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ANNEX

to the Commission Implementing Decision on the financing of the annual action plan in favour of the Republic of Zambia for 2023 part 1

Action Document for EU-Zambia Finance for Social Reforms

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 Action Summary Table

<p>1. Title CRIS/OPSYS business reference Basic Act</p>	<p>EU-Zambia Finance for Social Reforms OPSYS number: ACT-61863 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)</p>
<p>2. Team Europe Initiative</p>	<p>Yes Joint European Strategy for Zambia – priority area 2 and 3 TEI on Manufacturing and Access to Vaccines, Medicines and Health Technologies (MAV+) – Regional (Sub-Saharan Africa)</p>
<p>3. Zone benefiting from the action</p>	<p>The action shall be carried out in Zambia</p>
<p>4. Programming document</p>	<p>Republic of Zambia – Multi-Annual Indicative Programme 2021-2027</p>
<p>5. Link with relevant MIP(s) objectives / expected results</p>	<p>1. Under Priority Area 1- Green Partnerships for sustainable Recovery, growth and decent jobs:</p> <ul style="list-style-type: none"> • SO1.2 To promote an environmentally sound, gender and youth sensitive and economically viable diversification of the economy and to invest in the creation of green growth and decent jobs in circular economy <ul style="list-style-type: none"> ○ R1.6 – Investment climate, business regulatory environment and services delivery are improved and foster sustainable growth and the creation of decent jobs led by private sector <p>2. Under Priority Area 2: Supporting the people of Zambia to reach their potential and build resilience:</p> <ul style="list-style-type: none"> • SO2.2. Strengthening basic education with focus on Early Childhood Education and Development (ECED) <ul style="list-style-type: none"> ○ R2.2 Inclusive and equitable access to quality ECED, including in remote and rural areas, with a specific focus on accessibility for disadvantaged groups, through strengthened system delivery capacity is increased <p>3. Under Priority Areas 3 – Fair, inclusive and peaceful society:</p>

	<ul style="list-style-type: none"> • SO3.2 Supporting public sector reform for improved delivery of public services and domestic accountability <ul style="list-style-type: none"> ○ R3.3 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 110 – Education DAC 120 - Health DAC 150 – Government and Civil Society DAC 160 – Other Social Infrastructure and Services			
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): <ul style="list-style-type: none"> • SDG 4: Quality Education (target 4.a: Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all) Other significant SDGs (up to 9) and where appropriate, targets: <ul style="list-style-type: none"> • SDG 1: End Poverty • SDG 3: Good Health and Well-being (target 3.b: Support the research and development of vaccines and medicines and (...) provide access to medicines for all) • SDG 5: Gender Equality • SDG 6: Clean Water and Sanitation (target 6.2: achieve access to adequate and equitable sanitation and hygiene for all (...) paying special attention to the needs of women and girls and those in vulnerable situations) • SDG 10: Reduce Inequality • SDG 16: Peace, Justice and Strong Institutions (target 16.6 Develop effective, accountable, and transparent institutions at all levels) • SDG 17: Partnerships to achieve the Goals 			
8 a) DAC code(s)	DAC 110 – Education – 60% DAC 120 – Health – 15% DAC 150 – Government and Civil Society – 15% DAC 160 – Other Infrastructure and Services – 10%			
8 b) Main Delivery Channel	Channel: Central Government - 12001			
9. Targets	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" 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 type="checkbox"/>	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Connectivity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Migration @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	BUDGET INFORMATION			
12. Amounts concerned	Budget line(s) (article, item): BGUE-B2023-14.020122-C1-INTPA Total estimated cost: EUR 60 000 000 Total amount of EU budget contribution EUR 60 000 000 of which			

	<p>EUR 58 500 000 for budget support and</p> <p>EUR 1 400 000 for complementary support, with additional EUR 100 000 for evaluation</p> <p>The action is part of the Joint European Strategy, priority area 2 and 3 which includes the participation of Czech Republic, Germany, Ireland and Sweden as part of the TEI on Human Development</p> <p>Member States' commitments to this TEI, as of April 2023, are approximately as follows:</p> <p>CZ: EUR 1.7 million</p> <p>DE: EUR 54.5 million</p> <p>IE: EUR 3.7 million</p> <p>SE: EUR 12.5 million</p>
MANAGEMENT AND IMPLEMENTATION	
13. Type of financing	<p>Direct management through:</p> <ul style="list-style-type: none"> - Budget Support: Resilience Building Contract - Procurement

1.1 Summary of the Action

With the elections in August 2021 and the peaceful transition to a new government, Zambia has proven once again its commitment to democratic processes and institutions. The new Government has shown during the first 20 months in power a high commitment to reforms mainly related to consolidating democratic institutions and processes, economic recovery and job creation, human development, and environmental sustainability. These main reform areas have been translated into the recently approved 8th National Development Plan (8NDP). The 8NDP sets the tone for ambitious action plans at the sector level. The aftermath of the COVID-19 pandemic, a series of severe droughts (e.g. 2019, 2020) and years of mismanagement and maladministration of funds have created a multi-pronged crisis: default on sovereign debt in 2020, acute food insecurity with severe repercussions on nutrition, a failing health system and worrying trends in the education sector (attendance, quality, etc.).

The successful negotiation of an IMF programme, under the Extended Credit Facility, provided much needed relief to the country's tight fiscal space, enabling increased governmental investments in the social sectors (which is also part of the IMF programme). This commitment to channel extra resources into the social sectors, is consistent with the long-term vision of the Government and of President Hakainde Hichilema. The authorities see increased investments in education as a main engine for long term development of the country's economy while investments in health and nutrition are considered to be key enablers for sustainable human development. Investments in health-related industries (e.g. local pharmaceutical manufacturing) are also prioritized, as the COVID-19 crisis exposed the country's total dependency on imported vaccines, medicines and other medical supplies.

The proposed action comes as a two-year, EUR 60 million Resilience Building Contract (RBC), supporting primarily the Education Sector and the Health Sector, and includes the advancement of the pharmaceutical manufacturing initiative. The RBC also integrates a component supporting the country's Public Finance Management Reform Strategy (PFM-RS), with a focus on procurement processes. A substantial portion of public spending in Health and Education (which are amongst the largest line ministries in terms of spending) as well as other strategic sectors (e.g. transport) use these processes. Stronger public procurement is key in the fight against corruption.

Thus, the Overall Objective of this action is to support the Government of Zambia in delivering quality, efficient, equitable, affordable and inclusive social services for all Zambians.

The Specific Objectives (Outcomes) of this action, in line with other proposed actions under AAP 2023 and ongoing actions under EDF and AAP 2022, are to:

Outcome 1: Improve access, quality, equity and inclusiveness in primary and secondary education

Outcome 2: Advance the Zambia Pharmaceutical Manufacturing Initiative and contribute to the improvement of health services through the creation of a local pharmaceutical industry

Outcome 3: Improve the operational efficiency and accountability of public spending

The expected outcomes will directly contribute to two of the pillars of the 8NDP, concerning social sectors and democratic institutions and, at a larger scale, to the advancement of the country towards the Sustainable Development Goals (SDG) 4 – Quality Education, 3 – Health and Wellbeing, 6 – Clean Water and Sanitation, 16 – Peace, Justice and Strong Institutions. Activities will also contribute, in a cross-cutting manner, to SDG 1 – End Poverty, SDG 5 – Gender Equality, SDG 10 – Reduce Inequalities and 17 – Partnerships for the Goals.

The action is also fully in line with the Joint European Strategy for Zambia, and with the Continental TEI on Manufacturing and Access to Vaccines, Medicines and Health Technologies for Africa (MAV+), and with the priorities of the Multiannual Indicative Programme (MIP).

2 RATIONALE

2.1 Context

Zambia is a low-income country that has faltered in its socio-economic development over the last decade¹. Zambia has a mixed economy consisting of mining, agriculture, and construction as major economic sectors. In 2021, Zambia's population stood at 18.9 million with an annual growth rate of 2.9%. In 2020, the life expectancy at birth was 64 years. Adolescents make up almost a quarter (24%) of the total population, with adolescents aged 10 to 14 years accounting for 13.3 percent, and those aged between 15 and 19 years about 11%. In 2018, nearly 49% of all adolescents (10–19 years) lived in rural areas^{2,3}. Zambia counts among countries with the highest levels of poverty across the globe, with more than 61.4% of its population living below the international poverty line⁴ in 2015. It also has one of the highest levels of social inequalities worldwide, with an extreme poverty of 60 percent in rural areas. In 2015, Zambia's Gini coefficient stood at 57.1 indicating a huge differential in wealth distribution accounted for mainly by variances between the rural and urban areas⁵. The global gender gap index tended to increase through 2008-2021 period, though it fluctuated substantially in recent years, ending at 0.73 index in 2021⁶.

The decision to resume budget support operations in Zambia after a period of 9 years, comes in a context where the new Government, led by President Hakainde Hichilema has shown, after a peaceful transition of power, a very strong commitment to democratic, economic and social reforms focused on the Zambian people and their welfare.

Given the difficult context inherited by the Government, marked by the country's default on its debt in 2020, the challenging post-COVID 19 situation and the indirect consequences of Russia's war of aggression against Ukraine, the European Union (EU) has politically engaged to support the new leadership's efforts towards a sustainable economic and social recovery. This engagement is based on clear signs from the Zambian side to keep and build a strong partnership with the EU (e.g. President Hichilema address at the European Parliament plenary session in June 2022, and Zambia's position towards Russia's war in Ukraine), and on the IMF's economic support to the country. In August 2022, the latter approved a USD 1.3 billion programme under the Extended Credit Facility (ECF), based on the Government's own reform programme and assurances given by official bilateral creditors to agree on a debt restructuring framework under which creditors would negotiate concrete debt restructuring terms with Zambia⁷. Eight months into the IMF programme, the first ECF review has been positive, with the associated disbursement of IMF financing foreseen for September 2023. An important element of the IMF programme is the required balance between fiscal reforms, public debt restructuring and the necessity of maintaining social sector investments. Thus, the budget support programme aims mainly to contribute to the Government's engagement

¹ World Bank reclassified Zambia to low-income status from lower-middle-income, for the 2023 financial year following the deterioration of Gross National Income per capita estimates recorded in 2021.

² UNFPA. 2022. Adolescent and Youth Dashboard- Zambia. <https://www.unfpa.org/data/adolescent-youth/ZM>

³ Zambia Statistics Agency, Ministry of Health (MOH) Zambia, and ICF. 2019. Zambia Demographic and Health Survey 2018. Lusaka, Zambia, and Rockville, Maryland, USA

⁴ Of USD 2.15 a day (2017 PPP)

⁵ GRZ, 2022. Eighth National Development Plan (8NDP)

⁶ <https://knoema.com/atlas/Zambia/topics/World-Rankings/World-Rankings/Global-gender-gap-index#:~:text=Inpercent202021percent20globalpercent20genderpercent20gap,atpercent200.73percent20indexpercent20inpercent202021>.

⁷ Zambia: Request for an Arrangement Under the Extended Credit Facility-Press Release; Staff Report; Staff Supplement; Staff Statement; and Statement by the Executive Director for Zambia, IMF, 6 September 2022

towards the social sector reforms and investments, with a focus on education, health/pharmaceutical development and procurement. The choice of these three sectors is in line with both the MIP and the Joint European Strategy (JES), and with key areas of reform identified by the Government under the 8th National Development Plan (8NDP) adopted in 2022. The 8NDP comes with a clear long-term vision of the necessity of investing in human development, first to become once again a thriving middle-income country and then for continuing on the path of sustainable and people-centered development.

Back in 2021, soon after the elections, the Government announced an Education For All (EFA) reform, making education fee-free at pre-primary, primary and secondary levels. This first step towards a sustainable universal education system comes amid serious pre-existing challenges, such as high secondary dropout rates (42% of girls and 30% of boys aged 14-18 are out of school⁸) and a very low level of literacy and numeracy with 43% literacy and 50% numeracy rate at grade 4 level in 2021⁹. The EFA reform will substantially impact enrolment, availability of teachers, teaching space, quality of education, etc. On the management side, there are substantial problems with collection, transmission and analysis of education data which considerably hinders decision making and policy implementation country-wide. To start addressing these problems, and in line with the EFA policy reform, the government increased the budget for Education in 2022 to ZMW 18.1 billion from ZMW 13.8 billion, making this allocation the third largest expenditure function after General Public Services and Economic Affairs. This will for example be used to meet the government's pledge to build 200 extra schools and to hire 30.000 extra teachers. However, in the short and medium term, many of the aforementioned challenges that the educational system is currently confronted with will remain.

Another social sector brought to the frontline by the Government as a key priority of the 8NDP is the struggling health sector. The COVID 19 crisis left heavy marks on the service delivery capacity of the Government in this area, manifested through a deep and countrywide medicines availability crisis. In response, the establishment of the Zambia Pharmaceutical Manufacturing Initiative (ZPMI) aims to revive/develop the Zambian Pharmaceutical Industry with full involvement of the private sector. The EU is very active in this area of cooperation. Ongoing programmes under the 10th and 11th EDF are supporting the Zambia Medicines Regulatory Authority to improve its efficiency and competitiveness, aiming for a more coherent regulatory system, both legally and operationally. The initiative is also supported through the MAV+ initiative, and first investments from European companies in the Zambia pharmaceutical industries have been arranged within the framework of the first EU-Zambia Pharmaceutical Forum in March 2023.

Years of economic mismanagement led to Zambia accumulating large fiscal and external imbalances, resulting in the country defaulting on its debt in 2020. To address fiscal imbalances, and with the support of an IMF programme under the ECF, GRZ aims at re-establishing sustainability through fiscal adjustment and debt restructuring while creating additional space for social spending to cushion the burden of adjustment, and strengthen economic governance, including by improving public financial management. With the support of the EU and the IMF, MoFNP will conduct a PEFA assessment in 2023. A new PFM Reform strategy is underway and the largest donors in the sector are joining forces through a joint-support programme to assist with its implementation.

This action contributes to the EU priorities on Education, Health, Governance and Gender. It is aligned to the 2030 Agenda and the Sustainable Development Goals, to the New European Consensus on Development, the EU Action Plan on Human Rights and Democracy and the Gender Action Plan III. It also contributes to two of the Global Gateway priorities: 1) investing in quality education and inclusion of vulnerable groups in partner countries and 2) strengthening the security of pharmaceutical supply chains and the development of local manufacturing.

2.2 Problem Analysis

Priority Area 1 – Education

Weak implementation of policies and long-term underfunding have led to a structurally underperforming education system in Zambia. In the context of the new Government's vision of achieving universal access to education, which has led to a positive evolution in terms of enrolment, the fee-free education policy has heavily added to the challenges of an already vulnerable system. With the massive increase in enrolment, there are now classroom

⁸ Zambia, National education profile – World Bank Group 2018 update;

⁹ Zambia, Education Budget Brief – UNICEF, 2022

shortages all over the country, despite the government and cooperating partners commitment to build new schools and upgrade existing ones – with classes sometimes exceeding 150 learners; the teacher-student ratio has thus dramatically deteriorated, despite the promise of hiring 30.000 more teachers during 2022 and 2023; the problem of over-aged children in Grade 1 has also accentuated, and the availability of school equipment and materials becoming more problematic and the inequalities between schools due to the differences in learning quality considerably increasing.

These challenges come in addition to those already existing in the education sector: poor curriculum, lack of teacher training, demotivated teaching workforce, underfunding, inefficient data collection, poor transmission and analysis systems (leading to poor decision-making), lack of appropriate water, poor sanitation and hygiene (WASH) facilities in schools (contributing to girls dropping out of school once they reach puberty), lack of access for learners with disability, lack of electricity (leading to impossibility of digital training).

The proposed action will complement already planned government actions and existing and upcoming Cooperating Partners programmes (WB, Global Partnership for Education, etc.). Zambia joined the Global Partnership for Education (GPE) in 2008. This action could serve as the trigger of the GPE Multiplier grant. The action will tackle the issues of quality of education, girl dropout rate and accessibility for learners with disabilities. This will be done mainly through infrastructure works (school and classroom, school-related WASH facilities and teachers's accommodation building/improvement) and connectivity works (water and electricity). At policy level, the actions will aim to improve the data collection/transmission and analysis systems in order to improve the quality of decision making and to advance the policy-related work at central and local level.

Keeping girls in school - as an objective of this action - is a key element for fighting the high rates of child marriage and teen pregnancies (29.2%¹⁰), and for empowering girls for a more empowered and included role in the modern society. Improving school infrastructure and equipment will play an important role in gender equality – e.g. given that the scarce available seats in classrooms are usually taken by the boys, girls sit mainly on the ground, which does not foster school performance. As mentioned before, the adequate hygiene facilities will allow girls to continue learning after puberty and all the way through secondary school, avoiding unnecessary shaming and bullying.

In addition, climate smart equipment will be provided to schools, particularly in terms of solar energy powered classrooms and water pumps wherever needed (many rural and peri-urban schools are not connected to energy and water networks). Infrastructure-related activities under this action will also follow strict resilience, child-centred and environmentally friendly building standards.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The responsibility for the management of physical infrastructure and information systems of the education systems falls entirely under the Ministry of Education (MoE) and its deconcentrated administration. The main interlocutors for the action will be the Directorates for Physical Infrastructure, for Information Systems and for planning at central level, the Provincial Education Offices, and District Education Boards (DEBs) at provincial and district level. A sustained policy dialogue will also involve the ministerial and permanent secretary levels, as well as a number of other departments under the Ministry. The Ministry of Local Government and Rural Development at central and deconcentrated level, as well as the larger Provincial and District administrations will also be involved in both dialogue and the action, given their mandates related to the management of community structures and the Community Development Fund (CDF).

The Ministry of Education has the mandate for infrastructure building, information management, policy formulation, sector resource allocation, monitoring and evaluation, coordination of sub-sectors and the general service delivery tasks falling under the ministry. To be noted that the decentralisation is presently an ongoing (though very slow) process, and the deconcentrated administration under the Ministry relies heavily on central decision making.

Priority Area 2 – Health/ Pharmaceutical development

¹⁰ Zambia 2018 Demographic and Health Survey, Summary Report.

The COVID 19 crisis, in addition to its heavy direct impact on the Zambian health systems, has also uncovered a number of structural weaknesses. Endemic corruption, poor planning, weak systems and heavy processes have led to a serious medicines availability crisis all over the country during these last years. Part of these problems have been recently reduced by the transfer of medical supplies and medicines procurement responsibility from the Ministry of Health to the autonomous Zambia Medicines and Medical Supplies Agency (ZAMMSA). Still, the country's quasi total dependency on imports of medicines is weighing heavily on the sector's already stretched budget.

The solution proposed by the new Government was the launch of the Zambia Pharmaceutical Manufacturing Initiative, driven by both public and private sector, involving a dual approach of increasing private investments in local pharmaceutical production and creating a conducive environment for the industry, from a legal and regulatory perspective. The EU and some of its Member States have been the first cooperating partners to support this initiative – for the moment with technical assistance through MAV+. From a Global Gateway perspective, the EU Delegation has been active in prospecting for EU investments in the Zambian Pharma industry – efforts that materialised during the EU-Zambia Pharmaceutical Forum, beginning of March 2023, with the signature of a Memorandum of Understanding between a Spanish and a Zambian company.

Even though this initiative is quite promising in the long run, there is much to do on the Government side to update old legislation, to improve the licensing and authorisation processes, and in general to create the necessary conducive environment for the development of a local pharmaceutical industry. The European Union has supported the Zambia Medicines Regulatory Authority (ZAMRA) under the Health Systems Strengthening Programme (HSSP), which is presently coming to an end. A mid-term evaluation of the HSSP has concluded that the “EU should consider continuing to be part of this pharmaceutical subsector partnership for a duration to be determined, as the situation is not yet consolidated or considered sustainable”.

The objective of the support under the proposed action is to continue supporting the subsector, and particularly ZAMRA, in updating the critical legislation (e.g. the Medicines and Allied Substances Act no.3 of 2013) and to further support the Statutory Body to become a more performant and efficient regulatory authority.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The main stakeholders under this action are: 1) the Ministry of Health, holding the responsibility of the larger Health Sector and 2) ZAMRA which has as a mandate to regulate and control the manufacture, importation, storage, distribution, supply, sale and use of medicines and allied substances – and thus that the medicines and allied substances being made available on the local market meet the standards of quality, safety and efficacy.

The policy dialogue will include as well ZAMMSA, in charge of procurement, storage and distribution of medicines and medical supplies to all public health facilities in the country. It will also include local level administration, involving the offices of the Provincial and District Health Directors (PHD&DHD), in charge of supervision of the Ministry's activities at local level, IT support to health facilities, training in the logistics systems, and overall management of the health sector at provincial and district levels.

Priority Area 3 – Public Finance Management/Procurement

In a recent IMF Governance and corruption assessment (2022)¹¹, public procurement was identified as one of the key areas of governance inefficiency and vulnerability to corruption.

In past budget support operations, the low credibility of the budget and the level of misuse of funds originated partly from a failure to follow procurement procedures. In the last decade corruption scandals in the social sectors, particularly recurrent in health, were related to large procurement transactions for the supply of goods and services to the administration. The 2021 report of the Auditor General (AG) identified several incidents of public procurement irregularities, questionable contract prices, and failure of suppliers to deliver goods and services as stipulated in the contracts¹².

The authorities recognize that public procurement is vulnerable to corruption due to the large amounts of funds involved in procurement transactions and space for discretionary decisions. The risks are particularly significant

¹¹ Zambia: Technical Assistance Report-Diagnostic Report on Governance and Corruption, IMF, 10 January 2023

¹² Zambia Auditor General's Main Report 2021

in sectors where public spending is substantial, such as health, education, roads, and agriculture. The public procurement function can also play a critical role in obtaining value for public money. GRZ has therefore prioritized public procurement reform. The public procurement reform is a flagship programme of the 8NDP, under Outcome 1 –improved policy and governance environment, of Strategic Development Area 4: Good Governance Environment.

The procurement legal framework establishes an independent regulatory body, Zambia Public Procurement Authority (ZPPA), responsible for regulations, standard setting, compliance, and performance monitoring in public procurement. Over the past few years, progress has been made in strengthening the legal and regulatory framework for public procurement. A Methodology for Assessing Procurement Systems (MAPS) assessment was carried out by the World Bank in 2019 and updated in 2021 (but not yet published). A new Public Procurement Act (PPA-2020) has been adopted in 2020, replacing the Procurement Act of 2008, and provides the legal basis for procurement operations. The PPA-2020 was operationalized on 16 April 2021 through the Public Procurement Regulations (PPR). Statutory Instrument No. 30 of 2022, was issued on 8 April 2022.

In 2016, GRZ started to generalize the use of ICT in procurement, by introducing its electronic government procurement (e-GP) system. The e-GP system covers end-to-end procurement processes and functions. It follows international best practice, but it is not fully functional, for instance comprehensive open contracting data are not yet available. Under the previous Procurement Act of 2008, GRZ faced implementation challenges in fully rolling out the e-GP system, which was adopted on a voluntary basis by procurement entities (PEs). Only one-fifth of the 500 procuring entities have so far switched from manual procedures to using e-GP. The PPA 2020, under section 16, provides for mandatory usage of the e-GP. Section 113(7) of the PPA, provides for a transitional period from manual to electronic procurement within three years from the commencement of the Act. The Government has trained 302 out of 519 PEs for the e-GP system, with support from the World Bank. The rollout of the e-GP system to the remaining 217 PEs should be completed by end of 2023. The mandatory usage of the e-GP system will be effective by 16 April 2024.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The main stakeholders under this action are 1) The Ministry of Finance and National Planning (MoFNP), which is the main coordinating body responsible for public financial management. The MoFNP 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; 2) the Zambia Public Procurement Authority (ZPPA), independent regulatory body, responsible for regulations, standard setting, compliance and performance monitoring in public procurement; 3) the public procurement departments/independent agencies of line ministries concerned by this action (e.g. Zambia Medicines and Medical Supplies Agency – ZAMMSA, mandated with procurement, storage and distribution of medicines and medical supplies).

Apart from these institutions, the policy dialogue will also include the Office of the Auditor General (OAG), in charge of scrutinizing the use of public resources and ensuring that the GRZ delivers services in an equitable, efficient and effective manner for the benefit of all citizens. The OAG audits 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 (including the Public Procurement Act).

2.3 Additional Areas of Assessment

2.3.1 Public Policy

The GRZ reform agenda is informed by a medium to long-term policy framework for national planning, which includes the Vision 2030 and the five-year national development plans (NDPs), currently the 8th National Development Plan (8NDP 2022-2026). The 8NDP proposes an integrated, multi-sectoral development approach, mainstreaming the SDGs.

Over the past 15 years, the government has implemented four successive NDPs, and the country has experienced high growth averaging over 7% during the decade 2004-2015, yet the NDPs do not appear to have adequately

delivered on the promise of more economic opportunities nor improved socio-economic conditions for the majority of the Zambian citizens. The ex-post evaluations of the FNDP 2005-2010 and the SNDP 2011-2016 revealed mixed performance – overperformance in some areas while other targets were not met – but overall performance of the two NDPs was assessed to be less than satisfactory.

The Mid-Term Review and the Annual Progress Reports of the performance of the 7NDP indicated that, although the 7NDP is relevant to the national priorities and Zambia’s regional and global development commitments, its overall performance at mid-term had not been satisfactory. The 2020 VNR, acknowledge that despite some evidence of success towards attainment of certain SDG targets, important challenges need to be addressed in order to increase the future probability of success. According to the government, the unfavourable performance of the 7NDP has been linked to underfunding of the plans; mismatch between the plans and budgetary allocations; lack of coordination between Finance and Planning; non-operationalisation of the Decentralisation Policy, particularly its fiscal component; continued challenges related to climate change which affected the agricultural and energy sectors; deteriorating macroeconomic situation which constrained domestic revenue mobilisation, but also heightened fiscal vulnerabilities , leading to lower budgetary disbursements towards the NDP planned activities.

The Eighth National Development Plan (8NDP) has been adopted in July 2022 and sets out the government’s reform plans in four areas (or Strategic Development Areas - SDA): 1- Economic transformation and job creation; 2 - Human development; 3 - Environmental sustainability; and 4 - Good governance environment, including restoring the rule of law and fighting corruption. The action will target specific programmes under SDA 2 and 4, particularly under the following development outcome:

- SDA 2 - development outcome 1: improved education and skills development;
- SDA 2 - development outcome 2: improved health, food and nutrition;
- SDA 4 - development outcome 1: improved policy and governance environment.

The Government consulted with a wide range of stakeholders on the formulation of the 8NDP National Implementation Plan (NIP) and its M&E framework, in order to remedy shortcomings in the implementation of previous NDPs. The NIP provides a basis for rolling-out, and if necessary updating, the 8NDP through the formulation of expected results, developmental priorities, key policy reform measures and strategic programmes. In addition, progresses regarding the introduction of output based budgeting is expected to strengthen the alignment between planning and budgeting, and also reinforce the connection between the upstream budget formulation processes and downstream budget management processes.

The Zambia Statistics Agency (ZamStat) has embarked on strengthening the statistical capacities of planning units in spending agencies. The last Voluntary National Review (VNR-2020) indicated that data inadequacies are still hampering the country’s ability to effectively monitor and evaluate development programmes. This hinders 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 sector information management systems and limited disaggregation of data.

ZamStat is in the process of developing the second National Strategy for the Development of Statistics (NSDS II) to replace the previous iteration, which came to an end in 2018. The NSDS II will act as a data development plan to respond to the data demands of the 8NDP and the SDGs. With the support from the cooperating partners, ZamStat has conducted the 2022 Population Census and the 2022 Living Conditions Monitoring Survey. As series of reports and analysis based on the census data, as well as updated poverty and GINI figures, should be published in 2023.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.3.2 Macroeconomic Policy

Zambia achieved lower middle-income (LMIC) status in 2011¹³ and is striving to transform into a prosperous middle-income nation by 2030 (National Vision 2030). The 8NDP will address some of the key constraints identified by the government, including macroeconomic and fiscal vulnerabilities, low economic diversification,

¹³ World Bank classification

job creation and low skilled labour, shortcoming in access to and poor quality of delivery of social services, insufficient progress on decentralisation, while pursuing the goals of Vision 2030.

Zambia has struggled to translate economic growth into poverty eradication and reduction of inequalities. 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 61.4% of the population living below the international USD 2.15 poverty line (2015 data; latest available).

Pre-COVID, Zambia's economic performance had slowed down after impressive growth rates in the last decade, 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 generation. Zambia's macroeconomic vulnerabilities have steadily increased in recent years as numerous exogenous shocks (climate change, COVID-19 pandemic, Ukraine crisis) hit the economy, and needed structural reforms continued to be delayed. The COVID-19 pandemic triggered the first recession in 20 years, as the economy contracted by 3% in 2020 in a context of high inflation. Inflation has been above the government's target band of 6-8% since May 2019. Year-on-year inflation reached 24.6% in June and July 2021, as the Zambian Kwacha (ZMW) came under severe pressure. In 2022, Zambia was reclassified by the World Bank as a low-income country.

Under previous governments, fiscal policies had been expansionary. Rising fiscal deficits resulted 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% of GDP p.a. in the subsequent period of 2013-2019. In 2020, as COVID took hold, the fiscal deficit worsened, to 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 certainly exacerbated the situation in 2020, with revenue declining and expenditure pressures.

Zambia is once again experiencing a debt crisis¹⁴, having borrowed extensively during the last decade. A sharp rise in public debt has resulted in increasing debt service costs, crowding out other spending lines, negatively affecting foreign exchange reserves and leading to a growing fiscal deficit. Driven by extensive non-concessional borrowing for unproductive and often overpriced public investment, Zambia defaulted on its external debt in November 2020 when its public debt-to-GDP peaked at 140%. Total public sector debt amounted to USD 27.1 billion while external debt arrears stood at USD 4.2 billion and domestic arrears at USD 4.1 billion as of December 2022. The composition of the public debt stock has rapidly shifted towards external, non-concessional debt: the stock of Central GRZ external debt as of December 2022 stood at USD 13.96 billion, with an additional USD 1.45 billion of debt owed by parastatals, guaranteed by the GRZ. The domestic debt amounted to ZMW 210 billion, equivalent to USD 11.6 billion. Shortly after defaulting, Zambia applied as one of the first countries to undergo debt restructuring under the auspices of the G20 Common Framework process.

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.

In 2021-22, Zambia showed some signs of stabilisation and recovery. GDP grew by +4.6% in 2021, and is estimated to have grown by +3.1% in 2022 (against a population growth rate of 3.4% per year¹⁵). Year-on-year inflation has been progressively decreasing and hit single digits in the second half of 2022 (9.9% in March 2023). In 2021, the ZMW depreciated to around ZMW 22.6/USD mid-July, before easing back to below ZMW 15.3/USD in successive episodes, following official announcements which provided some measure of reassurances on the short-term political and economic stability of the country, which provoked a temporary shift in market sentiment. Since September 2022, the national currency has depreciated steadily, passing ZMW 21/USD in March 2023.

In September 2022, the GRZ and the International Monetary Fund (IMF) successfully concluded an Extended Credit Facility (ECF) together with a clear commitment of the GRZ in the "Memorandum of Economic and Financial Policies (MEFP)" to a large, front-loaded, and sustained fiscal consolidation to address fiscal imbalances. Further elements of the MEFP are to create fiscal space for social spending; strengthen governance and reducing corruption vulnerabilities, including by improving PFM.

¹⁴ In 2005, Zambia obtained debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

¹⁵ 2022 Census of Population and Housing, Preliminary Report - ZamStat

The agreement provided much-needed breathing space for Zambia by unlocking not only IMF, but also World Bank (WB) funding in the amount of USD 2.6 billion and providing a basis for the debt re-structuring discussions needed to close the remaining financing gap of USD 8.4 billion. Key in the agreement was that bilateral creditors had given so-called ‘financing assurances’, which effectively means that bilaterals involved agree on the contours of the needed debt restructuring. Negotiations are based on a joint WB/IMF debt sustainability analysis which outlines the parameters of a debt relief envelop that would help restore debt sustainability. The details (size of haircut, extension of maturity, or reduction of interest rates) for both official and private external creditors to bring the present value of external debt-to-exports ratio to 84% (a level deemed to bring the country back to a ‘moderate risk of debt distress’ for Zambia) remain to be finalized. Given the diverse nature of Zambia’s external debt (52% to commercial creditors, a third to China), and the gaps in the Common Framework debt restructuring architecture, delays in translating the financing assurances into legally binding bilateral creditor-by-creditor agreements, are expected. Reaching a debt restructuring deal that, includes the most important bilateral creditor - China, is a top priority and key challenge for the GRZ as it will pave the way for support from the international financial institutions and increase investor confidence.

In April 2023, during the First ECF Review mission (and article IV consultations), the IMF is reporting strong performances of the Government in the implementation of the ECF backed programme, despite the challenging context of a global economic turmoil. The Government of the Republic of Zambia (GRZ) has formally met all Structural Benchmarks, Quantitative Performance Criteria and Indicative Targets. A Staff Level Agreement has thus been reached. The IMF board approval is now needed to unlock the financial resources that go with the conclusion of the first review.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.3 Public Financial Management

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 are also key to line ministries, accountability agencies (e.g. the Office of the Auditor General), and the National Assembly. PFM has been under intense scrutiny. With cooperating partners’ support, a number of PFM-related diagnostics carried out 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 A&A), the Methodology for Assessing Procurement Systems (MAPS), and a Debt Management Performance Assessment (DeMPA).

The fourth PEFA assessment, published in 2017 (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 was 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 showed mixed results. Important deviations between approved budgets and actual expenditures were still reported¹⁶ and the aggregate actual expenditure were often significantly higher compared to the approved budget. Budget releases were often delayed and payment arrears accumulated.

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 2020) and the revision of the Public Finance Management Act (2018), and the Public Procurement Act (2020). The NPBA, enacted in October 2020, prescribes a multi-year planning and budgeting framework including a National Development Plan, a Medium-Term Expenditure Framework (MTEF), and output-based budgeting (OBB).

The change in government in August 2021 has generated high expectations, both in an economic and political terms. The change in government presents a window of opportunity to substantially reform PFM in Zambia. The

¹⁶ Under PI-2, “Variance in expenditure composition during last 3 years” scored D in the 2012 PEFA.

first successful PFM reform initiatives include the enactment of the Public Debt Management Act (2022), the adoption of a Revenue Action Plan, or the Domestic Arrears Dismantling Strategy.

Several governance weaknesses in the management of public finances, including the weak parliamentary oversight over the Executive, contributed to the recent sovereign debt crisis. While unfavourable macroeconomic factors played a significant role, governance shortcomings contributed significantly to the accumulation of sovereign debt and the subsequent crisis. Recognizing the problem, the authorities have embarked on a number of governance measures to strengthen debt management. A new Public Debt management Act was adopted to tighten control on the authority to borrow, strengthen oversight, clarify objectives of debt contraction and enhance risk management around government guarantees. The authorities have started publishing a quarterly debt statistics bulletin with comprehensive statistics publishing summary information on the financing agreements for all newly contracted external loans (also required through ECF conditionality). With the support of the EU and Germany, the MoFNP has conducted a diagnostic of its investment and debt management department in view of establishing a new Debt Management Office, as part of the 2023 MoFNP re-organisation.

Governance weaknesses arise from weak expenditure controls and persistent accumulation of arrears. Large number of budget expenditure commitments occur in MPSAs with limited visibility to the MoFNP. Due to acute cash constraints and cash rationing, many government bills remain unpaid. Arrears outstanding as of December 2022 are USD 4.08 billion, equivalent to 21.6% of GDP. Interest payments charged on overdue invoices are a significant source of waste in public finances as well. The Auditor General 2020 report indicates that wasteful expenditure on delayed payments totalled ZMW 1.4 billion. The authorities made a commitment under the Extended Credit Facility to prevent the accumulation of new arrears¹⁷. With the Support of the European Union and Germany, MoFNP published a strategy for clearing the expenditure arrears, which includes the criteria for prioritization and timing of the payments.

The fragmented use of IT systems creates risks to operational and governance efficiency and inflates development and maintenance costs. At present, there are number of different information systems and digital solutions utilized in PFM, including central FMIS, budget management information systems in statutory bodies and districts and the e-GP (public procurement). Zambia has invested in developing institutional and legal frameworks to implement a digital transformation agenda. The Smart Zambia Institute is in charge of leading and coordinating the development of IT system, IT infrastructure, IT services and compliance. The President has signed the commencement order for the Electronic Government Act (2021). Implementing regulations to ensure digital transformation are being developed. Focus areas and priority programs include transitioning to a cash-light economy and migrating bulk government cash payments onto a digital platform, development of key public sector infrastructure and application of the digital signature, construction of an integrated national data centre infrastructure, extension of the government wide area network backbone infrastructure, and integration and enhancement of a secure government ICT network connectivity infrastructure in underserved districts.

The MoFNP is also working on enhancing and expanding the IFMIS system. A contract has been signed for the IFMIS enhancement with the system provider to activate the budget release process as originally intended and thus facilitate the expenditure control process. After completion of the user acceptance testing, the Office of the Accountant General will take a lead in training the MPSAs staff in updated system functionality. The consultations are underway on potential inclusion of statutory bodies into the FMIS. The authorities have reached out to Cooperating Partners to carry out a feasibility study of rolling out FMIS in districts and Grant Aided Institutions (GAIs), versus deploying alternative solutions.

Over the past few years, Zambia's tax regime was characterized by a large number of ad-hoc tax reforms. This has sparked numerous complaints from the private sector, especially mining companies, who are advocating for a more stable and predictable tax and legal framework. In response, the GRZ has started to modernize the Zambian tax regime, making it more business friendly and reliable, gradually moving away from taxing income and increasingly relying on the taxation of consumption.

The MoFNP is responsible for formulating policies on tax and non-tax revenue generation, which includes managing tax expenditures (e.g. tax exemptions, tax holidays or preferential tax rates). These are the cause for significant amounts of revenues to be missed each year. With the support of USAID, MoFNP is conducting a cost-benefit analysis of such existing tax incentives.

¹⁷ Excluding debt servicing arrears.

To perform the task of revenue collection, statutory bodies have been established on behalf of the MoFNP, notably in 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.

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. The organization's backbone system, Tax Online 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. Yet, many of the "offline" services still remains only available in urban centres where ZRA has offices. To address this challenge, ZRA 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 authorities are still struggling to effectively manage the high levels of tax arrears.

A comprehensive review of the tax regime will soon be initiated through the development of a Medium-Term Revenue Strategy. 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 has developed a Revenue Mobilization Action Plan for the period 2023-2025 with the assistance of the EU and Germany.

With the support of the European Union and Germany, the government is actively working on the design of a new PFM Reform Strategy, expected in the second half of 2023. 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) will be conducted in the second half of 2023, with the support of the European Union, Germany and the IMF. The Government under President Hakainde Hichilema has also committed to improve public sector accountability and it has intensified the fight against corruption. At the request of the GRZ, the IMF has conducted a comprehensive Country Governance Diagnostic to support the authority's efforts to strengthen governance and reduce corruption.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.4 Transparency and Oversight of the Budget

Over the past decade, the quality of political and economic governance in Zambia has declined. The 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. The increasing lack of transparency in the management of public resources made it difficult to assess the efficiency of public policies. The rules related to access to information, asset disclosure by top officials, Beneficial Ownership transparency, monitoring of Politically Exposed Persons, and legal protections for whistle-blowers remain inadequate, limiting citizens' ability to hold those in power accountable.

In the 2021 Open budget Survey, Zambia scored 19 on transparency, on account of limited publicly available budget information and lack of in-year budget execution reports or mid-term reviews of budget implementation. Despite adequate audit oversight, Zambia scored only 56 on budget oversight due to weak legislative oversight during the planning stage of the budget cycle and limited oversight during the implementation stage. The executive tends to systematically circumvent the budget rectification process and submits revisions to the budget for Parliament's ex-post approval, through in-year Excess Appropriation Bills.

After a decade of impunity and erosion of institutions, the authorities have renewed implementation of existing anti-corruption frameworks, as President H.E. Hakainde Hichilema was elected on a strong anti-corruption agenda. Significant legal and structural weaknesses, and deficient implementation practices hinder Zambia's ability to fight corruption and money laundering effectively. These short-comings include: limited transparency and

accountability in the public sector, lack of public access to information, compromised independence and operational autonomy of investigative agencies, limited technical, operational and financial capacities of oversight institutions, inadequate anti-corruption policy formulation and coordination mechanism, incomplete policies and/or ineffective systems for prevention and detection of corruption, and lack of prioritization in investigating and prosecuting corruption offences.

Good governance is one of the four priority thematic areas of the current administration and it entails enhanced transparency, accountability, consultation and dialogue. The President's declared commitment to good governance, rule of law and anti-corruption has been reiterated in his inaugural speech and many other public statements, and reflected, by a significant increase of the oversight and investigative agencies' budgets in 2022 and 2023. For 2023, the budget of the Office of the Auditor General was increased by 50%, while the annual budget of the Anti-Corruption Commission (ACC) increased by 71%.

A draft access to information act is being finalized and is planned to be adopted by the end of 2023. Delays in the preparation and publication of activity reports across government is yet another contributing factor to weak institutional accountability. While the authorities cite lack of resources and capacity constraints as impediments to publication of activity reports (including those on budget spending and performance), the root cause is a strong tendency for opacity in the public sector, including in those institutions that are expected to set a high standard for transparency and accountability. However, the new Government has made some significant progresses towards greater transparency with the publication of detailed information on the Executive's Budget Proposal (Yellow Book), a citizen's budget, the monthly economic indicators, quarterly economic reviews, and the annual aggregate budget execution reports. However, the timeliness of the reporting is wanting and in-year budget execution reporting of expenditure lacks details and does not yet follow functional or budget programme classification (OBB), which would allow to track expenditure on individual programmes. The publication of detailed quarterly budget execution reports is hindered by lack of availability of comprehensive data in IFMIS. The MoFNP is trying to build capacity within the line ministries on the use of IFMIS to ensure timely capture of relevant data.

Key elements of the National Accountability System are in place. The Office of the Auditor General conducts all three types of audits (compliance, financial, or performance) and makes them available to the public on their website. The Public Accounts Committee (PAC) holds in-depth public hearings on key findings of audit reports. The legislature issues recommendations on actions to be implemented by the executive. However, implementation of recommendations by the executive is low and the activities of the PAC are not public.

A specialized court for Financial and Economic crimes has been established and efforts are being made to improve asset recovery as well as operational effectiveness of anti-corruption institutions. In February 2023, in a large scale investigation of the ACC, 18 senior officials of the MoFNP and the Office of the Auditor General were suspended and indicted. The investigation covers mismanagement of public resources and embezzlement of public money between 2018 and 2021. This has sparked suspicion on the overall integrity of the two institutions, but it confirms the President's commitment to a zero-tolerance policy against corruption.

A Country *Governance and Corruption Assessment* conducted by the IMF in July 2022 and published in January 2023, proposes 50 recommendations, including a sub-set of 10 priority actions, to support the government's continued reform efforts in establishing effective governance arrangements and strengthening the rule of law. The diagnostic has been endorsed by the president and will constitute a building block of the new National Anti-corruption Policy expected to be approved by the cabinet in 2023.

A coalition of partners, including the EU, Germany and Sweden, are scaling up their engagement on public sector transparency, accountability and fight against corruption in Zambia. Cooperating Partners are coordinating their engagement through the Democracy & Governance Cooperating Partners Group. A sub-group on corruption has been established in 2023.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The **Overall Objective** of this action is to improve access to quality, efficient, equitable, affordable and inclusive public services for all Zambians.

The Specific Objectives (Outcomes) of this action are to:

SO 1: Improve access, quality, equity and inclusiveness in primary and secondary education

SO 2: Advance the Zambia Pharmaceutical Manufacturing Initiative and contribute to the improvement of health services through the creation of a local pharmaceutical industry

SO 3: Improve the operational efficiency and accountability of public spending

The **Induced Outputs (IO)** to be delivered by this action contributing to the corresponding Specific Objectives are:

Contributing to Outcome 1 (from Specific Objective 1): Improve access, quality, equity and inclusiveness in primary and secondary education

IO 1.1. Improved quality of teaching and learning environments at primary and secondary education levels.

IO 1.2. Improved access to water, electricity, and quality of sanitation and hygiene in primary and secondary schools, including gender and disability sensitive infrastructure.

IO 1.3. Improved data and capacity for inclusive and evidence-based policy and planning in the education sector.

Contributing to Outcome 2 (from Specific Objective 2): Advance the Zambia Pharmaceutical Manufacturing Initiative and contribute to the improvement of health services through the creation of a local pharmaceutical industry

IO 2.1 Improved legal and regulatory environment for the nascent local pharmaceutical industry

Contributing to outcome 3 (from Specific Objective 3): Improve the operational efficiency and accountability of public spending

IO 3.1 More efficient and transparent procurement processes

The **Direct Outputs** to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

DO 1: Additional fiscal space created and predictability of funds increased.

DO 2: Improved policy dialogue between the Government and the EU and its Member States under the social sectors.

DO 3: Improved monitoring and reporting of PFM reform/8NDP implementation.

3.2 Indicative Activities

Budget Support

The main activities, concerning all outputs, will primarily consist of :

- Transfer of a maximum of EUR 57 million, if conditions are met;
- Permanent dialogue on strengthening systems and improving service delivery by the government on social sectors, with a focus on mainstreaming gender equality and inclusion of all vulnerable categories;
- Permanent dialogue on macroeconomic stability, PFM, budget transparency and control, monitoring and assessing the compliance of Budget Support criteria and disbursement conditions, with a focus on mainstreaming gender-responsive and participatory budgeting;
- Analysis and monitoring of reforms and results in the above-mentioned areas.

The main activities linked to specific sectors will be the following:

- Sector dialogue on Education and Health, and other related sectors, with a focus on mainstreaming gender equality and inclusion of all vulnerable categories as well as gender-responsive and participatory sector budgeting;
- Construction, rehabilitation and upgrading primary and secondary schools and school-related auxiliary infrastructure;
- Supporting the adoption of critical legislation for the advancement of the local pharmaceutical manufacturing initiative;
- Improving PFM performance across government, and in the social sectors in particular;
- Coordination, at various governmental institutions level, of the procurement practices and procedures

Complementary Support

The complementary support will aim at facilitating technical expertise to the Ministry of Finance and National Planning, Ministry of Education and Ministry of Health/ZAMRA. This technical assistance will complement existing supports provided by Cooperating Partners. The technical assistance (TA) will be provided under direct management, according to the following principles: (i) ensuring a country-led capacity development planning and management process; (ii) generating long term perspectives on the sectors' capacity development needs; (iii) minimise parallel provision of technical cooperation in the sector; and (iv) complementing as much as possible existing technical assistance, and coordinating TA provision with Member States and other Cooperating Partners.

The main activities under this component will be focusing on: (i) improving technical, managerial and coordination capacities at targeted institution level; (ii) analysing and proposing process and practice improvements; (iii) strengthening quality assurance capacities and standards enforcement (notably for newly built infrastructure); (iv) proposing solutions for better planning and budgeting for targeted social sectors, including gender responsive budgeting.

The commitment of the EU's contribution to the Joint-European Strategy to which this action refers, will be complemented by other contributions from Team Europe members. It is subject to the formal confirmation of each respective member's meaningful contribution as early as possible. In the event that the regional TEI and/or these contributions do not materialise, the EU action may continue outside a TEI framework.

3.3 Mainstreaming

Environmental Protection & Climate Change

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)

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

The proposed Resilience Building Contract does not require a Strategic Environmental Assessment and does not directly address the EU or Zambia's climate commitments. The impact that this action could have on the environment and on climate is minimal and indirect (e.g. having in mind the long term objective of developing a pharmaceutical manufacturing industry in the country). On the contrary, a number of elements of this programme could be directly or indirectly linked to environmental and climate benefits. As an example, improvement of education conditions would lead to better raising awareness of children, parents and communities on effects of climate change and environmental deterioration, as well on the benefits of adapted practices and conservation actions. Climate-smart access to energy and water is also embedded, whenever relevant, in the proposed action, directly contributing to improving adaptation of the education sector, as foreseen in the country's National Determined Contribution.

Outcomes of the EIA (Environmental Impact Assessment) screening (relevant for projects and/or specific interventions within a project)

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

Given the “soft” nature of the main activities, very small scale infrastructure works, EIAs are not specifically envisaged for the proposed action. If however, linked to infrastructure works or water availability, the necessity of conducting an EIA arises, this will be carried out by the Government in line with the EIA Regulations, Statutory Instrument No. 28 of 1997 (SI 28, 1997). So far, none of the activities foreseen under the programme would fall under the statutory Instrument as requiring an EIA, an Environmental Project Brief (EPB) or an Environmental Impact Statement.

The need for EIA in specific cases to be later identified (the only possible scenario would be the close proximity to an area of high biodiversity density) will be stressed by the EU Delegation within the policy dialogue processes and confirmed through monitoring visits or by the Environmental Council of Zambia (ECZ).

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)

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

The Climate Vulnerability Assessment of June 2020 (funded by the Nordic Development Fund), the 2019 In-Depth Vulnerability and Needs Assessment (Government of Zambia, UN and CSOs) and the Zambia Country Climate Risk Assessment Report of 2018 (Irish Aid and Government of Zambia) do not foresee major climate-related risks for the sectors put forward in this proposal. The only climate-related risks that need to be taken into account would be the direct and indirect effects of the two most common natural disasters, droughts and floods. The risks could be direct (e.g. floods impact on physical infrastructure, deteriorating schools or access ways to educational institutions) or indirect (both floods and droughts affecting households to the point that they cannot afford to send children to school). Those risks being already identified in related documents, there is no need for a specific CRA to be carried out for this project. They also remain marginal, thus they will not figure among the major risks related to the programme, as described in section 3.4. In addition, the use of standards and of a wide range of infrastructure related mitigation measures will be embedded in the project design as adaptation measures.

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that Gender Equality constitutes a significant, but not the main objective of the action. The Budget Support programme is contributing to the Gender Action Plan III (GAP III) – Country Level Implementation Plan (CLIP) for Zambia: more specifically, under the thematic area focused on the promotion of economic and social rights and empowering girls and women. The focus will be on the objectives to reduce gender disparities in enrolment, progression and retention at all levels of education and lifelong learning as well as, improved access to safe water and sanitation facilities.

Policy dialogues – both the general and the sectoral ones, will be inclusive of gender equality aspects, and within the PFM component of Budget Support, gender responsive budgeting will be encouraged as much as possible.

Human Rights

The action explicitly aims at the empowerment of rights-holders: improve equitable and inclusive access to education as well as to health and medicines; improve transparency of budgetary processes – including participatory and gender-responsive budgeting; improve access to social services to all, including and mostly to socially and economically disadvantaged children, including children with disabilities.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the proposed action will not have integration of people with disabilities as main objective, but it will have targeted actions aiming to improve the situation of people with disability. For instance, access to education through adapted infrastructure in schools and access to medicines for adequate treatments when needed will be tackled by the proposed programme, both directly and indirectly.

Reduction of inequalities

Based on 2015 figures, the World Bank places Zambia as top 4 in the list of countries with the highest Gini Coefficient (57.1). Zambia is also placed 137th according to the Gender Gap Index and 146th according to the Human Development Index (UNDP 2019). In terms of growth, Zambia has started to recover after the COVID pandemic, with a real GDP of 4.6% in 2021 after a contraction of 2.8% in 2020, and expected GDP growth for 2023-2025 is around 4.5% annually, despite the spillovers of the war in Ukraine and falling copper prices. The poverty incidence is also expected to return to pre-pandemic levels by 2025, which is not really encouraging, given that more than 61.4% of the Zambian population was earning in 2015 less than the international poverty line of USD 2.15 per day (compared to the Sub-Saharan Africa average of 34.9% in 2019¹⁸).

Inequalities remain very high especially in terms of income, of access to services, access to nutritious food, etc. The main factors of inequality are the geographical location (rich provinces like Copperbelt versus very poor provinces like Luapula), the urban/rural location (with an extremely disadvantaged rural population – the more remote, the more disadvantaged), the level of education, gender, vulnerability (e.g. people with disabilities), etc. In the areas of intervention of the programme, the main inequalities are based on income level, on gender and on access to education.

The drivers of inequality are often embedded in tradition and customary practices: (i) gender inequality and the condition of women and girls, with very high prevalence of sexual and gender based violence and early child marriage; (ii) poor nutrition, caused by lack of dietary diversity, which eventually cause long term/irreversible cognitive disadvantages; (iii) high levels of school dropout. For girls this is related to lack of adequate menstrual hygiene and sanitation facilities, early pregnancies, child marriage, etc. For boys, this is related to the need for supporting the household in seasonal work, farming, or other income-generating activities.

Successive governments have shown efforts in reducing these inequalities, with sometimes good results. An example would be the reduction of inequalities in child survival between the poorest and the wealthiest people (BMC Health Services Research). Between 2000 and 2018, the under-five mortality rate declined for 168 to 64 death per 1000 live births. Even if it is still far from the SDG target of less than 25/1000, it is a result of identifying systemic drivers and putting in place government-driven health policies to reduce inequalities related to reproductive, maternal, newborn, and child health (RMNCH). Government action is therefore key for reversing some of the earlier mentioned inequality trends. Some of the more recent efforts on the government side are the Social Cash Transfer Programme and the Education For All reform, which gives learner access to free education at all levels. After one year, this had already a considerable impact on school attendance in both rural and urban areas.

Democracy

The Action will support the consolidation of democracy in Zambia, which has been progressing positively. Through the General Conditions, the Budget Support is seeking to consolidate a steady process of macroeconomic recovery, and to accompany solid reforms that seek to increase transparency and participation to budget planning and execution, and to eradicate corruption. The PFM component of the Action, through focusing on procurement procedures and practices at all levels of government, will contribute to increasing transparency and reducing corruption. Through the education component of the Action, improving quality of education for all children, will in time contribute to eliminate marginalisation, exclusion and inequalities – all of them solid barriers to democratic progress. The role of education in creating citizens that are informed and able to fully exercise their democratic rights is also crucial.

Conflict sensitivity, peace and resilience

Although Zambia is a peaceful country, any actions that contribute to reducing marginalisation, exclusion and inequalities is contributing to further building societal peace and resilience. Resilience is also targeted at the national level through supporting the local production of medicines and medical supplies, as well as through the resilience standards applied to the infrastructure to be built under the Action.

¹⁸ <https://data.worldbank.org/indicator/SI.POV.DDAY?locations=ZM>

Disaster Risk Reduction (DRR)

Specific shock-sensitive solutions, including application of pre-defined DRR/resilience standards may be defined under the implementation contracts, wherever necessary and feasible.

Other considerations if relevant

N/A

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
3	Constrained implementation capacity undermines implementation	Medium	High	The action is design as a political incentive for GRZ to progress on the implementation of its own priority reform agenda, in areas where Cooperating Partners are providing technical assistance and operational support. The action will include support measures to ensure adequate technical assistance is provided.
3	Lack of political will to implement relevant institutional and policy reforms.	Low	High	Strong alignment with GRZ's top priorities. Regular policy dialogue at national level. Coordination with other cooperating partners. Complementarity with EU's sector level technical support (Education, health/pharmaceutical and PFM).
1	GRZ re-prioritise spending away from social sectors, as a result of a protracted fiscal crisis.	Low	High	Strong alignment with GRZ's own priorities and complementarity with other donors' support (IMF/WB). Regular policy dialogue at national level.
4	Mismanagement of public funds and administrative/legal actions threatening the functioning of targeted institutions.	Medium	Medium	Robust action design and complementarity with other Cooperating Partners' support. Regular policy dialogue at national level. Technical Assistance through a joint-support programme on PFM between EU, Germany and USAID. Recent anti-corruption initiatives confirmed GRZ's commitment and build serious credentials on the fight against corruption.

Lessons Learnt:

The main lessons learned from the evaluation of previous budget support operations in Zambia are:

Importance of leadership at multiple levels- The importance of strong leadership commitment to achieving reforms is essential. With the current Government, the highest levels of the GRZ are committed to PFM reforms. However, it should not be assumed that government leaders can push reforms through a bureaucracy without the cooperation of reformers at operational levels. The action will leverage sector-level interventions to ensure the public administration's buy-in and participation.

Political risk – Mismanagement of donor funds would disproportionately impact the public's perception of the government's genuine commitment to public sector accountability and zero tolerance against corruption, seriously undermining the government's effort to reform the public sector. Lessons from 2018 are that mismanagement in budget support operations translates not only into the suspension of the funding of the relevant operators themselves but also into a temporary reduction in development aid at the sector level, which has an impact on the pace of social and economic progress in the country. The current action has been elaborated to be impactful but simple and robust in design while curtailing the EU's reputational risk related to mismanagement of the government's own public funds.

Managing towards outcomes rather than outputs – In previous budget support operations, slow implementation (slow progress of sector reforms), the low performance of the operation (variable tranches), and lack of evidence of progress from additional Government sources contributed to the actions' failure. The budget execution process was Activity Based Budgeting (ABB) oriented, resulting in fundamental disconnects between upstream budget formulation and downstream budget management. Under the previous EU support to PFM, the Government has introduced Output Based Budgeting (OBB). The introduction of OBB should contribute to progressively shifting the focus of management practices from managing inputs to managing outputs and outcomes. The action will also be supported by the EU joint engagement with Germany and USAID in PFM, which will support GRZ to further expand the functionality of the IFMIS and enable the Government to report against its programme structure, rather than against stand-alone activities/budget lines.

Need for Improved Statistics and M&E – Data is important to ensure that the accountability function is fulfilled. The country's statistical capacity remains limited by a lack of data management mechanisms/systems, limited coordination/collaboration within and between institutions, and weaknesses in the sectors' information management systems. The action will contribute to strengthening the government data management capacity at the sector level, complemented by a diagnostic of the broader national statistics systems.

3.5 The Intervention Logic

The underlying intervention logic for this action is that the Government is very committed to reforms that aim for medium-term economic and societal recovery targeting long-term growth and citizens' welfare. These do not include only the stimulation of the Zambian economy, but also the consolidation of progress in terms of democratic institutions and processes and the increased investment in the country's human development and potential. However, carrying out these reforms in a context of limited fiscal space caused by economic mismanagement, culminating in the country defaulting on its debt in 2020 represents a difficult task – hence the active support of multilateral (IMF, WB, AfDB) and bilateral (EU, GIZ, USAID, etc.) cooperating partners. In this context, the EU opted for resuming its budget support operations in support of the reforms. This will allow for increased fiscal space and higher ownership of the Government of the activities and the results of the Programme. Moreover, the option of a Resilience Building Contract has been chosen given Zambia's recovery context from a multi-factor crisis (debt default, pandemic, prolonged droughts, and severe floods), thus supporting the country to advance policies and adapt institutions for solid reforms with long-lasting positive effects on the economy and the society.

The first two Specific Objectives aim to support key priority reforms under the two social sectors that have the most impact at the level of the Zambian population, independently of geographical location or social status: Education and Health. The action supports the focus of the reforms to reduce inequalities in these two sectors, by improving the quality and inclusiveness of the education system and by stimulating local production of medicines and medical supplies, which will eventually translate into higher availability and affordability of medicines for all Zambians, including the most vulnerable.

Improving the quality and inclusiveness of education is the general aim of the government's Education For All reform. This specific Activity will help realize the reform objectives by contributing to increasing the quality of teaching (e.g. availability of adequate teaching space, teaching and learning materials, and teacher's accommodation) and increasing the educational opportunities for the most disadvantaged (girls, children with disabilities, poor) through the provision of adequate auxiliary infrastructure (access for disabled, WASH facilities). An increase of more than 30% of the education budget is a step forward made by the Government, but this will not avail the necessary resources for this ambitious reform. Therefore EU will join other partners that are contributing to financing this reform (e.g. World Bank, through loans), and the Budget Support operation's contribution will play an important role in its achievement, if well coordinated. The action will also be well coordinated with, and will complement the Programme on Early Childhood Development and Education under the AAP 2023.

The component supporting ZAMRA has been proposed to be undertaken under the Budget Support Action as ZAMRA reform (including the related legislative framework) is a sine qua non condition to creating a conducive environment for the development of a local pharmaceutical industry as prioritized by the ZPMI. In the long term, this is an opportunity under the Global Gateway, as showcased by the success of the recent EU-Zambia Pharmaceutical Forum and the concretization of the first MoU between European and Zambian companies. The choice of this particular component is further motivated by the long-term investment of the EU in the Zambian Health Sector, particularly in respect to the regulatory aspects and capacity building at ZAMRA (fully equipped and new HQ built under EDF).

Under the third Specific Objective, the Action intends to support the Government's PFM Reform Strategy to help restore fiscal sustainability and improving efficiency and effectiveness of public resource allocation, notably in relation to public service delivery (value for money). This action will particularly focus on improving public procurement, transparency, and financial compliance in the management of public resources across the Government.

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.

BUDGET SUPPORT MODALITY as reflected by the national/sector public policy supported (4 levels of results / indicators / Baselines / Targets / Source of Data - no activities)

Caveat: the indicators used in the LFM refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain (a): Main expected results (maximum 10)	Indicators (a): (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	Improved access to quality, efficient, equitable, affordable and inclusive public services for all Zambians.	<p>1. Primary and secondary completion rates, by sex</p> <p>2. Value of imported pharmaceutical products</p> <p>3. Number of procurement irregularities identified by the Auditor-General</p>	<p>1_ To be indicated on starting date of implementation</p> <p>2_ To be indicated on starting date of implementation</p> <p>3_ To be indicated on starting date of implementation</p>	<p>1_ tbd</p> <p>2_ tbd</p> <p>3_ tbd</p>	<p>1. MoE reports</p> <p>2. ZamStats Trade statistics</p> <p>3. A-G Annual Report</p>	<i>Not applicable</i>
Outcome 1	Improve access, quality, equity and inclusiveness in primary and secondary education	<p>1.1 Primary school enrolment, by sex (GERF 2.36a)</p> <p>1.2 Secondary school enrolment, by sex (GERF 2.36b)</p> <p>1.3 Primary school pupil-teacher ratio</p> <p>1.4 Secondary school pupil-teacher ratio</p>	<p>1.1, 1.2, 1.3, 1.4_ To be indicated on starting date of implementation</p>	<p>1.1, 1.2, 1.3, 1.4_ tbd</p>	<p>MoE/ GPE/ UNICEF/ World Bank Reports;</p>	
Outcome 2	Advance the Zambia Pharmaceutical Manufacturing Initiative and contribute to the improvement of health services through the creation of a local pharmaceutical industry	<p>2_ Zambia has improved its regulation and control on locally produced and imported medicines</p>	<p>2.1_ To be indicated on starting date of implementation</p>	<p>2.1_ tbd</p>	<p>MoH/ZAMRA Reports;</p> <p>WHO</p>	
Outcome 3	Improved operational efficiency and accountability of public spending	<p>3.1_ Status of the roll-out plan of the e-GP System.</p>	<p>3.1_ To be indicated on starting date of implementation</p>	<p>3.1_ 519 procurement entities</p>	<p>ZPPA reports</p> <p>Report of the Steering</p>	

		3.2_ Status of the action plan of the PFM reform strategy	3.2_ Not created	3.2_ tbd	Committee - MoFNP	
		3.3 Number of procurement entities who have switched to e-GP	3.3_ To be indicated on starting date of implementation	3.3_ tbd		
Induced Outputs relating to Outcome 1	<p>IO 1.1. Improved quality of teaching and learning environments at primary and secondary levels</p> <p>IO 1.2. Improve access to water, electricity, and quality of sanitation and hygiene in primary and secondary schools, including gender and disability sensitive infrastructure.</p> <p>IO 1.3. Improved data and capacity for inclusive and evidence-based policy and planning in the education sector.</p>	<p>1.1.1_ Number of schools with gender specific features (e.g. separate latrines for girls, access to water, security in dorms) made available with EU support</p> <p>1.1.2_ Number of climate –smart facilities/ schools/ classrooms rehabilitated/constructed and equipped with EU support that meet accessibility, safety and well-being standards (disaggregated by geographical location - region, urban/rural, and by level of education) .</p> <p>1.1.3_ Timely publication of annual education statistics.</p>	<p>1.1.1_ 0</p> <p>1.1.2_ 0</p> <p>1.1.3_ 2 years backlog</p>	<p>1.1.1_ 70</p> <p>1.-1.2_ 400 Primary / secondary classrooms/ annex</p> <p>1.1.3_ Year N-1 statistics published on year N.</p>	MoE reports	
Induced Outputs relating to Outcome 2	IO 2.1 Improved legal and regulatory environment for the nascent local pharmaceutical industry	1.2.1 Number of specific legislation and regulations initiated by ZAMRA and adopted by Cabinet	2.1.1_ 0	2.1.1_	tbd	
Induced Outputs relating to Outcome 3	IO 3.1 More efficient and transparent procurement processes	3.1.1_ % of expenditure awarded through competitive procedures	3.1.1_ tbd	3.1.1_ tbd	MoFNP / ZPPA reports	

<p>Direct Outputs</p>	<p>DO 1: Increased fiscal space and predictability of funds to support the 8NDP implementation (RBC).</p> <p>DO 2: Improved policy dialogue between the Government and the EU and its Member States under the social sectors</p> <p>DO 3: Improved monitoring and reporting of PFM reform/8NDP implementation</p>	<p>DO 1_ Funds are disbursed according to pre-established calendar</p> <p>DO 2_ Number of policy dialogue platforms/meetings held at national level</p> <p>DO 3_ Timeliness and quality of reports released by the MoFNP on the PFM-RS implementation (internal)/ the 8NDP implementation Plan(published).</p>	<p>DO 1_ None</p> <p>DO 2_ none</p> <p>DO 3_ To be indicated on starting date of implementation</p>	<p>DO 1_ Maximum EUR 57.000.000</p> <p>DO 2_ Quarterly meetings</p> <p>DO 3_ tbd</p>	<p>DO 1_ Disbursement notes and payments in ABAC</p> <p>DO 2_ Minutes of policy dialogue meetings</p> <p>DO 3_ 8NDP implementation reports released by the MoFNP / PFM Reform Secretariat updates</p>	
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4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

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 24 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

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 58 500 000, and for complementary support is EUR 1 400 000. This amount is based on lessons learned from previous budget support operations and on the Government's financing needs to implement policy priorities.

In this action, budget support is complementary to other implementation modalities and it adds value by allowing for a high-level results oriented policy dialogue between the EU, Ministry of Finance and Planning, the Ministry of Education, the Ministry of Health and their affiliated agencies. Thus, the action will bring different stakeholders together to discuss and advance ongoing policy development and reform in order to support the Government to progress on its social and economic development objectives under the 8NDP. It also incentivizes continued improvements in budget transparency, public sector accountability and macro-economic stability.

Following the 2021 general election, the political engagement with Zambia's national authorities has improved considerably. The debt default pronounced in November 2020 left GRZ with an extremely tight fiscal space. The IMF and the World Bank have stepped-in to provide GRZ with additional liquidity during GRZ's debt restructuring negotiation with its creditors. The budget support is the government's preferred implementation modality.

In Zambia, Cooperating Partners' exit from budget support operation was a gradual process that occurred in response to declining performance and corruption scandals. All budget support operations stopped in 2018. With a reformist government, results oriented, genuinely committed to reforming the public service and fighting corruption, while working towards restoring macroeconomic stability with the support of the IMF, the conditions are met for the EU to resume its budget support operations. Considering past experiences, the action has been designed as a pilot which, if successful, could open the way to a larger proportion of the country allocation to be delivered through budget support in the second phase of the MIP (2024-2027). The proposed Resilience Building Contract for Zambia, will focus on key GRZ priorities and include a performance contract, where budget support blends with other modalities and is highly complementary, to drive a specific set of reforms that require strong political commitment and cooperation of different government actors.

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

- Year 1 disbursement in 2024 fixed tranche after signing FA
- Year 2 disbursement in 2025, mixing fixed tranche and variable tranche, based on eligibility assessment of 2024 (n-1)

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

4.3.2 Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Zambia's 8th National Development Plan and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- Enhance access to quality, equitable and inclusive education;
- Increase access to quality health care
- Strengthen transparency and accountability mechanisms;

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3 Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Zambia Kwacha will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The action includes both fixed and variable tranches over 2 years. The fixed component covers the first and second years. The incentive to deliver on the sector policy targets, through the variable tranches, starts from year 2. The overall amount of variable tranches is 50% of the total.

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.¹⁹

4.4.1 Direct Management (Procurement)

The complementary support to the Budget Support Action, provided under procurement procedures, will contribute to all three Specific Objectives. The need to reinforce the capacities of the targeted institutions is important, and more so in a context of resuming budget support operations after a long hiatus (9 years).

Given this necessity, both at central and deconcentrated level, a TA established under direct management would be an appropriate modality. The MoE, ZAMRA and MFNP will be particularly targeted. Synergies and coordination will be realised through policy dialogue, through the JES coordination systems (for EU and Member States) and through the Cooperating Partners coordination systems at national level.

The indicative tasks to be performed by the TA include (not exhaustively):

1. Technical assistance to improve Public Finance Management in general and procurement procedures in particular. The main aim is to reduce to a minimum the chances for corruption and mismanagement when it comes to public finance, and especially to procurement processes.
2. Procurement advisory services, aiming to improve overall government processes for procurement, but also linking to the specific cases related to the present action (e.g. education infrastructure and rehabilitation).
3. Contract management support, in particular at provincial and district level, for specific works contracts – with a focus on results delivery.
4. Technical support for the government in enforcing and monitoring standards for education infrastructure
5. Performance and quality assessments of works and supply contracts with a specific focus on equity issues in social services delivery, access for children with disabilities and gender equality.
6. Technical support to ZAMRA aiming to advance towards reaching maturity level 3.

Other possible tasks will be further defined together with the concerned institutions, through a collaborative process of definition of the Terms of Reference.

4.5. 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).

¹⁹ www.sanctionsmap.eu. Note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy, the OJ prevails.

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4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 4.3	58 500 000
Implementation modalities – cf. section 4.4	
Complementary support - Procurement (direct management) – cf. section 4.4.3	1 400 000
Evaluation – cf. section 5.2	100 000
Audit – cf. section 5.3	0
Contingencies	0
Totals	60 000 000

4.7 Organisational Set-up and Responsibilities

The main responsibility for the implementation of the Budget Support programme lies with the Government of Zambia, in particular with the MoFNP, MoE and MoH. The EU Delegation will follow up closely on the implementation, and on the evolutions in terms of General and Specific Conditions for the Budget Support. The TA will support the Government for a smooth implementation, and will facilitate when needed the Policy Dialogue.

The Policy dialogue is envisaged, as agreed with the Government of Zambia, to be held at two levels. At higher level (Minister or PS), the Policy dialogue between the EU and Zambia will be embedded in the existing dialogue formulas with the IMF and the WB – where discussions will concern mainly the General Conditions of the Budget Support in the extended context of the support programmes of the EU, IMF and WB. EU Member States would also be invited to participate. If needed, outside the above mentioned high level policy dialogue, a Budget Support Coordination committee can be called, at PS level, gathering all ministries concerned.

At more technical level, the policy dialogue will be at least six-monthly, and will take place at director’s level for each of the sectors concerned, with the participation of concerned Member States, other Cooperating Partners (at least the chair of the Cooperating Partners Group on the specific sector) and with the participation of Civil Society. For the Health/Pharmaceutical development sector policy dialogue, Private Sector will also be invited.

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 and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

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:

For the budget support component, the MoFNP, the MoE, MoH, as well as the other public agencies taking part in the Action (such as ZPPA, ZAMRA, OAG, etc.) will report on the sector policies. The MoFNP will report on macroeconomic performance, improvements in public financial management and budget transparency.

The budget support programme will be reviewed through annual reviews to assess compliance with the General Conditions and Performance Indicators for the release of the variable tranches. The reviews will be timed to meet the indicative disbursement schedule. An independent review team (third party contracted by the EU Delegation) may support the process for each instalment.

For complementary support, reports shall be laid out in such a way as to allow monitoring of the support provided through the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

The implementation of the 8NDP is monitored through the national M&E Framework supported by a central Management Monitoring System (MMS), based at MoFNP. Sectoral Planning Units should have access to the MMS, to feed the database with information related to their programmes. From the data uploaded in the MMS, Annual Progress Reports will be produced, in compliance with the National Planning and Budgeting Act of 2020, to be submitted to the National Assembly before the last Friday of May of each year. The action will use the MMS to cross-reference progress under Outcome 1.

Decisions of the Cabinet are recorded through the Cabinet Office Circular. Cabinet Office circulars and the reporting of MoH and ZAMRA will be used, in complement to the policy dialogue, to measure progress under Outcome 2.

The Ministry of Finance has established a structure for the design and oversight of a PFM reform strategy (PFM-RS). The structure is composed of a steering committee with high-level representatives from relevant institutions (PS of MoFNP, ZPPA, BoZ, Smart Zambia, OAG); a PFM Reform Secretariat (supported by GIZ); 3 technical working groups (Planning & Budgeting; Budget Execution, Accounting and Reporting; Budget Controls and Auditing) and 4 advisory teams. The PFM Reform Secretariat will collect and compile data relating to performance indicators from the relevant stakeholders contributing to the implementation of the PFM-RS. A joint performance framework will be set up to accommodate the monitoring effort of development partners supporting the implementation of the PFM-RS (including this action). The PFM Reform Secretariat will be responsible for collecting data related to Outcome 3.

Eligibility monitoring will be based on the collection and analysis of primary data, sector-level programmes M&E framework, PFM-RS progress reports, and policy dialogue with MoFNP, MoE, MoH and other stakeholders, at least twice a year.

5.2 Evaluation

Having regard to the importance of the action, a final evaluation(s) may be carried out for this action or its components contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that the action marks the resumption the Budget Support operations in Zambia, and might open the way to a continuation with this implementation modality in the future.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

Any evaluation will be gender sensitive and will assess the effective integration of relevant cross-cutting issues and implementation of the five HRBA working principles, both in terms of implementation processes and outcomes. In addition, an active and meaningful participation of all identified stakeholders including rights-holders should be ensured in the entire evaluation process.

The Commission shall inform the implementing partner at least 60 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively 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 partner 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.

In line with the 2022 “[Communicating and Raising EU Visibility: Guidance for External Actions](#)”, 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.

Appendix 1 REPORTING IN OPSYS

A Primary Intervention (project/programme) is a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

Articulating Actions or Contracts according to an expected chain of results and therefore allowing them to ensure efficient monitoring and reporting of performance;

Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);

Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention chosen can be modified (directly in OPSYS) and the modification does not constitute an amendment of the action document.

The intervention level for the present Action identifies as (tick one of the 4 following options);

Action level (i.e. Budget Support, blending)		
<input checked="" type="checkbox"/>	Single action	Present action: all contracts in the present action
Group of actions level (i.e. top-up cases, different phases of a single programme)		
<input type="checkbox"/>	Group of actions	Actions reference (CRIS#/OPSYS#):
Contract level		
<input checked="" type="checkbox"/>	Single Contract 1	Financing Agreement – Budget Support
<input checked="" type="checkbox"/>	Single Contract 2	Complementary Support – Service Contract
<input checked="" type="checkbox"/>	Single Contract 3	Evaluation – Service Contract
Group of contracts level (i.e. series of programme estimates, cases in which an Action includes for example four contracts and two of them, a technical assistance contract and a contribution agreement, aim at the same objectives and complement each other)		
<input type="checkbox"/>	Group of contracts 1	