administration was elected, under the leadership of President Hakainde Hichilema. The “new dawn” government has expressed strong commitment to reforming the public administration, fighting corruption and upholding the rule of law.

The COVID-19 pandemic has heightened the country’s pre-existing macro-fiscal vulnerabilities. The previous administration’s handling of public funds and the pandemic’s impact on expenditure and growth has precipitated the country towards debt default, consequently dramatically reducing the fiscal space available for public service delivery and putting excessive pressure on revenue mobilisation. As a result, Public Financial Management (PFM) reforms are very high on the political agenda of the new government and aligned with IMF priorities. Corruption and mismanagement of public resources have led the country to its current unsustainable fiscal position and arguably the demise of the previous government. The new administration has committed to improving public sector transparency and accountability, including by enhancing oversight institutions’ independence and autonomy.

The proposed action contributes to MIP Priority Area 3 *“To build a more fair, inclusive and peaceful society in Zambia and ensure collaboration between government authorities and non-state actors”*. Particular focus will be on specific objective SO 3.2 *“Supporting public sector reform for improved delivery of public services and domestic accountability”*, Result 3.3 *“Efficiency, accountability and transparency of the public administration, enabling quality public service delivery are improved”*. The action contributes to the 2030 Agenda and Sustainable Development Goals (1, 16, 17 and 5), the Addis Ababa Action Agenda¹, the new European Consensus on Development² as well as the EU-Zambia CSO Roadmap³ and the Gender Action Plan III (2021-2025)⁴. The action is equally well anchored in the Commission’s staff working documents, such as “Collect More – Spend Better”⁵. The Addis Tax Initiative⁶ kept domestic revenue mobilisation (DRM) centrally on the political agenda since 2015, fostering collective action for support of developing partners’ capacities to mobilize taxes and duties. The ATI Declaration 2025⁷, launched in April 2021, promotes gender responsive tax systems in developing countries that benefit societies and economies by supporting investment and economic growth, strengthening gender equality, protecting the environment, and reducing inequalities.

The action aims at supporting the Government of the Republic of Zambia (GRZ) to implement its planned PFM Reform Strategy, its Revenue Action Plan, and develop its Medium-Term Revenue Strategy, aimed at restoring fiscal sustainability and improving efficiency and effectiveness of public resource allocation, and spending, for better public service delivery. This will help the country achieve its national development objectives. The Action will also aim at supporting the national accountability system and assist the government in fighting corruption.

In this context, we propose to structure the action around the following two components:

- **Component 1: Public revenue and expenditure management.** The action will support the GRZ to implement its PFM Reform Strategy, with an emphasis on outputs, aiming at strengthening budget credibility. The action further aims at ensuring reliable provision of domestic funding for public service delivery in the social sectors and thus include fiscal decentralisation. This includes strengthening transparency and accountability in budget planning and execution, including procurement. In addition, the action will continue to support the GRZ to collect domestic revenues more efficiently, by assisting in the design of effective, gender responsive, environmentally and socially responsible domestic revenue mobilisation policies. The component will also strengthen the institutional capacity of the Ministry of Finance and National Planning (MoFNP) and other core PFM actors to deliver on their mandate with a focus on change management to implement strategic PFM reforms.
- **Component 2: Transparency and accountability.** The action will strengthen the national accountability system by enhancing transparent handling of funds, legislative oversight and external scrutiny of the

¹ https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf

² https://international-partnerships.ec.europa.eu/policies/european-development-policy/european-consensus-development_en

³ https://www.eeas.europa.eu/sites/default/files/documents/Brochure%20_%20CSO%20Roadmap%20%282021-24%29.pdf

⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020JC0017&from=EN>

⁵ European Commission, Directorate-General for International Cooperation and Development, Collect more – spend better : achieving development in an inclusive and sustainable way : staff working document, Publications Office, 2016, <https://data.europa.eu/doi/10.2841/37400>

⁶ <https://www.addistaxinitiative.net/>

⁷ <https://www.addistaxinitiative.net/sites/default/files/resources/ATI%20Declaration%202025%20%20%28EN%29.pdf>

government's operations. The action will also support GRZ's pledge to a zero-tolerance for corruption, and to uphold the independence of the institutions mandated to investigate and prosecute corruption cases.

The action will mainstream human rights, democracy and gender equality, under EU Gender Action Plan (GAP) III, as cross-cutting issues. It will engage with state and non-state actors. A particular focus will be on empowering civil society to enhance its role in the national accountability system. The Action further aims at improving the climate responsiveness of the PFM systems, in view of Zambia's commitment to climate actions, enshrined in its Nationally Determined Contributions (NDCs) to the Paris Agreement on Climate Change.

This action has been designed as a joint programme with Germany and USAID. In a "Team Europe" spirit, Sweden has also collaborated and participated in its design. The action builds upon successful PFM programmes, notably the 11th EDF funded "*Support to Effectiveness and Transparency in Management of Public Resources (EFFECT)*" programme, co-founded by Germany, which also has components on accountability, transparency and civil society participation. The action will complement on-going engagements in PFM and public sector accountability, including EFFECT, the Enabling Access to Justice, Civil Society Participation, and Transparency (EnACT), co-funded with Germany, and Zambia Revenue for Growth (R4G) funded by USAID. The design further takes into account lessons learned and experiences made under projects funded by Sweden. As a result, the action will accommodate the strategic PFM priorities of all participating donors and entails contributions from the major PFM donors in Zambia. The EU cooperates with other development partners, including the World Bank (e.g. on fiscal decentralisation) and the IMF, to ensure complementarity and increase outreach and impact of the action.

2 RATIONALE

2.1 Context

Zambia is a large, land connected and strategically located country on the central plateau of the Southern African region. Its population is estimated at 17.9 million, growing rapidly at 2.9% per year, with a low population density (13 inhabitants/sqkm). With 53.4% of its population under 18, Zambia is one of the world's youngest populations by median age. Although one of the most urbanised countries in Sub-Saharan Africa (SSA), the majority of people (62%) lives in rural areas, depending on subsistence agriculture for their livelihoods.

Zambia achieved lower middle-income (LMIC) status in 2011 and is striving to transform into a prosperous middle-income nation by 2030 (National Vision 2030). The Vision 2030 is implemented through a series of five-year National Development Plans (NDPs), the current being the Seventh National Development Plan (7NDP) 2017-2021. The 7NDP commits to improve public finance management and recognises "Improved transparency and accountability" as a critical outcome. It proposes to achieve this outcome by strengthening transparency and accountability mechanisms, including the oversight function of the National Assembly, as well as by strengthening public financial management, by promoting accountability and transparency in the use of public resources, to ensure prudent use of resources. The 8NDP has been approved by the cabinet in April 2022 and will be submitted for adoption by the National Assembly in mid-2022. It has the following four Strategic Development Areas: 1) Economic Transformation and Job Creation, 2) Human and Social Development, 3) Environmental Sustainability and 4) A Good Governance Environment.

Macroeconomic evolution

Zambia continues to struggle to translate economic growth into poverty eradication and reduction of inequalities, despite impressive growth rates in the last decade and reaching LMIC status in 2011. The extractives-based growth has not significantly contributed to poverty reduction. Poverty remains widespread and severe and inequality between urban and poor areas is high. With a Gini index value of 57.1, Zambia is amongst the five countries with the highest income inequalities in the world, while 57.5% of the population live below the internationally agreed upon \$1.90 poverty line.

In recent years, Zambia's economic performance has slowed down, with real GDP growth contracting from 4% (2018) to 1.4% (2019), reflecting a decline in mining sector activity as well as a severe drought, impacting on both, agricultural outputs, and hydro-electric power generation⁸. Exogenous shocks (climate change, COVID-19 pandemic, Ukraine crisis) have amplified Zambia's macroeconomic vulnerabilities, which have increased over the

⁸ Zambia is ranked 137 out of 182 on the ND-Gain 2019 Climate Change Vulnerability Index - <https://gain.nd.edu/our-work/country-index/>

years, as long-awaited structural reforms and their implementation have not yet taken place. The COVID-19 pandemic, combined with the previous administration's handling of PFM triggered the first recession in 20 years. The economy contracted by 3% in 2020⁹ in a context of high inflation. Inflation has been above the government's target band of 6-8% since May 2019¹⁰. Year-on-year inflation reached 24.6% in June and July 2021. The Zambian Kwacha (ZMW) has been under severe pressure, depreciating by 50% against the US Dollar in 2020. In recent years, fiscal policy has been expansionary. Fiscal deficits have been on the rise, resulting in a reduction of fiscal space: over 2007-2012, fiscal deficits averaged 1.7% of GDP p.a., but this average rose sharply to 9.0% of GDP p.a. in the subsequent period of 2013-2019¹¹. In 2020, the fiscal deficit worsened, registering at 14.5% of GDP. While the major factors behind the fiscal overruns, in recent years, have been interest payments on external non-concessional debt and large-scale, often overpriced capital expenditure projects, the COVID-19 pandemic has certainly exacerbated the situation in 2020, with revenue declines and expenditure pressures. Zambia is once again experiencing a debt crisis, having borrowed extensively during the last decade. A sharp rise in public debt has resulted in debt service costs, crowding out other spending lines, affecting foreign exchange reserves and a growing fiscal deficit. The long-term economic and fiscal consequences, including access to finance, shrinking fiscal space and further currency depreciation, negatively impacts Zambia's competitiveness and economic recovery. Further, climate change is unequivocally impacting the economic and fiscal situation of Zambia, as a key structural risk affecting sectors such as agriculture and energy. This highlights the need to incorporate climate-smart solutions in Zambia's long-term growth strategy.

In 2022, Zambia shows some signs of stabilisation and recovery. The GDP is projected to have grown by +4.3% in 2021¹². Year-on-year inflation has been progressively decreasing to 10.2% by May 2022¹³. In 2021, the ZMW climbed to around ZMW 22.6/USD mid-July, before easing back to below ZMW 18/USD in three successive episodes, following official announcements which provided some measure of reassurances on the short-term political and economic stability of the country, provoking a temporary shift in market sentiment. In late July 2021, the Minister of Finance announced that the IMF would allocate USD1.3 billion SDR to Zambia. This contributed to boost the country's forex reserves. In late August, the Presidential election resulted in a peaceful political transition, with a transfer of power to the opposition. In early December, the IMF and the government jointly announced the successful conclusion of a staff level agreement (SLA). The government is in the process of obtaining financial reassurances from the Official Creditors Committee, a prerequisite for an IMF support programme under the Extended Credit Facility. The precise timeframe is unknown as assurances from all official creditors, including China, are required.

Current situation in the PFM sector

Since the early 2000s, Zambia has embarked on a series of successive PFM reforms to improve transparency, accountability and efficiency in the management of public resources. The PFM reforms are anchored at the Ministry of Finance and national Planning (MoFNP), but spread through line ministries, accountability agencies (e.g. the Office of the Auditor General), and the National Assembly. Development partners have been actively engaged in support of the government's PFM reform agenda since 2000. PFM has been under intense scrutiny. With cooperating partners' support, a number of fiscal diagnostics have been implemented in the past few years, including the Public Expenditure & Financial Accountability Assessment (PEFA); the Tax Administration Diagnostic Assessment Tool (TADAT), the Public Investment Management Assessment (PIMA), the Supreme Auditing Institutions Performance Management Framework (SAI PMF), the Report on Observance of Standards and Codes, Accounting and Auditing (ROSC AA), the Methodology for Assessing Procurement Systems (MAPS), and a Debt Management Performance Assessment (DeMPA).

The fourth PEFA assessment (earlier assessments were done in 2005, 2008, 2012) reported relatively strong performance for almost all the performance indicators (PIs) for policy-based fiscal strategy and budgeting, and external scrutiny and audit. However, there has been relatively poor performance for almost all PIs for management of assets and liabilities, and predictability and control in budget execution. Budget reliability, transparency of public finances, and accounting & reporting have mixed results. Important deviations between approved budgets and actual expenditures were still reported and the aggregate actual expenditure was often significantly higher than the approved budget. Budget releases were often delayed and payment arrears have been accumulating.

⁹ Global Economic Prospects - January 2022, A World Bank Group Flagship Report

¹⁰ The Monthly Bulletin, vol. 209 to vol. 230, August 2019 to May 2022, Zambia Statistics Agency

¹¹ Bank of Zambia Annual Reports – 2007 to 2020, <https://www.boz.zm/annual-reports.htm>

¹² World Economic Outlook: War Sets Back the Global Recovery – April 2022, IMF.

¹³ The Monthly Bulletin – May 2022, Zambia Statistics Agency

To address some of these constraints, a number of reforms have been implemented to strengthen the legal framework, support systems and PFM institutions to further enhance planning, budgeting and expenditure control. The reform of the legal framework includes the enactment of the National Planning and Budgeting Act (NPBA) and the revision of the Public Finance Act, the Public Procurement Act, as well as the Loans and Guarantees (Authorization) Act. The NPBA, enacted on 26/10/2020, prescribes a multi-year planning and budgeting framework including a National Development Plan, a Medium-Term Expenditure Framework (MTEF), and performance or output-based budgeting (OBB). The Public Financial Management Act No. 1 of 2018 was enacted in April 2018. The government is actively working on the design of a new PFM Reform Strategy, expected for the end of 2022. These reform efforts present a new opportunity for continued engagement and partnership in enhancing effectiveness, transparency and accountability in the government's PFM system.

In December 2020, in reaction to the economic and fiscal crisis the country was facing, government launched the Economic Recovery Programme 2021-2023 (ERP), as a successor to "Zambia plus" under the 7NDP, largely under-implemented and falling short of its targets. The objectives of the ERP are to restore macroeconomic stability, achieve fiscal and debt, sustainability, restore growth, dismantle domestic arrears and safeguard social sector spending. The programme commits to make progress in some key PFM areas, including domestic arrears, debt management and domestic revenue mobilization.

In April 2022, the cabinet approved the draft 8NDP 2022-2026. The 8NDP will address some of the key constraints identified by the government, including macroeconomic and fiscal vulnerabilities, low economic diversification, job creation and low skilled labour, poor quality access to and delivery of social services, insufficient progress on decentralisation, while pursuing the goals of Vision 2030. Yet, there is a notable disconnect between the transformational ambitions and the fiscal consolidation needed to address Zambia's challenging economic and financial realities.

2.2 Problem Analysis

The action seeks to address performance constraints of PFM as impediment to public service delivery. The most important priorities that have been identified for the present action are detailed below. To address key systemic and capacity constraints in PFM, the MoFNP has undertaken the design of a PFM Reform strategy, expected for the end of 2022. The strategy is foreseen to feature the items listed below. The most important priorities that have been identified for the present action are the following:

Budget credibility: Every year since 2013, the credibility of the national budget has been eroded by budget overruns leading to widening fiscal deficits, growth in the national debt stock and an increase in expenditure arrears. Significant deviations from the appropriated budget at the aggregate level and within the budget have been recorded. The outturn, as a percentage of the original budget, was respectively 110%, 111% and 114%, for 2018, 2019 and 2020. In view of higher expenditure relative to revenues, the fiscal deficits, on a cash basis, have been higher than planned at 7.6%, 9.1% and 14.5% of GDP for 2018, 2019 and 2020 respectively¹⁴. These systematic fiscal slippages have led to total public debt of USD 30.9 billion¹⁵ without interest arrears as at December 2021 and an accumulation of domestic arrears of ZMW 76.6 billion¹⁶ as at end-September 2021. Unsustainable debt financing led to a default in late 2020.

The reasons for this lack of fiscal sustainability are manifold. The MTEF needs improvement in order to provide a credible medium-term fiscal ceiling for political decisions relating to resource allocations. There is a persistent disconnect between the NDPs and the budget, and between the approved budget, commitments in contracts, and the actual release of the funds. More robust and reliable macro-economic forecasts are needed, so not to rely on too optimistic GDP estimates, and subsequent available fiscal space. Challenges can also be attributed to failure to comprehensively budget for all expenditures implied by the NDP and the strategic plans of the Ministries, Provinces and Government Spending Agencies (MPSAs). The decoupling of political decision-making and budget cycle contributes to frequent changing of expenditure priorities outside of the planning and budgeting process. The change in government in August 2021 has generated high expectations, both in an economic and political terms. However, persistent challenges at technical level induce a disconnect between announced measures and their implementation. Nevertheless, the change in government presents a window of opportunity to substantially reform PFM in Zambia. The government under President Hakainde Hichilema has committed to improve public sector accountability and it has intensified the fight against corruption. This has led to the investigations and, in some

¹⁴ Bank of Zambia – 2020 Annual Report

¹⁵ Debt Statistical Bulletin – End 2021, Ministry of Finance and National Planning

¹⁶ 2022-2024 Medium Term Budget Plan (White Paper)

cases, arrest of civil servants including controlling officers in ministries. Coupled with the demand for fiscal consolidation and reforms under the planned IMF programme, the action would be operating under more favorable political framework conditions than those encountered in previous years.

Inaccurate costing of delivering budget programs, leads to frequent requests for supplementary budgets (e.g. due to dramatic overspending on subsidies), causing disruption to planned expenditures.

Regarding the budget execution processes, only one-fifth of the 500 procuring entities have switched from manual procedures to using the electronic procurement system (e-GP). Consequently, as of now, there is not enough overview available as to which procurement procedures are being used by the procuring entities. Weak cash management, and inefficient commitment controls have further eroded fiscal discipline. As a result of serious challenges to manage commitments, the MoFNP is unable to control expenditure beyond basic cash rationing. The Budget Office makes decisions about what gets paid on a daily basis, balancing submitted invoices and competing pressures from powerful MPSAs, suppliers, and politicians. In this context, MPSAs cannot enter commitments when they occur, up to the level of their appropriations limits, as expenditure transactions are typically only entered into Integrated Financial Management Information Systems (IFMIS) at the very final stage of the transaction, when payment needs to be disbursed. MPSAs override commitment and cash controls and incur excess expenditures through supplier credit to carry out their functions thereby generating arrears, without the knowledge of the MoFNP. In addition, the complex landscape of manual and digital accounting systems on national and sub-national levels of government, creates numerous touch points, which lead to delays in commitments' data transmission. Lack of accurate, comprehensive and timely information on cash, commitment or procurement plans, or liabilities and revenues leave the MoFNP making disbursements without key considerations, which ultimately impairs project/programme implementation and public service delivery.

These weaknesses are compounded by the continued lack of alignment of budget execution processes, which are largely activity-based (ABB), with the OBB-oriented budget planning process. The OBB budget classification and the IFMIS Chart of Accounts are not harmonised. With inconsistent formats between the approved OBB budget and the executed budget as uploaded in IFMIS, effective expenditure control, as well as the timeliness, comprehensiveness, and reliability of financial reporting, and its use in budgetary decision-making, is severely constrained.

The SAP-based IFMIS is fragmented and has important gaps both in coverage as well as functionality. Core modules such as the module for budget preparation, cash management and bank reconciliation, or commitment controls, have not been rolled out, and interfaces with important systems such as the e-GP or the Payroll Management and Establishment Control System (PMEC) are still missing.

The Auditor General has been reporting recurring weaknesses in government's internal controls, resulting in issues of financial compliance, due to lack of adherence to internal procedures and guidelines, particularly in relation to procurement and contract. In response, Internal Audit has dedicated considerable resources on real-time 'pre-audits' which act as compliance checks before payments are released. Consequently, due to resource constraints, a limited number of 'post-audits' are being undertaken. The 2017 PEFA identified the limited coverage of internal audit and the weak follow-up on external audits' recommendations, as issues negatively impacting the effectiveness of the internal control and audit process.

The current intergovernmental fiscal architecture is still to be put in place, as functions and financial resources have not yet been transferred. There is a need to ensure a predictable, transparent and accountable flow of funds from central to local level, including sector grants, overarching financial accounting and reporting requirements, and/or debt management frameworks.

Gender equality perspectives have been largely ignored in the formulation and distribution of national financial resources in Zambia. Fiscal policies in support of gender mainstreaming require additional attention. In 2018, public funding for gender mainstreaming activities was reduced to 24% from 45% in the previous year.

To address some of the key systemic and capacity constraints in PFM, the MoFNP has committed to designing a PFM Reform strategy, expected for the end of 2022.

Domestic Revenue Mobilisation (DRM): Over the past few years, Zambia's tax regime was characterised by a large number of ad-hoc tax reforms, sparking numerous complaints from the private sector, especially mining companies, advocating for a stable and predictable tax and legal framework. The GRZ has announced plans to modernize the Zambian tax regime, making it more business friendly and reliable and to gradually move away from the focus on taxing income and increasingly rely on the taxation of consumption. This comprehensive review of the tax regime will soon be initiated through the development of a Medium-Term Revenue Strategy. This

process will require broad stakeholder consultations, including the private sector, civil society and academia. As an intermediate step, and with the aim to reach a key IMF benchmark of achieving a tax-to-GDP ratio of 22.5% by 2025, the government is currently developing a Revenue Mobilization Action Plan for the period 2023-2025 with the assistance of the current BMZ/EU programme. This plan will entail a number of tax policy and tax administration measures aimed at boosting public revenues that stood at 20.4% and 20.6% to GDP in 2020 and 2021 respectively.

The MoFNP is responsible for formulating policies on tax and non-tax revenue generation. Currently, the MoFNP is facing challenges to fully fulfil this mandate, due to significant shortcomings in its structure and capacities. Though sufficiently staffed, the unit in charge of tax policy formulation is distracted by tasks that are not within their mandate and lacks dedicated processes and skills for a more strategic design of tax policies. This includes a lack of instruments to forecast the impacts of individual tax policy changes on public revenues, but also on factors such as economic growth and employment, wealth and income distribution, gender equality or environmental and climate impacts. In addition, the tax policy formulation process and the revenue targets derived from these policies are not well-integrated and aligned into the Medium-Term Expenditure Framework (MTEF) process. The MoFNP also manages tax expenditures, such as tax exemptions, tax holidays or preferential tax rates, which are the cause for significant amounts in unrealised revenues each year. Currently, the MoFNP does not report on the revenue implications of these tax expenditures or to which extend they achieve their intended objectives of stimulating economic activities. With the support of USAID, MoFNP is conducting a cost-benefit analysis of existing tax incentives.

To perform the task of revenue collection, statutory bodies have been established on behalf of the MoFNP. These include the following institutions: Zambia Revenue Authority (ZRA), Ministry of Lands and Natural Resources (MoLNR), Ministry of Home Affairs (MoHA), Ministry of Commerce, Trade and Industry (MoCTI), the Road Development Fund, etc.

The overall performance of revenue collection for the period 2018 to 2020 was respectively at between 104%, 106% and 90%. Except for 2020, both tax and non-tax revenue have performed above target. Average revenue distribution is roughly 80% tax, versus 20% non-tax, while grants represent less than 2% of total revenue. The ZRA collects the bulk of government revenues. While aggregate revenue has been performing well, there is a high level of variance in revenue composition, which points at low performance in forecasting tax and non-tax revenue. The high volatility of the local currency against other major currencies also has an impact on revenue performance, particularly for trade taxes and consumption taxes such as excise duty. There are no expenditure adjustment mechanisms to match the revenue flows.

Overall, ZRA has a robust tax-administration structure and has made good progress with the modernization and automation of revenue collection processes. The 2022 TADAT (Tax Administration Diagnostic Assessment Tool) results show however that on all but one of the performance indicators, the organization's progress has either stagnated or even slightly reversed since the last TADAT assessment. This result is partly due to the fact that many reform efforts have yet to be fully implemented throughout the entire organization and across the division between direct and indirect taxation. Digitalization has been at the forefront of ZRA's reform initiatives, but serious challenges remain. The organization's backbone system, TaxOnline II, is commendable for being a home-grown IT-solution, but suffers from shortcomings, especially in the area of taxpayer data management. The introduction of the Bulk Intelligence Data Analysis (BIDA) system will significantly increase ZRA's ability to effectively analyse taxpayer data and identify cases of non-compliance. To fully exploit the system's potential, ZRA needs to be connected to other government agencies and their taxpayer data sources through the government service bus. The Authority is relatively transparent and has developed a stronger focus on encouraging voluntary compliance by providing an increasing range of taxpayer services as well as taxpayer information and support through various channels. Yet, many of the "offline" services still remains only available in urban centers where ZRA has offices. To address this challenge, the organisation has initiated a more systematic cooperation with the local Councils. Another persistent challenge for ZRA is the timely management of VAT refunds that have accumulated to unsustainable levels. In addition, the authority is struggling to effectively manage its high levels of tax arrears. Information on redress processes and procedures is widely available, including appeals to the tax appeals tribunal.

During budget execution, inter-agency and MoFNP inter-departmental communication and coordination is limited, and the revenue collecting agencies provide little or no information on revenue flows and revenue forecasts are not prepared. The recording of actual non-tax revenue is currently done manually at MPSA level as the IFMIS revenue module is not loaded in the system. With a manual revenue collection reporting system, and limited capacity in revenue estimates, in-year revenue forecasts are not prepared. The Auditor General reports weak

internal controls in revenue collection, and noted failures and delays in the collection of government revenue and unaccounted for revenue.

Public sector accountability and corruption: In the past few years, political and economic governance in Zambia has declined. Public sector faces considerable structural constraints. A focus on short-term political expediency and personal gains, had impaired the implementation of reform plans to strengthen the country's fiscal position and to improve public policy efficiency and effectiveness. Powerful political and economic interests have obstructed the introduction of reforms to key economic sectors. Political interference in the bureaucracy and a lack of decentralization remain areas of concern. The increasing lack of transparency in the management of public resources has made it difficult to assess the efficiency of public policies. Large public investments have failed to deliver on their promises, partly due to a weak public infrastructure management system and a lack of transparency in public procurement.

Corruption has long been a challenge in Zambia. There is a common perception that corruption is widespread and largely ignored. The country's ranking has been worsening on Corruption Perception Index, sitting at 117 of 180 countries. Corruption in Zambia is a major impediment to access to public services and an obstacle for conducting business. Oversight institutions have limited autonomy and are underfunded, generating public scepticism as to their effectiveness.

The GRZ has taken a strong stance on public sector accountability. The President has committed to prioritise the fight against corruption and to promote measures, aiming at improving public policies efficiency and effectiveness, in a context of very tight fiscal space. The details of the government's strategy and the exact content of its reform programme remain to be made public. The GRZ has requested the support of the IMF to conduct a detailed diagnostic analysis public sector governance weaknesses and make specific and prioritized reform recommendations to strengthen governance. The Country Governance Diagnostic report is expected for mid-2022.

The Zambia Statistics Agency has embarked on strengthening the statistical capacities of Planning Units through the National Strategy for the Development of Statistics II (2019 -2024). The VNR 2020 indicated that data inadequacies are still hampering the country's ability to effectively monitor and evaluate development programmes, contributing to hinder progress on public sector accountability. Among current challenges, the country's statistical capacity remains limited by lack of data management mechanisms/systems; limited coordination/collaboration within and between institutions; weaknesses in the sector information management systems; limited disaggregation of data.

The institutions that will benefit most from this programme include the MoFNP, the ZRA, the Office of the Auditor General (OAG), the Anti-Corruption Commission (ACC), the National Assembly of Zambia (NAZ), and Civil Society Organisations (CSOs).

The MoFNP (duty bearer) is the main coordinating body responsible for public financial management. The Ministry is also the principal actor in policy formulation in respect of public finance, and as such responsible for the financial soundness of government's economic policies and for the proper control of revenue and expenditure. It is responsible for formulating policy on revenue generation for the government. The Ministry is responsible for the preparation, implementation, monitoring and evaluation of the NDP, for the formulation of economic development policies, for the preparation of the MTEF and the annual national budget. The Ministry also oversees statutory bodies that perform other specialised functions, including the Bank of Zambia (for monetary policy management), ZRA (for tax administration), and the ZPPA (for public procurement regulation). MoFNP will be a key actor and beneficiary institution in this Action.

The ZRA (duty bearer) operates as a semi-autonomous institution, funded from general revenues. It administers taxation on behalf of government, in line with government tax policy, as may be prescribed by the GRZ through tax legislation. While ZRA is entrusted with the responsibility of tax-revenue collection and administration, the tax policy function is with the MoFNP. Due to its exclusive mandate, ZRA plays an integral role in public financial management. In this Action, the ZRA will play a critical role in activities pertaining to DRM.

The OAG (duty bearer) has the role of auditing all revenues raised by the GRZ and appropriations made to each Ministry and other government institutions, to ensure compliance with the provisions of the Public Finance Act and other regulations. The Auditor-General scrutinizes the use of financial resources and ensures that the GRZ delivers services in an equitable, efficient and effective manner for the benefit of all citizens. Under the Revised Public Finance Act 2018, the Auditor General also has the mandate to carry out value for money and other specialized audits.

The ACC (duty bearer) is mandated to prevent, investigate and prosecute corruption cases. The ACC has been facing challenges to its independence and impartiality with regular political interference. With the government's "Zero tolerance policy on corruption in all its forms", the ACC's autonomy has improved, but continues to face substantial capacity constraints.

The National Assembly of Zambia (NAZ) (duty bearer) performs four core functions, namely law-making, representation, budget scrutiny and approval, and oversight. Its authority is derived from the Constitution of Zambia (Amendment) Act No. 2, 2016, which states that the representation of the will of the people and the legislative and oversight authority of the GRZ are vested in and exercised by Parliament. The NAZ appropriates funds for expenditure by state organs and institutions, and monitor policy implementation of the executive in various portfolios, through Parliamentary committees.

CSOs and non-state actors (NSA) are key partners and take on a two-fold role in the envisioned Action: They are target groups of the Action and will benefit from capacity building activities and they will play an intermediary role between citizens and the public sector, representing the right holders (people) and specially those living in the most vulnerable situations. More specifically, in terms of policy formulation and implementation, civil society will provide meaningful contributions to decision-making as well as planning and monitoring processes. In order to increase the demand for state accountability mechanisms, CSOs and NSAs will play an intermediary role between citizens and state institutions. The Action will also mobilize local think-tanks and academia for capacity building and evidence based policy making and state/non-state actors dialogue.

The Action will also engage with key institutional actors in PFM, including the Zambia Public Procurement Authority (ZPPA), the SMART Zambia Institute (e-Government), the National Institute of Public Administration (NIPA), the Cabinet Office (Public Service Division), the Zambia Statistics Agency (ZamStats) and the Bank of Zambia (BoZ).

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The **overall objective (impact)** of the action is to improve public service delivery in Zambia.

The **specific objectives (outcomes)** of the action are:

- **SO1:** To enhance domestic revenue mobilisation, budget credibility and gender sensitivity;
- **SO2:** To strengthen public sector accountability;

The **outputs** to be delivered by the action, contributing to the corresponding specific objectives (outcomes) are the following:

Contributing to specific objective 1: To enhance domestic revenue mobilisation, budget credibility, climate and gender sensitivity.

- 1.1 Improved capacity of MoFNP for fiscal sustainability;
- 1.2 Improved operational and allocative efficiency, as well as climate and gender sensitivity of public spending;
- 1.3 Strengthened MoFNP's capacities to design a more effective, efficient, gender responsive and equitable tax system;
- 1.4 Improved capacity of ZRA for compliance management;
- 1.5 Strengthened inter-governmental fiscal architecture;
- 1.6 Improved reform capacity of PFM sector stakeholders for institutional development

Contributing to specific objective 2: To Strengthen public sector accountability.

- 2.1 Enhanced capacity of oversight institutions to influence on policies and follow-up on the executive's compliance with the legislation;
- 2.2 Improved co-operation and co-ordination systems among oversight institutions;
- 2.3 Strengthened capacity of the civil society for oversight of public resources management.

3.2 Indicative Activities

Contributing to specific objective 1: To enhance domestic revenue mobilisation and improve budget credibility, climate and gender sensitivity.

Activities relating to output 1.1: Improved capacity of MoFNP for fiscal sustainability.

- Support the implementation of the Integrated PFM Reform Strategy;
- Support the development of a PFM Digitalisation Roadmap and ICT investment plan and enhance interoperability/operational interface between IFMIS and other selected PFM digital systems;
- Support OBB budget implementation;
- Support improved governance, process design, and data quality for macro-economic modelling and forecasting;
- Strengthen MoFNP capacity to manage a comprehensive process of dismantling of domestic arrears.

Activities relating to output 1.2: Improved allocative and operational efficiency, as well as climate and gender sensitivity of public spending.

- Strengthen GRZ's cash management system, including through improved co-ordination between key actors, and expand TSA coverage;
- Improve interlinkages between 8NDP and budget, including between strategic and operational plans, performance contracts, investment and procurement planning, and the budget;
- Support internal control and audit systems to enhance compliance with PFM rules and regulations;
- Support use and roll-out of electronic procurement system;
- Support the improvement of payroll controls including sensitization of MPSAs.

Activities relating to output 1.3: Strengthened MoFNP's capacities to design a more effective, efficient, gender responsive and equitable tax system.

- Develop a Medium-Term Revenue Strategy;
- Review tax policy-making process;
- Review revenue forecasting and interface with macroeconomic modelling processes;
- Conduct a gender-sensitive revenue incidence analysis of existing tax policies;

Activities relating to output 1.4: Improved capacity of ZRA for compliance management.

- Interface ZRA core systems to the Government Service Bus and systems of strategic partner institutions;
- Expand functionality of the Bulk Intelligence Data Analysis (BIDA) system, to constitute the backbone of ZRA's risk management;
- Support implementation of ZRA's Customer Experience Plan;

Activities relating to output 1.5: Strengthened inter-governmental fiscal architecture.

- Assist MoFNP in designing regulatory instruments and guidance to ensure effective and accountable use of funds by spending entities;
- Support the review of sector grants in collaboration with line ministries;
- Contribute to raising the revenue collection potential from local level through the MTRS process;

Activities relating to output 1.6: Improved reform capacity of PFM sector stakeholders for institutional development.

- Develop an organisational development, change management and capacity building strategy and plan;
- Review the existing institutional and functional arrangements in line with the current PFM regulatory framework;
- Review requirements for PFM related civil service recruitments, induction, and career advancement;
- Establish a talent pool of PFM practitioners and a scholarships programme;
- Develop Leadership and Management training courses including specifically for female leaders.

Contributing to specific objective 2: To strengthen public sector accountability.

Activities relating to output 2.1: Enhanced capacity of oversight institutions to influence on policies and follow-up on the executive's compliance with the legislation.

- Develop a costed implementation plan for the OAG 2022 - 2026 Strategic Plan;
- Assess Parliament's Post-legislative scrutiny procedures, structures, and resources;

Activities relating to output 2.2: Improved co-operation and co-ordination systems among oversight institutions.

- Development of an Interagency coordination framework to facilitate effective partnership among the various law enforcement and investigative agencies such as the ACC, FIC and Zambia Revenue Authority (ZRA).
- Reviewing legislation and enhance operationalisation of existing MoUs between public bodies;

Activities relating to output 2.3: Strengthened capacity of the civil society for oversight of public resources management.

- Support the development of a civil society-led platform with local civil society organizations working on social accountability, anti-corruption and governance to influence the design, implementation and monitoring of PFM related policies;
- Assessments of the gendered impacts of corruption in social service delivery;
- Support CSOs to develop Social Accountability methodology and tools and roll-out pilot projects.

. It is subject to the formal confirmation of each respective member's meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise, the EU action may continue outside a TEI framework.

3.3 Mainstreaming

Environmental Protection & Climate Change

The action supports the GRZ to mainstream climate change as a cross-cutting issue across PFM functions. One crucial way of tackling climate change and the sustainability of the country's natural resource management is to adjust current PFM practices to support environment and climate-sensitive policies. While the relationship between PFM and fiscal policy is valid for all policy areas and sectors, the importance of environmental issues and climate change calls for an adjustment of existing PFM frameworks. Green PFM enables a country's financial "plumbing" to work as an integrated government strategy to fight climate change and wider environmental concerns. The action supports initiatives aiming at adapting existing PFM practices to make them environment and climate sensitive, and support the government to meet its national and international commitments, e.g., NDC to the Paris Agreement on Climate Change. The action will launch specific climate focus reviews of the performance of PFM functions, in order to analyse the current status of climate/environmental integration in the budget and its implementation, and identify capacity weaknesses/opportunities, and potentially contribute to the building of a climate-smart budget across annual exercises. The action will also support the government to fully reflect green concerns in the medium-term budget, which outlines expenditure and revenue plans over several years per ministry or policy area. It will contribute to leveraging existing PFM systems and tools for budgetary policy making to achieve climate commitments. When necessary, the action could also support the design and establishment of new tools, procedures and methodologies for environmental and climate impact assessment, while avoiding fragmenting and undermining the effectiveness of core PFM.

Outcomes of the SEA screening

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening

The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening

The Climate Risk Assessment (CRA) screening concluded that this Action is no or low risk (no need for further assessment).

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, the action is labelled as G1. This implies that gender equality is an important and deliberate objective of the action, in each of its components (gender responsive budgeting, gender responsive tax policies and tax administration, specific impact of corruption on women, etc.). In accordance with the Accra Agenda for Action, an important feature of the action will be to continue changing budget practices to address gender equality. The action will build on progresses made during the implementation

of the EFFECT programme and other relevant initiatives, particularly on Gender-Responsive Planning and Budgeting (GRPB). It will focus on improving the impact of existing systems and processes aiming at ensuring that the collection and allocation of public resources is carried out in ways that are effective and contribute to advancing gender equality and women's empowerment. In collaboration with other Cooperating Partners' funded interventions (e.g. R4G), the action will help the government to strengthen its tax administration to identify and reduce the explicit and implicit gender biases in the tax system, including by increasing knowledge about the link between gender equality and revenue raising/tax policies and tax administration practices.

Human Rights

The action will be implemented following the human rights-based approach, encompassing all human rights, with due regard to the working principles of applying all rights, participation and access to the decision making process, non-discrimination and equal access, accountability and access to the rule of law, and transparency and access to information. The action will develop the capacities of 'rights-holders' to claim their rights and 'duty-bearers' to meet their obligations. In line with the human rights-based approach methodology, the action will abide by the 'do no harm principle' to avoid unintended negative impact in terms of human rights.

Civil society will be supported in its role to represent and inform women and men in matters related to the design implementation and monitoring of public policies. Through initiatives to strengthen public sector accountability, groups living in the most vulnerable situations will be better able to assert their rights and report cases of corruption and lack of transparency and effectiveness in service delivery.

Disability

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D0.

Democracy

The Action aims to support democracy in Zambia by advancing the rule of law and state effectiveness through activities aiming at fighting corruption, enhancing transparency in public financial management and improving public sector accountability.

Conflict sensitivity, peace and resilience

The objective of the Action is to improve PFM to increase the delivery of public services. The Action will also support the tax system to become more progressive, which will contribute to decreasing income inequality. Thus, it will contribute to improving both the economic resilience of Zambia and reducing inequalities, as Zambia ranks among the most unequal country in the world.

Disaster Risk Reduction

N/A

Other considerations if relevant

N/A

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External environment	Citizens (women and men) withdraw their support for reform as the pace of reform doesn't meet public expectation	M	M	<ul style="list-style-type: none"> Strike a balance between short-term results and long term transformational changes. Support the inclusiveness of the reform process by promoting public participation, specially women participation and leadership..

				<ul style="list-style-type: none"> Strengthen public trust by improving transparency and accountability.
External environment	Corruption and lack of political will to implement reforms	L	H	<ul style="list-style-type: none"> Design implementation arrangements to secure consistent commitment and management attention from the highest levels of government and establish mutual accountability for progress. Political dialogue with the government in line with the other main donors (i.e., IMF, WB, USAID, Germany) that support PFM Reforms.
External environment	Failure / prolongation of G20 CF process for ZMB on debt restructuring	M	H	<ul style="list-style-type: none"> The action focuses on key PFM aspects for restoring fiscal sustainability, advice to be provided is adaptable to needs and in line with IMF requirements.
Legal and regularity aspects	Uncertain policy environment due to a new government administration.	M	M	<ul style="list-style-type: none"> The Action has been designed to be flexible in implementation, in order to respond to any changes in governance frameworks and a shift in political priorities.
People and the organization	Limited capacity and potential resistance to change at technical level may complicate implementation	H	H	<ul style="list-style-type: none"> Support communication and visibility of the reforms. Support coalition building around the reform. Provide technical assistance and training to ensure smooth implementation of new processes and use of systems. Design streamlined processes and procedures that support smooth and agile project implementation. Ensure the proper sequencing of activities to facilitate achievement of the desired outcomes.
People and the organization	Uncertain organisational environment due to outstanding restructuring of MoFNP	M	M	<ul style="list-style-type: none"> The action will provide organisational & management advices; Dialogue with Cabinet Office (Public Management Service Division) on public service reforms

Lessons learnt:

While the design of the GTZ's PFM Reform Strategy has only recently started, a number of recent assessments and documents shared by the MoFNP were used to identify PFM challenges to be addressed by the action. This includes the OBB downward linkage study, the evaluation of the OAG Zambia Strategic Plan/Restructuring and Institutional Development Project (RIDP VI) by Sweden, and a series of assessment and reviews conducted by the World Bank and the IMF on commitment control, cash management and IFMIS. The design is also informed by the draft mid-term evaluation report of the EFFECT programme, and the lessons identified including the following:

- The design of a new EU PFM assistance programme should be based on a credible problem analysis to validate intervention logic and target changes.
- There must be strong commitment to reform and clear ownership of a PFM Reform Strategy, to increase the potential impact of the EU assistance.
- The innovative use of the Twinning instrument is a positive experience and should be continued for the next programme.

- While system improvement and ICT can be both a facilitator and a driver of change, it is not a substitute for the development of sound institutional, organisational and operational systems.
- Actions, designed to support broad reforms, must be flexible in their structure and implementation modality to adapt to an evolving context and therefore remain relevant and impactful.

3.5 The Intervention Logic

The underlying intervention logic for the action is that strengthening the GRZ's ability to more accurately and more consistently meet its expenditure and revenue targets, will have a positive effect on public service delivery. A better alignment between strategic plans, resources allocation and expenditure will improve budget credibility and gender sensitivity. One component of the action will support the MoFNP to moderate and implement a comprehensive and inclusive PFM reform strategy. This component of the action will also contribute to improving the PFM system in Zambia to deliver on its three core objectives of fiscal discipline, allocative efficiency and operational efficiency.

Building on previous progresses with the rolling-out of Output Based Budgeting (OBB), the action will strengthen the integration between the policy and budget cycles. The re-engineering of the budget process will aim at enhancing its political steering with appropriate and timely strategic, political engagement. The budget calendar will provide more space for MPSAs budgeting. The implementation of OBB will be strengthened through improved costing of public policies and more gender responsive plans and budgets. Realistic budgets are a necessary condition for a solid budget execution, enabling MPSAs to implement their work plan in line with agreed objectives and targets, and their subsequent budget allocations.

The action will support the government to expand and strengthen cash management and commitment control. A functional Treasury Single Account (TSA) is critical to credible cash flow forecasting. The action will support the government to consolidate the Treasury Single Account's (TSA) coverage and limit the proliferation of special purpose accounts. The action will address constraints in some key budget execution processes, such as payroll management and public procurement. In close cooperation with other donors, the Action will support the development and the implementation of a comprehensive IT strategy for PFM, which will aim at improving system integration and interfacing, updating and expanding systems functionalities, improve coherence of IT solutions in PFM and strengthen data governance. A more integrated IT architecture will improve the exchange of data and information. Access to accurate, timely and comprehensive data on commitments, expenditures, and revenue flows, will improve data analysis and forecasting including for macro-economic modelling, revenue forecasting, expenditure profiling, commitment ceilings and cash flow forecasts. Better cash management and commitment control will ensure that MPSAs have timely information on their commitment and expenditure ceiling, as well as timely cash disbursements, and can therefore better plan, prioritize and commit expenditure to implement their work plan, fulfil their objectives, while limiting use of alternative sources of finances, such as supplier credits, which contribute to generating arrears. Reducing the stock and limiting the accumulation of domestic arrears, will alleviate pressure on the private sector and its development. A more realistic assessment of the fiscal space and the resources available at each stage of the budget cycle, will contribute to evidence-based decision making and support the implementation of the government priorities, particularly on social service delivery, and limit discretionary spending on unplanned or non-prioritized transactions. In this context, the impact of fiscal decentralisation (to spending units) for improved service delivery also needs to be considered and the government's reform efforts in this area will be supported. The government's ambitious fiscal decentralisation plans provide opportunities to improve spending efficiencies and effectiveness, but also present some fiduciary risks. While other CP funded programmes cover PFM support spending units (including local authorities at district level), this action will support MoFNP to improve the decentralised fiscal architecture, especially allocation and control mechanisms. In particular, the action will build synergies with World Bank interventions related to fiscal decentralisation, and support progresses with central systems and processes.

The action helps the GRZ to strengthen the network of financial oversight institutions, clarify institutional arrangements, roles and responsibilities. The action will also strengthen the capacity of the internal control and audit framework, and develop the integration of OBB. The action will support a shift from ex-ante internal control to ex-post external control, to allow managers more discretion to manage for results. To improve accountability, follow-up on audit findings will be improved, while capacity to go beyond financial transaction compliance will be expanded to performance audits.

Improving domestic revenue mobilisation in an equitable and sustainable way can significantly underpin social and economic development, by improving fiscal space for social spending. The tax policy function will be strengthened, including by rethinking the tax policy-making process. The development of short- and medium-term domestic revenues strategies will improve the predictability and stability of taxation regimes for citizens and businesses. It will also ensure that the tax system sustainably maximizes public revenue by considering its potential for inclusive economic growth and social development, gender responsive, climate change adaptation and environmental protection. Enhancing the progressivity of the tax system will contribute to reducing inequality (including gender inequalities) and fighting poverty. To strengthen the revenue administration, the action will continue to support ZRA's efforts to improve taxpayer compliance including through taxpayer-oriented services. The action will contribute to reducing urban bias by expanding access to rural communities, while reducing compliance costs for taxpayers. To improve the efficiency of the tax administration, its digitalisation potential will be further exploited. Improving the reliability and comprehensiveness of the taxpayer database, will in-turn strengthen the risk management and audit functions. Similarly, the action could also contribute to enhancing access to customs related information, including by leveraging the potential of digitalisation, especially in the area of border and cross-border management. A more efficient domestic revenue mobilisation will contribute to ensure that sufficient resources are made available to sustain public expenditures and prevent unsustainable accumulation of public debt, freeing fiscal space for spending on public services delivery. The action will build on the out-going EU/German support to ZRA and complement the R4G programme funded by USAID.

The support to the implementation of the PFM Reform Strategy will not be limited to systems, processes and tools. The action will instead take a comprehensive change management approach, supporting elements of the strategy, which will aim at improving the functioning of key PFM institutions. The action will consider opportunities to remedy current performance gaps, but also support forward-looking initiatives to strengthen human resource capacity through trainings and scholarships, particularly for women. The action will support institutions to move away from a silo-based organizational structure, which hinders functional integration and reduces operational efficiency. An expected outcome of this process is to foster coordination and cooperation within the institution, and also with external stakeholders including cooperating partners. A culture of service, trust and performance will promote commitment, cooperation and innovation. A better alignment of organisational resources, systems and activities with the institutional mandate and functions will improve the institution's efficiency and effectiveness, and ultimately the overall PFM performances. Investments in management and leadership skills, but also in building technical expertise, will enable systems, processes and tools to deliver as intended.

To fulfil these objectives, key cooperating partners' resources will be pooled as part of a joint PFM programme, namely Germany and the USAID, and possibly Sweden and Ireland.

The action will also support state and non-state actors to strengthen transparency and public sector accountability. The national accountability system is composed of interdependent institutions. For instance, the auditor's general findings can trigger an investigation by the ACC and prompt legislative action from the National Assembly. Better coordination and cooperation between oversight institutions will improve the overall effectiveness and efficiency of the national accountability system. Improved transparency in the public sector, through better public access to information, will contribute to strengthen accountability, as citizens will have a better understanding of the functioning and performance of the government. It will also result in improved internal information flows leading to better public resources management. Data is important to ensure that the accountability function is fulfilled. To this end, the action will also support the government's effort to raise its statistical capacity particularly in relation to macro-fiscal performance indicators.

Strong and independent oversight institutions will help ensure that the rule of law is enforced, that decisions are based on norms and procedure, and it will also improve the relevance of public policies. This action will complement on-going technical support provided by the EU to the NAZ (budget oversight), the OAG and the ACC under EFFECT, as well as activities under EnACT (co-funded with Germany) aiming at improving accountability mechanisms of state actors, and increasing citizens' demand of state accountability mechanisms. The Action will promote citizen participation, including in monitoring public service delivery, ensuring that important checks and balances are in place. Through social accountability activities, CSOs will increase public awareness of women's and men's right to access public services, improve accountability and enhance external oversight. As a result, improved public sector accountability will positively affect the quality of public services provided and improve the acceptability and credibility of governments.

In addition, improved PFM performance could result in better use of country-systems by international partners, contributing therefore to improving overall aid effectiveness.

The PFM Reform Strategy is expected for the end of 2022. It envisages an inclusive process, identifying current challenges and reform priorities, rather than a fixed set of milestones. As a result, the strategy will evolve during implementation. A new PEFA (including the Gender responsive and Climate module) could be conducted and a report available by mid-2023. A new TADAT has just been completed and is under validation by MoFNP management. At the request of the GRZ, the IMF is conducting a comprehensive Country Governance Diagnostic to support the authority's efforts to strengthen governance and reduce corruption. The mission started in May and a report is expected by July 2022. In addition, the GRZ is committed to an ambitious reform plan. As a result, the action will need to factor-in flexibility to ensure that its support remains relevant as the GRZ identifies its priorities and refines its strategy and that it can adapt to the pace of reform implementation.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the output and outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Results	Results chain : Main expected results (maximum 10)	Indicators : (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	To improve public service delivery in Zambia.	1_ Country Policy and Institutional Assessment (CPIA) 2_ The proportion of budget funds spent on social sectors (sum on health, education and social protection) 3_ Bertelsmann Transformation Index (BTI) (NDICI) on Governance	1_ 3.1 in 2020 2_ tbd 3_ 4.34 (2022)	1_ 4 in 2027 2_ tbd 3_ Improved by 1 point (5.34) in 2027	1_ World Bank CPIA report 2_ Annual financial Reports 3_ Bertelsmann Transformation Index BTI)	<i>Not applicable</i>
Outcome 1	1. To enhance domestic revenue mobilisation, budget credibility, climate and gender sensitivity.	1.1 PEFA PI-2.1, Expenditure composition outturn by function 1.2 Government revenue (tax and non-tax), excluding foreign grants, as a % of GDP and in local currency (**GERF 2.19) 1.3 Scoring in Open Budget Index 1.4 Climate Responsive Public Financial Management Framework - CRPFM—1.1, Budget alignment with climate change strategies	1.1_D+ in 2017 1.2_20.6% of GDP in 2021 1.3_ 30 in 2019 1.4 Baseline to be established in the first year of the project.	1.1 C in 2027 1.2 22.5% of GDP by 2027 1.3_ 41 in 2027 1.4 Tentative B (to be confirmed after baseline)	1.1 PEFA/Ministry of Finance Report 1.2 IMF/World Bank reports 1.3_ OBI Index 1.4 PEFA/Ministry of Finance Report	Public Finance Reforms are continuously updated, monitored and reported on
Outcome 2	2. To strengthen public sector accountability.	2.1. Score for executive accountability (practice) given by Transparency International (TI) in the National Integrity System assessment	1.2 None 2.2 33/100 (2021)	2.1 tbd in 2027 2.2 Improvement by 5 points (38) by 2027	2.1 National Integrity System assessment (TI) 2.2 Transparency International's Corruption Perception Index	Government implements a fully-fledged integrity and anticorruption policy, with establishment of independent corruption prevention institutes

		2.2 2. Ranking on the Corruption Perceptions Index				(including a reporting platform)
Output 1 relating to Outcome 1	1.1 Improved capacity of MoFNP for fiscal sustainability.	1.1.1 Status of the draft PFM digitalisation roadmap and ICT investment plan 1.1.2. Number of MoFNP personnel trained on the macro-economic modelling and forecasting 1.1.3. Status of the draft system for follow-up and management of arrears	1.1.1. None 1.1.2. TBD 1.1.3. None	1.1.1. Drafted and discussed with the stakeholders 1.1.2. TBD 1.1.3. The MoFNP information sub-system for follow-up is designed; the personnel trained	1.1.2. Training lists and assessment 1.1.3. The design document with discussion records	The country's economy continues to recover. Public Reforms are implemented. There is a mid-to-long term PFM strategy with proper performance assessment and reporting framework
Output 2 relating to Outcome 1	1.2 Improved operational and allocative efficiency, as well as climate and gender sensitivity of public spending.	1.2.1. Number of Ministries, Provinces and Spending Agencies (MPSAs) preparing and updating regularly their procurement, commitment, and cash plans are 1.2.2 % change in the number of Government owned bank account in commercial banks 1.2.3. Status of gender-sensitive budgeting methodology 1.2.4. Roll out of the PEFA framework for assessing climate responsive PFM (PEFA Climate)	1.2.1. 0 1.2.2. 17 959 (as of 28 February 2021). 1.2.3. Gender-sensitive budgeting in the annual budgeting methodology 1.2.4. None in 2022	1.2.1. 4 1.2.2. 20% reduction 1.2.3. Gender-sensitive budgeting introduced in the annual budgeting methodology 1.2.4. PEFA Climate published in 2024	1.2.1. tbd 1.2.2. Auditor General Report 1.2.3. MoFNP report 1.2.4. PEFA secretariat Website (
Output 3 relating to Outcome 1	1.3 Strengthened MoFNP's capacities to design a more effective, efficient, gender responsive and equitable tax system.	1.3.1 Status of the draft Medium-Term Revenue Strategy 1.3.2 Status of the gender and environment impact analysis in tax policy-making process	1.3.1 None in 2022 1.3.2 None in 2022	1.3.1 Elaborated and discussed with stakeholders in 2023 1.3.2 A new tax policy process is	1.3.1 MoFNP report 1.2.2 Independent Assessment (tbd)	

				drafted with Gender-sensitive revenue incidence analysis		
Output 4 relating to Outcome 1	1.4 Improved capacity of ZRA for compliance management .	1.4.1. Status of interfacing of ZRA core systems with the government-wide systems 1.4.2 Number of non-ZRA data sources that have been connected to Bulk Intelligence Data Analysis (BIDA) system	1.4.1 Not interfaced 1.4.2 0	1.4.1 Compatible and interfaced 1.4.2 tbd	1.4.1 ZRA report 1.4.2 ZRA report	
Output 5 relating to Outcome 1	1.5 Strengthened inter-governmental architectural architecture.	1.5.1. Status of draft Intergov. Resource Alloc. Framework 1.5.2. Status of draft revenue sharing methods between central government and local government	1.5.1 Not reviewed 1.5.2 Existing methods are inefficient	1.5.1 reviewed and the new framework drafted 1.5.2 new methods are drafted and discussed with the central and local governments	1.5.1 Action's M&E systems and reports 1.5.2 Action's M&E systems and reports, discussion records	
Output 6 relating to Outcome 1	1.6 Improved reform capacity of PFM sector stakeholders for institutional development	1.6.1 Status of the institutional development plan. 1.6.2 Status of the Leadership and Management training course	1.6.1 None in 2022 1.6.2 None by 2022	1.6.1 Developed and discussed with stakeholders in 2025 1.6.2 Developed and incorporated into ZRA and MoFNP training programmes	1.6.1 and 1.6.2 Public Institutions Annual Report, Action's M&E and reporting systems	
Output 1 relating to Outcome 2	2.1 Enhanced capacity of oversight institutions to influence on policies and follow-up on the executive's compliance with the legislation.	2.1.1 Status of draft costing action plan of Office of Auditor General's Strategic Plan 2022-2026 2.1.2. Status of assessment report on Parliament's post-legislative scrutiny.	2.1.1 None 2.1.2. None	2.1.1 Drafted and discussed with the stakeholders 2.1.2. Report is compiled and discussed with the stakeholders	2.1.1 Discussion records 2.1.2. Discussion records	The mandate of oversight institutions is properly reflected in the legislation and the Parliament is able to hold the Executive accountable

Output 2 relating to Outcome 2	2.2 Improved co-operation and co-ordination systems among oversight institutions.	2.2.1 Status of draft National Anti-Corruption Strategy 2.2.2. Status of a design of a coordination system between the law enforcement and oversight institutions	2.2.1 No consolidated strategy in 2022 2.2.2. None in 2022	2.2.1 Consolidated and costed draft National Anti-Corruption Strategy in 2025 2.2.2. Done and discussed with the stakeholders	2.2.1 and 2.2.2. Discussion records with the stakeholders	There is a common platform for coordination and exchange organised by the Parliament
Output 3 relating to Outcome 2	2.3 Strengthened capacity of the civil society for oversight of public resources management.	2.3.1 Number of CSOs' members trained on Social Audit skills and tools, disaggregated by CSO, sex, location	2.3.1 0 in 2022	2.3.1 10 in 2027	2.3.1 Project Evaluation Report	The CSOs are continuously trained and supported in oversight and reporting

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this Action, it is envisaged to conclude a financing agreement with the Republic of Zambia.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the Financing Agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

N/A.

4.4 Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the Action with EU restrictive measures.

4.4.1 Direct Management (Grant)

Twinning Grant: (direct management)

(a) Purpose of the grant

The grant will contribute to output 2.1 under specific objective 2. The twinning grant will strengthen the capacity of the National Assembly of Zambia to exercise its core functions of law-making, representation, budget scrutiny and approval, and oversight. The project will focus on enhancing independence and institutional capacities of the Parliamentary Budget Office, increasing the efficiency of the cooperation of the relevant General Purpose Committees (including the Budget Committee, the Public Accounts Committee and the Expanded Budget Committee) with relevant institutions and other parliamentary entities, as well as civil society.

(b) Type of applicants targeted

Applicants must be EU Member States administrations or their mandated bodies.

4.4.2 Direct Management (Grant)

Grant: (direct management).

(a) Purpose of the grant(s)

The grant will contribute to achieving output 2.3 under specific objective 2. The objective is to develop CSOs capacity to monitor public services delivery, and use the result to advocate for better access and better quality services including through networks and coalitions. The call for proposal will aim at contracting one consortium of CSOs (which could include international organisations), with a proven track record in the activities aimed at, under the result areas and with experience of work in Zambia.

(b) Type of applicants targeted

Eligible applicants are profit and non-profit legal entities and belong to one of the following specific type of organisations: i) non-governmental organisations, ii) public sector entities, iii) private sector entities, iv) local authorities, v) international (inter-governmental) organisations and, vi) civil society organisations.

4.4.3 Direct Management (Procurement)

The procurement will contribute to achieving output 2.2 under specific objective 2.

The support will be based at the Anti Corruption Commission (ACC).

4.4.4 Indirect Management with a pillar assessed entity (GIZ)

A part of this Action may be implemented in indirect management with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). This implementation entails implementation of output 1.1, output 1.2 and output 1.3 under specific objective 1.

The envisaged entity has been selected using the following criteria: GIZ has extensive experience with strengthening PFM in Zambia, and is well established within the MoFNP and ZRA. Commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ), the GIZ plans to continue supporting PFM reform and revenue mobilisation in Zambia. USAID also expressed interest in contributing to a joint Action, with the GIZ as implementing partner. A transfer arrangement with USAID ensures a better donor coordination and division of labour. The activities have been formulated jointly with GIZ. The entrusted entity would carry out the following budget-implementation tasks: contracting, making payments.

4.4.5 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances

In case direct management (procurement) (4.3.3) fails due to circumstances outside of the Commission's control, the alternative implementation modality will be indirect management with a pillar assessed entity, which will be selected by the Commission's services using the following criteria: (1) longstanding experience in working in Zambia; (2) technical capacities and ability to work on public sector accountability and the fight against corruption and (3) availability of transparent and accountable systems in place for efficient and effective project implementation, monitoring and reporting.

In case indirect management (4.3.4) with GIZ fails, due to circumstances outside of the Commission's control, the alternative implementation modality will be in indirect management with a pillar assessed entity, which will be selected by the Commission's services using the following criteria: (1) longstanding experience in working in Zambia; and (2) technical capacities and ability to work on public financial management.

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in currency identified
Implementation modalities – cf. section 4.3		
Objective 1: Enhance domestic revenue mobilisation and improve budget credibility;	10 000 000	
<i>Indirect management with GIZ- cf. section 4.4.4</i>	<i>10 000 000</i>	<i>DE - EUR 9 500 000</i> <i>US – USD 5 000 000</i>
Objective 2: Strengthen public sector accountability	5 100 000	N.A.

<i>Output 2.1 - Twinning Grant (direct management) – cf. section 4.4.1</i>	<i>1 700 000</i>	<i>N.A.</i>
<i>Output 2.2 - Procurement (direct management) – cf. section 4.4.3</i>	<i>1 400 000</i>	<i>N.A.</i>
<i>Output 2.3 - Grant (direct management) – cf. section 4.4.2</i>	<i>2 000 000</i>	<i>N.A.</i>
Evaluation – cf. section 5.2 Audit – cf. section 5.3	300 000	N.A.
Contingencies	500 000	N.A.
Totals	15 900 000	EUR 9 500 000 USD 5 000 000

4.6. Organisational Set-up and Responsibilities

To ensure the successful delivery of activities across a large range of public institutions, the Action will be overseen by a Programme Steering Committee (PSC), supported by Technical Committees (TC). Through a combination of a regular monitoring at technical level and effective coordination and steering at decision-making level, this governance structure will ensure buy-in and ownership from all relevant stakeholders, thereby maximising coordination in the targeted sectors as well as impact.

The PSC will be responsible for the overall strategic guidance of the project. The PSC resolves strategic and policy issues, reviews and endorses annual work-plans and progress reports, identifies achievements and constraints and proposes adjustments, if needed. The PSC will meet at least once a year and will consist of representatives of the the EU Delegation and of key government partner institutions, such as MoFNP, ZRA, the OAG, the NAZ and the ACC, as well as selected CSOs and of the donor organisations (e.g. EU, BMZ and USAID).

The PSC will be assisted by a TC. The main purpose of the TC is to improve information sharing and coordination, and monitor implementation, in order to improve the programme efficiency. The TC is not a decision making body. It assists and advises members of the PSC on all activities related to the project. The TC will work closely with the PSC, providing timely and accurate feedback and information for strategic decision-making. The TC will be complemented by a coordination mechanism at technical level (e.g. sub-committees). The TC will review progress, identify constraints and propose corrective actions, provide recommendations to the PSC on the annual work plans and progress reports. The TC will meet at least twice a year.

The organisational set up will be further elaborated during the formulation of the contractual agreements, after further discussion with co-donors and consultation with stakeholders. Terms of Reference (ToR) for both groups will be developed.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as

reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The implementing partners will be responsible for data collection, analysis and monitoring. Whenever possible the Action will harmonise its data collection with national partners systems and results framework. The implementing partner will set up a comprehensive results-based monitoring system which assigns clear responsibilities for data collection and reporting and ensures that all relevant data to report on the indicators in the log frame is collected on a regular basis. The Action will consider both, quantitative and qualitative data to measure achievement, or to reflect the changes connected to stated outcomes. In addition, the implementing partner will be required to contribute to the regular and structured monitoring of the results achieved by EU-funded actions through OPSYS. This responsibility will include encoding of the log-frame and regularly update indicator values in OPSYS.

At regular interval, the result framework (logframe) will be recalibrated, considering the latest available data (e.g. PEFA report, including Gender responsive and Climate responsive PEFA modules) and changes in the government's priorities for PFM and public sector accountability (e.g. new PFM Reform Strategy).

All monitoring and reporting shall assess how the action is taking into account the human rights-based approach and gender equality. The Action will adopt gender sensitive monitoring and evaluation systems and processes, ensuring that in all data collection and analysis processes, the project considers how its activities impact people differently because of their gender (i.e. through gender disaggregated data, gender analysis, etc.).

5.2. Evaluation

Having regard to the importance of the action a mid-term evaluation will be carried out to assess progress and address challenges, in particular with respect to issues at the end line. The mid-term evaluation will assess the relevance of the action in an evolving context. The mid-term evaluation will also take stock of overall progress of the GRZ's reform agenda and the programme contribution to these efforts.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that reforms in the area of PFM, anti-corruption, transparency and accountability are a complex and lengthy process. The evaluation will also assess the long-term impact of the action and provide recommendations on the sustainability of EU-funded interventions. Both evaluations will inform a potential follow-on phase of this action. A new PEFA (including the gender and climate responsive modules) could be conducted at the end of the project implementation to assess progresses in performance of the PFM system.

The evaluations shall also assess to what extent the Action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment. They will provide an overview of the action within the larger impact of the agreed Zambia joint programme. They will be prepared in cooperation with contributing donors.

The Commission shall inform the implementing partners at least three months in advance of the dates envisaged for the evaluation missions. The implementing partners shall collaborate efficiently with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partners and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

All specific communication and visibility activities under the action will be co-branded by the different donors, as the financial contributions from donors cannot be earmarked.

Appendix 1 REPORTING IN OPSYS

An intervention (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation.

Primary interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: 'a given contract can only contribute to one primary intervention and not more than one'. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a 'support entities'. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the institution.

The present Action identifies as

Contract level		
<input checked="" type="checkbox"/>	Single Contract 1	Contribution Agreement
<input checked="" type="checkbox"/>	Single Contract 2	Twinning Grant Contract
<input checked="" type="checkbox"/>	Single Contract 3	Service Contract
<input checked="" type="checkbox"/>	Single Contract 4	Grant Contract

List of Acronyms

ABB	Activity Based Budgeting
ACC	Anti-Corruption Commission
AD	Action Document
ATI	The Addis Tax Initiative
BIDA	Bulk Intelligence Data Analysis
BMZ	German Federal Ministry for Economic Cooperation and Development
CP	Cooperating Partner
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DRM	Domestic Revenue Mobilisation
EDF	European Development Fund
EFFECT	Support to Effectiveness and Transparency in Management of Public Resources
e-GP	electronic Government Procurement
EnACT	Enabling Access to Justice, Civil Society Participation, and Transparency
ERP	Economic Recovery Programme 2021-2023
GDP	Gross domestic product
GRZ	The Government of Republic of Zambia
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information & System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
JES	Joint European Strategy
LMIC	Low and Middle Income Countries
MIP	Multi-Annual Indicative Programme 2021-2027, between the Republic of Zambia and the European Union.
MoFNP	Ministry of Finance and National Planning
MPSAs	Ministries, Provinces and Government Spending Agencies
MTEF	Medium-Term Expenditure Framework
MTRS	Medium-Term Revenue Strategy
NDC	Nationally Determined Contributions
NDP	National Development Plan
NPBA	National Planning and Budgeting Act
OAG	Office of the Auditor General
OBB	Output-Based Budgeting
OBI	Open Budget Index
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PMEC	Payroll Management and Establishment Control System
PSC	Programme Steering Committee
R4G	Zambia Revenue for Growth
SDG	Sustainable Development Goals
SDR	Special Drawing Rights
SLA	Staff-Level Agreement
SO	Specific Objective
SSA	Sub-Saharan Africa
TADAT	Tax Administration Diagnostic Assessment Tool
TC	Technical Committee

TSA	Treasury Single Account
USAID	United States Agency for International Development
VNR	Voluntary National Review
ZMW	Zambian kwacha
ZRA	Zambia Revenue Authority