Development of a Programme

Implementation and Project Appraisal System

Ministry of Finance and Economic Development, Government of the Republic of Zambia

Technical Report

February 2015
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<th>Full Form</th>
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<td>ADC</td>
<td>Area Development Committee</td>
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<tr>
<td>AN</td>
<td>Appraisal Note</td>
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<tr>
<td>BEA</td>
<td>Budget and Economic Affairs Division</td>
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<td>BO</td>
<td>Budget Office</td>
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<tr>
<td>CBA</td>
<td>Cost-Benefit Analysis</td>
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<tr>
<td>CO</td>
<td>Cabinet Office</td>
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<tr>
<td>CS</td>
<td>Secretary to the Cabinet</td>
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<tr>
<td>DDCC</td>
<td>District Development Coordination Committee</td>
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<tr>
<td>DPR</td>
<td>Detailed Project Report</td>
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<tr>
<td>EFC</td>
<td>Expenditure Finance Committee</td>
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<td>EMF</td>
<td>Economic Management and Finance</td>
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<td>ENE</td>
<td>Estimates for National Expenditure</td>
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<tr>
<td>FNDP</td>
<td>Fifth National Development Plan</td>
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<tr>
<td>GoSA</td>
<td>Government of South Africa</td>
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<td>GRZ</td>
<td>Government of the Republic of Zambia</td>
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<td>IDM</td>
<td>Investments and Debt Management Department</td>
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<td>IPA</td>
<td>In-Principle Approval</td>
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<td>M&amp;E</td>
<td>Monitoring and Evaluation Department</td>
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<td>MLGH</td>
<td>Ministry of Local Government and Housing</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>MPSAs</td>
<td>Ministries, Provinces and other Spending Agencies</td>
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<td>MTEC</td>
<td>Medium-Term Expenditure Committee</td>
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<td>MTEF</td>
<td>Medium-Term Expenditure Framework</td>
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<td>National Development Plan</td>
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<td>NPD</td>
<td>National Planning Department</td>
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<td>NPPID</td>
<td>National Policy and Programme Implementation Department</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>PAC</td>
<td>Policy Analysis and Coordination Division</td>
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<td>PAMD</td>
<td>Project Appraisal Management Division</td>
</tr>
<tr>
<td>PDCC</td>
<td>Provincial Development Coordination Committee</td>
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<tr>
<td>PEMD</td>
<td>Planning and Economic Management Division</td>
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<td>PIB</td>
<td>Public Investment Board</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<tr>
<td>PPPAC</td>
<td>Public-Private Partnership Appraisal Committee</td>
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<tr>
<td>RDA</td>
<td>Zambian Road Development Agency</td>
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<tr>
<td>RFP</td>
<td>Request for Proposal</td>
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<tr>
<td>RFQ</td>
<td>Request for Qualification</td>
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<tr>
<td>SAG</td>
<td>Sector Advisory Group</td>
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<td>SNDP</td>
<td>Sixth National Development Plan</td>
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EXECUTIVE SUMMARY

The Government of the Republic of Zambia (GRZ) has realised that there is a pressing need to ensure that government funding is better targeted and that programmes and projects implemented are brought more in line with the GRZ’s policy priorities. There is also a need to ensure that sufficient funding is distributed to executing agencies when needed to ensure successful and timely project implementation of projects. Genesis Analytics (Genesis) has been engaged by the Zambian Ministry of Finance (MOF) and the United Nations Development Programme (UNDP) as the service provider for the development of a programme implementation and project appraisal system for the MOF.

This document is a Technical Report which, as a pre-cursor to a project appraisal manual, aims to achieve the following objectives:

- Provide an overview of what the national investment cycle in a country should entail, and how the project life-cycle should be structured to maintain close alignment between high-level policy priorities and micro-level project objectives;
- Critically examine the current policy and planning process, budget cycle and programme implementation system in Zambia in order to identify challenges;
- Provide a comparative analysis of the process as it occurs in three other countries, India, South Africa and Mauritius, chosen for specific qualities inherent in their systems;
- Recommend a new project appraisal framework for Zambia, one that can be incorporated with some modifications into the current institutional arrangements, policy process and budget cycle.

ALIGNMENT OF POLICY PRIORITIES WITH PROGRAMME IMPLEMENTATION

At the outset, it is necessary to review how the alignment of policy priorities should be done with programme implementation more generally in a country. This requires understanding the key terms to be used in this report namely: project, programme and policy. These are briefly outlined here:

Project: “An activity that involves the use of scarce resources during a specific time period for the purpose of generating socioeconomic returns” (USAID)

Programme: “A programme is a portfolio comprised of multiple projects that are managed and coordinated as one unit with the objective of achieving (often intangible) outcomes and benefits for the organisation.” (ICB)

Policy: “A statement of goals, objectives and courses of action outlined by the Government to provide guidance for its intended actions.” (Government of the Republic of Zambia)
Well-defined national policy priorities require effective implementation in order for them to translate into significant socio-economic impact. This process happens firstly through the creation of programmes informed by policy and then via the development of projects to support these programmes’ objectives; this is known as the national investment cycle and it must be seen as a continuous process.

The figure below (described in greater detail in Section 3) presents a holistic view of this cyclical process, depicting the linkages between policy formulation, programme design and project execution.

**Figure: National investment Cycle**

From the figure it is evident that programmes and projects derive from policy formulation. The process of proceeding from high-level policy making to the execution of projects on the ground requires careful thought so as to ensure both that policy priorities are clearly reflected in projects and, in resource constrained environments, budgeting is done efficiently. These
linkages require strengthening in Zambia; the GRZ has noted that “the lack of a planning and budgeting policy has in the last decades exposed a serious disconnect between plans and budgets and has also weakened institutional accountability.”¹

TRANSLATING POLICIES INTO ACTIONABLE PROJECTS

The GRZ has expressly recognized the need “to undertake ex-ante appraisal of capital projects before being included in the plans and being allocated resources in the annual budget”.² This project appraisal process is not currently institutionalised in Zambia.

Figure: Project Lifecycle

The different stages that occur between a project’s identification and its final execution build upon one another in an evolutionary-style process known as the project life-cycle, as depicted above in the figure, and described in detail in Section 4. What follows here is a set of recommendations – based on a desktop review of the country’s current processes, and interviews with MOF staff – to enhance efficiencies at each stage of this project life-cycle.

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¹ Government of the Republic of Zambia. 2014. National Planning and budgeting Policy. Pg. iii
² ibid, Pg. 12
### Table: Critique of GRZ’s Project Life-cycle

<table>
<thead>
<tr>
<th>Stage</th>
<th>Recommendations</th>
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| **PROJECT IDENTIFICATION STAGE**     | • Develop a project identification methodology to assist with assimilation of project ideas  
                                         • Streamline the SAGs so that they can provide more project ideas, and advise on how programmes and projects can be implemented better. |
| **PROJECT DEFINITION STAGE**         | • Allocate clear institutional responsibility for project preparation; make the Sponsor Department the anchor for the entire process.  
                                         • Institutionalise early consultation with the SAGs |
| **PRE-FEASIBILITY STAGE**            | • Institutionalised project appraisal so that the costs and benefits of projects are well known, implying that funding decisions by government are linked to a project's expected developmental impact  
                                         • Institute an entity responsible for screening and recommending projects on the basis of policy alignment and expected impact, i.e. a Gateway. |
| **DETAILED FEASIBILITY STAGE**       | • Develop guidelines specifying standards for uniformity in feasibility studies undertaken across the GRZ. |
| **FINANCING STAGE**                  | • Using results of socio-economic cost benefit analysis, combined with knowledge of policy priorities for capital budgeting and allocation.  
                                         • Institutionalising the development of financing strategy and reducing reliance on financing from the GRZ for project implementation. |
| **IMPLEMENTATION AND MONITORING STAGE** | • Conducting regular monitoring of individual projects  
                                         • Assigning clear institutional responsibility for monitoring and implementation of projects to reduce duplication of effort  
                                         • Improved co-ordination on monitoring at different levels in order to clearly record the process and make it smoother and more understandable  
                                         • Develop process for determining mitigation actions to combat the potential for implementation failure |
| **IMPACT EVALUATION STAGE**          | • Conducting project-level ex-post impact evaluation. |
KEY LESSONS FROM INTERNATIONAL EXPERIENCE

In order to understand how the project life-cycle in Zambia might be improved, it is worth turning to other countries whose systems highlight in simple terms what alternative options are possible and what might be effective. India, South Africa and Mauritius have been chosen in this regard and are studied in detail in Section 5. Key lessons from these reviews are presented here.

INDIA

- Good integration between policy priorities, programme design, budget allocation and project objectives due to the involvement of the planning commission at each stage of the project life-cycle;
- There are two categories under which budget outlays are made: ‘Plan’ and ‘Non-Plan’ expenditure. This categorisation of expenditure institutionalises the alignment between the policy priorities outlined in the Plan document and the actual outlays made for programmes and projects;
- The Project Appraisal Management Division ensures the institutionalisation of project appraisal, including feasibility analyses conducted on all ex-ante appraised projects, and the inclusion of experts adds further technical rigour to the appraisal process; and
- The constitution of inter-departmental bodies such as the Expenditure Finance Committee and Public Investment Board promotes co-ordination and helps in investment decision making.

SOUTH AFRICA

South Africa was chosen for the way it centralizes project appraisal functions within the country’s Ministry of Finance and reaps efficiencies at all stages of the project life-cycle. Key lessons from the South African model are:

- Importance of a national plan to ensure that the design and implementation of programmes and projects are aligned with the country’s policy priorities;
- Budget Process provides space for engagement between Departments (i.e. Line Ministries) and the National Treasury (i.e. The Ministry of Finance) so as to ensure that they get the opportunity to express their needs and requirements. Further, by issuing several guidelines on various budget document requirements and providing technical assistance where required, the National Treasury assists Departments in their functions;
- Alignment between policy and budgeting is institutionalized in the current budget system through the current functional budgeting system and the Medium Term Expenditure Committees (METC) review process; and
- Clear project appraisal system demonstrates that the National Treasury employs the project life-cycle approach and advocates elaborate ex-ante project appraisal in the approval and funding of infrastructure projects.
MAURITIUS

- Separation of budget formulation and budget execution ensures that there is distribution of budgetary control and responsibility between various offices in the Government of Mauritius. This enables both functions to be performed efficiently.

- Devolving cash disbursement responsibility allows the line ministries to interact with the Accounting Officers with regard to a mutually agreeable disbursement schedule. Also, this helps the Accounting Officers understand the needs of the line ministry more deeply and engage with them on a regular basis.

- Efficient cash management by the Office of the Accountant General and liaising with the Accounting Officers introduces predictability in the cash inflows for line ministries. This helps in optimising the development impact of programmes and projects.

RECOMMENDED FRAMEWORK FOR A NEW PROJECT APPRAISAL SYSTEM IN ZAMBI

Based on the review of the current system in Zambia, and drawing on best practices identified from India and South Africa, a suggested framework for a new project appraisal system has been developed. This Framework is outlined in the Table below, and discussed in Section 6 of the report. It contains suggestions on the institutions that could be involved, the processes required to be undertaken and the outputs expected at each stage.

This new framework seeks to improve the alignment between policy priorities, programme implementation and project appraisal, as well as project implementation and disbursements of allocated funds in government institutions in the country, thereby addressing the four key pillars, which are,

1. **Achieving optimum development impact**: Instituting a comprehensive, institutionalised appraisal system so that projects with the highest socio-economic impact on target communities and which maximise value-for-money may be chosen for financing.

2. **A gateway for project selection**: A multi-disciplinary government entity is required to act as a Gateway for all project proposals from all MPSAs in order to provide a common appraisal process to all projects. This would ensure that project selection is efficient and in line with national development goals.

3. **Enhanced alignment between budget office outlays and project financial needs**: A government entity with in-depth knowledge of planned projects and their work-plans is required to work closely with the Budget Office and MPSAs to ensure the timeous disbursement of project funds so as to avoid extended delays with project execution. Such delays significantly reduce the development impact of projects.

4. **Enhanced co-ordination between the NPD and NPPID**: There should be closer alignment between the NPD and the NPPID so that they can perform their complementary functions of planning and implementation.

The following is a summary of the key Recommendations aimed at improving the alignment between policy priorities, programme implementation and project appraisal and execution in Zambia. They are described in greater detail in Section 7 of this report.
1. ADOPTING A NEW PROJECT APPRAISAL SYSTEM BASED ON THE PROJECT LIFE-CYCLE APPROACH WITH A STRONG GATEWAY INSTITUTION

In order to maximise the development impact of identified projects that are aligned with policy priorities, it is important to determine their technical suitability and projected value-for-money. This requires that a project life-cycle view be taken for project appraisals, which necessitates ascribing responsibility for each stage of the cycle to specific institutions. A framework for such a system in Zambia has been suggested in Section 6, Table 5 and is also reproduced below. This framework should apply to all MPSAs across the GRZ.

One of the key recommendations of this framework is the concept of a Gateway, which would be responsible for reviewing every feasibility study produced by the GRZ and taking responsibility for deciding whether and how a project would be implemented. The Gateway is a multi-disciplinary entity which has the technical skills and authority to review the pre-feasibility and feasibility studies and develop a short-list of projects to be put forward to the Budget Office for funding allocation. The Gateway would be responsible for coordinating the appraisal process and keeping the Budget Office informed about developments and progress of appraisals of various projects. In addition to technical and sector experts, the Gateway would consist of senior officials from the Ministry of Finance.

2. STRENGTHENING THE SECTOR ADVISORY GROUPS (SAGS) FOR GREATER ALIGNMENT BETWEEN POLICY FORMULATION, PLANNING AND BUDGETING

While Zambia drafts 5-year National Development Plans to ensure that there is a coherent blueprint for achieving its Vision 2030, the policy priorities expressed in these plans do not always translate into actual budget outlays. In order to ease this alignment, there is a need to streamline and strengthen the SAGs. Further, it is recommended that the current organisation of SAGs be reviewed and an optimum number of SAGs be determined.

3. CLUSTER APPROACH FOR GREATER INTER-DISCIPLINARY ALIGNMENT

It is recommended that MPSAs be grouped into clusters defined according to economic and administrative function. The clusters should produce an Annual Policy Paper which informs the annual Concept Paper produced by the PAC for the MTEF. Hence, the co-ordination between policy formulation, planning and budgeting can be strengthened.

4. REVIEW THE BUDGET PROCESS TIMETABLE AND CASH MANAGEMENT PROCESS

The current budget cycle in Zambia does not allow for sufficient engagement between MPSAs and the Ministry of Finance. There is a need to alter the current timetable to achieve better alignment between policy priorities with actual budget outlays. This can be done as follows:

- Starting the drafting of the Concept Note in the Cabinet in November would allow the PAC sufficient time for discussion with MPSAs about their policy priorities.
- The new timetable gives MPSAs more time for the preparation of their budgets
- There is a need to increase the time for budget hearings and for the integration of the final budget submission in order for the MPSAs and Ministry of Finance to engage sufficiently

Further, the cash management process currently being performed by the Budget Office needs to be reviewed.
5. CLEAR, TRANSPARENT PROJECT APPROVAL PROCESS AT THE GATEWAY

The Gateway will be responsible for reviewing the pre-feasibility and feasibility studies prepared by MPSAs. Hence, it would be the responsibility of the personnel at the Gateway to ensure that the evaluation of the studies is done in a fair and objective manner. This necessitates the design of a transparent process for conducting project reviews at the Gateway.

6. PROVIDING SUFFICIENT GUIDANCE TO MPSAs

MPSAs need to be provided with a set of guidelines so that the information requirements of a project appraisal exercise and feasibility study are clearly communicated to them. Further, they also require guidance on the approach that must be adopted to conduct the pre-feasibility and feasibility studies. There is a need to bring in a consistent approach throughout the GRZ and all MPSAs in how feasibility studies are written so that quality standards can be maintained in the analysis and so that there is consistency in the evaluation of the feasibility studies. Hence, the MOF should issue a set of guidelines to the MPSAs and then conduct bilateral engagements with them in order to operationalise the use of these guidelines.

7. STREAMLINING THE MONITORING AND EVALUATION PROCESS

It is noted that the M&E Department within the MOF has made several attempts to increase the level of monitoring and evaluation across the GRZ at the level of the MPSAs and the SAGs. In order to strengthen the M&E function, there needs to be regular programme and project monitoring at the level of MPSAs. To support this, there should be a unified M&E process where emphasis is placed on the monitoring and ex-post evaluation of projects which are part of the programmes for which budget outlays have been provided.

For this, the M&E Department should develop reporting guidelines and templates to be used by the M&E units within MPSAs to report project progress. MPSAs should do project and programme level M&E and report to the MOF, while the M&E Department continues to do spot checks on on-going projects as currently carried out.

Below, we present the suggested framework for project appraisal based on the project lifecycle approach for Zambia below.
<table>
<thead>
<tr>
<th>Project Life cycle Stage</th>
<th>Anchor Ministry</th>
<th>Anchor Department / Body (within Ministry)</th>
<th>Additional Ministry/Department which may be consulted</th>
<th>Functions</th>
<th>Rationale for suggestion</th>
<th>Key Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Identification</strong></td>
<td>MPSA Sponsor Department</td>
<td>- Planning Directorate, MPSA - NPPID, MOF - NPD, MOF - Relevant SAGs</td>
<td>- <strong>Project ideas</strong> generated by variety of sources are brought before the Planning Directorate of the MPSA for deliberation. These could be presented on <em>Project Information Sheets</em> prepared by the Sponsor department within the MPSA. - <strong>The MOF could then conduct a screening of project ideas</strong> to ensure that projects that enter the preparation process are aligned with high-level plan and budgetary priorities. The result is a draft long list of projects along with project information sheets. - The draft long list is then sent to the Cabinet Office for approval along with the relevant project information sheets. Projects approved at this stage can then proceed to the project definition stage.</td>
<td>- It is suggested that MPSAs take the responsibility for anchoring projects under the programmes involving their ministry. Further, representatives of the Sponsor department within the MPSA could gather project ideas from a number of sources and assimilate the ones they are interested in implementing in the form of formal documents, i.e. the Project Information Sheets. - An internal review of project ideas can take place within the MPSA’s Planning Directorate so that alignment with sectoral and regional plans can be established. - The MOF is well placed to prepare the draft long list as it can verify if financing for the projects can be available and advise on alignment with overall policy priorities for the GRZ. - It has been suggested that the Cabinet Office provides the final approval for the draft long list so that it can have oversight of the projects</td>
<td>- Project Information Sheets for all projects - Draft Long list of projects</td>
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<tr>
<td>Project Life cycle Stage</td>
<td>Anchor Ministry</td>
<td>Anchor Department / Body (within Ministry)</td>
<td>Additional Ministry/Department which may be consulted</td>
<td>Functions</td>
<td>Rationale for suggestion</td>
<td>Key Outputs</td>
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<tr>
<td>Project Definition</td>
<td>MPSA</td>
<td>Sponsor Department</td>
<td>- NPD, MOF</td>
<td>The Sponsor department within the MPSA could then prepare a <em>Project Concept Note</em> that outlines key details of the project, including clarifications on the project’s scope, cost estimates, initial design options, key socio-economic costs and benefits, an understanding of the institutional arrangements proposed, and potential sources of finance. Assistance for preparing this report can be taken from the Planning Directorate in the MPSA and from the relevant SAGs. A timetable for the entire project life cycle and clearly defined outputs and outcomes for each phase of the life cycle are also included in the concept note. The MPSAs could then present these concept notes before the MOF which reviews each project concept note. Then, the MOF prepares the final long list of projects which have been approved. These projects move to pre-feasibility stage.</td>
<td>- It is suggested that the department within the MPSA proposing/anchoring the project, i.e. the Sponsor department, undertake the preparation as it would have knowledge of the project. The MOF should approve and maintain the final long list so that it has an oversight of all projects moving to pre-feasibility and can then track their preparation process.</td>
<td>- Project Concept Note including timetable - Final long list of projects</td>
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being instituted in the financing pipeline from an early stage.
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<th>Project Life cycle Stage</th>
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<th>Additional Ministry/Department which may be consulted</th>
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<th>Rationale for suggestion</th>
<th>Key Outputs</th>
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<tr>
<td>Pre-Feasibility</td>
<td>MPSA</td>
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<td>- Technical, socio-economic, legal and financial pre-feasibility is conducted and the projects are assessed using the Cost-Benefit Analysis approach. This results in the production of a pre-feasibility study which is used to assess the value of investing in the project. Hence, the pre-feasibility study provides a recommended technical implementation option. This pre-feasibility study is to be prepared by the Sponsor Department, with technical guidance from the NPD in the MOF and from the Planning Directorate in the MPSA. It can enlist the assistance of external technical experts for the production of the pre-feasibility study. - The pre-feasibility study is then assessed at the ‘Gateway’, a dedicated institutional structure which does a final selection for projects that proceed to detailed feasibility. - At the end of the pre-feasibility study’s evaluation, a final decision is made on whether the project should move to a detailed feasibility stage. All projects moving onto detailed feasibility together form the draft short list.</td>
<td>- The pre-feasibility stage shall be split into two sub – stages. The first sub – stage would involve the production of a pre-feasibility study using the CBA approach. It is suggested that this be anchored by the Sponsor Department with technical assistance from the NPD, Planning Directorate in the MPSA and external consultants as the Sponsor Department has complete knowledge of the project. - The second sub – stage would be the review of the pre-feasibility study. This would be done at the Gateway. Upon reviewing the pre-feasibility study, the Gateway would also make the decision on whether the project should move to the detailed feasibility stage. The Gateway would have the technical expertise to review the pre-feasibility study and advise on whether the project should proceed with a detailed feasibility study.</td>
<td>- Project Pre-Feasibility Study - Draft short list of projects moving to detailed feasibility.</td>
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<td>MPSA</td>
<td></td>
<td>- NPD, MOF - Planning Directorate, MPSA - Relevant SAGs - NPPID, MOF</td>
<td>Technical, socio-economic, legal and financial feasibility is conducted and the projects are assessed using the Cost-Benefit Analysis approach using data collected by extensive survey of the project sites. This results in the production of a feasibility study which is used to assess the value of investing in the project. Hence, the feasibility study confirms recommended technical implementation option, presents the detailed design and identifies the preferred procurement option. This feasibility study is to be prepared by the Sponsor Department, with technical guidance from the NPD and Planning Directorate in the MPSA. It can enlist the assistance of external technical experts for the production of the feasibility study. The feasibility study is then assessed in a final screening process that scrutinises the value of the investment in the project at the Gateway. At the end of the feasibility study’s evaluation, a final decision is made on implementation, procurement structure and financing. Projects selected at this stage proceed to the financing stage.</td>
<td>The first sub – stage would involve the production of a feasibility study using the CBA approach, including detailed technical designs. It is suggested that this be anchored by the Sponsor Department with technical assistance from the NPD, Planning Directorate, the relevant SAGs and external consultants as the Sponsor Department has complete knowledge of the project. The second sub – stage would be the review of the feasibility study. This would be done at the Gateway. Upon reviewing the feasibility study, the Gateway would also make the decision on whether the project should move to the financing stage as by this point the Gateway has also interrogated the pre-feasibility study. If the Gateway’s appraisal of the feasibility study results in an approval for further preparation, then the Gateway should also provide recommendations on how the project should be financed and on the procurement choice.</td>
<td>- Project Feasibility Study. - Final short list of projects moving to financing.</td>
</tr>
<tr>
<td>Project Life cycle Stage</td>
<td>Anchor Ministry</td>
<td>Anchor Department / Body (within Ministry)</td>
<td>Additional Ministry/Department which may be consulted</td>
<td>Functions</td>
<td>Rationale for suggestion</td>
<td>Key Outputs</td>
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<td><strong>Financing</strong></td>
<td>MPSA</td>
<td>Sponsor Department, MPSA</td>
<td>Budget Office (BO), MOF</td>
<td>- A project that is selected by the Gateway is then budgeted for and financed according to the selected financing and procurement strategy. - The first part is a capital budgeting process in which the part of financing requirements apportioned to the government is either allocated funds from the national budget or is managed through debt. This process is managed by the BO and IDM Departments in the MOF. - The second part involves developing a financing strategy to raise the required investment costs that are not covered by the government from external financiers, including private sector financiers. - The Sponsor Department should liaise with the BO, MOF and PPP Unit to assist with the finalisation of the Financing Strategy and conducting engagements with financiers to bring the project to Financial Closure.</td>
<td>- The BO and IDM can advise on the level and forms of financing which can be provided by the government. - If it is decided that the project should be implemented with private sector participation, the PPP Unit is best placed to advise on the financing strategy and sources of private sector finance. - The primary aim of this stage is to bring the project to financial closure so that implementation can begin.</td>
<td>- Final Financing Strategy according to the preferred procurement model. - Leveraging financing for achieving financial closure.</td>
</tr>
<tr>
<td>Project Life cycle Stage</td>
<td>Anchor Ministry</td>
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| Implementation and monitoring | MPSA | Sponsor Department - Project Management Team - Monitoring Team | - M&E Unit, MPSA  
- Provincial and District Development Co-ordinating Committees  
- NPPID, MOF  
- M&E Department, MOF | - The implementation schedule, management functions and monitoring plan associated with the implementation of the project are also devised at this stage. A project implementation and monitoring plan report showcasing these issues could be drafted by the Sponsor Department, with assistance from the MOF.  
- Implementation and monitoring is undertaken by the Sponsor Department through a Project Management Team (PMT).  
- The PMT could then review all monitoring reports and provide suggestions to make project implementation more efficient, with assistance from the M&E Unit of the Sponsor MPSA.  
- The M&E Department, Ministry of Finance could finally review the annual monitoring report and report to the Cabinet Office on implementation. | - The project implementation and monitoring plan should be prepared by the Sponsor department as they would have the best idea of how they can implement and monitor the project going forward. The MOF could provide technical assistance in the preparation of this report.  
- The project management team tasked with the project implementation should be anchored by the Sponsor department as they would be familiar with all the details and intricacies of the project. They would be best placed to deal with uncertainties and challenges as they would have complete clarity of the project’s objectives.  
- A monitoring team headed by the project manager and comprising of a representative from the relevant SAGs, the relevant PDCC and DDCC as well as from the M&E Unit of the MPSA needs to be constituted to execute the monitoring plan.  
- The PDCCs and DDCCs can play an active role in monitoring the project’s | - Project Implementation and Monitoring Plan including detailed design, logical framework, implementation schedule and monitoring schedule.  
- Monitoring reports.
| Ex-post Impact Evaluation | MPSA | M&E Unit with the MPSA | M&E Department, Ministry of Finance | Cabinet Office | M&E Unit within MPSA could take the lead in conducting impact evaluation on the field. | M&E Department of the Ministry of Finance could review impact evaluation report and present findings before the Cabinet Office. | Impact evaluation should ideally be conducted in line with M&E guidelines of the Ministry of Finance. | Implementation by conducting spot checks on the field and providing insights into the region’s specificities. | The M&E personnel from the MPSA can provide technical assistance for compiling and drafting the Monitoring Reports thanks to their technical expertise and experience. | The M&E Unit within the MPSA would have both the technical expertise as well as sector knowledge to conduct the impact evaluation, while the M&E Department of the Ministry of Finance can exercise overall supervision. | Impact evaluation report. |
1. **INTRODUCTION**

Genesis Analytics (Genesis) is a consulting firm that advises governments and companies in emerging markets on competition, strategy, and regulation, with a focus on finance and development. Our clients include all levels of government, local and international corporations, banks, law firms, development agencies, regional organizations and regulators. Our Infrastructure Advisory Services team provides financial and economic advisory services to the public and private sectors as well as assistance in crafting effective investment policies.

Genesis has been engaged by the Zambian Ministry of Finance (MOF) and the United Nations Development Programme (UNDP) as the service provider for the development of a programme implementation and project appraisal system for the MOF.

This document is a Technical Report which aims to achieve four key objectives:

1. Provide an overview of what the national investment cycle in a country should entail, and how the project life-cycle should be structured to maintain close alignment between high-level policy priorities and micro-level project objectives;

2. Critically examine the current policy and planning process, budget cycle and programme implementation system in Zambia in order to identify challenges;

3. Provide a comparative analysis of the process as it occurs in other comparable countries, chosen for specific qualities inherent in their systems;

4. Recommend a new project appraisal framework process which can be incorporated with some modifications to the current institutional arrangements, policy process and budget cycle in Zambia.

This Technical Report is a pre-cursor to a more detailed project appraisal manual, which will be drafted in the next phase of this engagement as outlined in the Inception Report. This Technical Report is organised as follows:

- Section 1 introduces the report and outlines the need for a new programme implementation and project appraisal system in Zambia.

- Section 2 presents the socio-economic context and development situation in Zambia.

- Section 3 provides key definitions and elaborates on the meaning of the national investment cycle, juxtaposing it with the policy process currently followed in Zambia.

- Section 4 introduces and explains the concept of the project life-cycle and its various stages, elaborates on the need for project appraisals and conducts an analysis of the current processes being followed in Zambia.

- Section 5 reviews the planning, budgeting and project appraisal systems of India, South Africa and Mauritius as examples of international best practice.

- Section 6 presents a recommended project appraisal framework for Zambia, along with a revised budget cycle.

- Section 7 concludes and provides key recommendations.
1.1. NEED FOR A PROGRAMME IMPLEMENTATION AND PROJECT APPRAISAL SYSTEM

A frequent challenge cited in relation to infrastructure development in Zambia is weak planning and implementation of infrastructure projects. Most importantly, project identification, appraisal and implementation, in particular, are seen by the Ministry of Finance (MOF) as areas for improvement. A USD 750 million Sovereign Bond issued in 2012, for example, has seen a sub-optimal uptake, in particular with projects being delayed or failing to get off the ground.

Further, a World Bank Economic Brief on Zambia (2013) states that “while public investment has been ramped up, it is yet to be matched with the selection of high-return projects and efficient implementation”, with the specific point made that “project appraisal, public financial management, and debt management requires further strengthening”. This concern is supported in findings of a review of the Fifth National Development Plan (FNDP) completed by the Civil Society for Poverty Reduction (2008), where institutional capacity, monitoring and evaluation systems, and delivery systems were identified as some of the key challenges.

When a country conducts a scientific project appraisal, and the project approval process is clear, this can result in well-chosen projects that would fully reflect the development goals of the government. Additionally, strengthening delivery mechanisms, including monitoring and evaluation (M&E), can assist in delivering quality public services to the poor, thereby maximising the development impact of the government’s capital investments.

The above discussion demonstrates that the development of a Programme Implementation and Project Appraisal System for the Ministry of Finance in Zambia will be of real value to the country. The Government of the Republic of Zambia (GRZ) has itself stated that “weaknesses exist in the identification, selection and appraisal system for National Development Plan programmes and projects.” There is thus a pressing need to ensure that government funding is increasingly better targeted and that programmes and projects that are implemented are in line with the GRZ’s national policy priorities as articulated in its Sixth National Development Plan (SNDP).

Further, it is evident that while it is a necessary condition, having the right institutional structures in place is not sufficient for effective selection and implementation of projects. In order for high-level policies of the GRZ to be translated into the socio-economic developments it seeks, it is necessary that these structures are well understood and that the correct systems are in place.

The improvements required in the programme and project appraisal system form part of a broader push by the GRZ that seeks to enhance the linkages between national planning and the budgeting of programmes and projects. Through a review of internal and external institutions responsible for service delivery, and after extensive consultations with relevant stakeholders, the GRZ has formulated and approved the National Planning and Budgeting Policy (NPBP) which recognizes that “the lack of a planning and budgeting policy has in the last decades exposed a serious disconnect between plans and budgets and has also

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5 ibid
7 Government of the Republic of Zambia. 2014. National Planning and Budgeting Policy. Pg. 6 (NPBP)
weakened institutional accountability not only in terms of resources at the disposal of various spending agencies but also results which the people of Zambia have been demanding. This policy framework is an important step towards ensuring that public resources are utilised in a manner that both builds on the developmental priorities of the GRZ as well as maximises their socio-economic impact. To achieve this requires an improved project appraisal system that will form the crucial link between the planning and budgeting process.

\(^6\) NPBP, Pg. iii
2. SOCIAL AND ECONOMIC CONTEXT

The inadequate coverage and quality of infrastructure in Africa has been identified as one of the prominent impediments to growth on the continent. Yepes, Pierce, and Foster (2008)\(^9\) note that growth in overall road density, generation capacity, and fixed-line telephones in Africa has been slower than all other developing regions in the world over the period 1960 – 2005, thereby resulting in Africa having the lowest infrastructure endowment.

On-going attempts at developing infrastructure on the continent have struggled to clearly determine how certain infrastructure projects would be technically, legally, financially and environmentally feasible. This has led to increased demand for improved programme implementation and project appraisal frameworks to assist in selecting projects which are economically feasible and aligned with policy priorities. It has also become increasingly important to ensure that financial resources are distributed to project sponsor departments in accordance with their fund distribution requirements in order to minimise delays. This is especially pertinent in light of the need for sustained socio-economic development in many countries, as well as the impending deadline for the achievement of the millennium development goals. It is within this larger pan-African context that Zambia is trying to achieve economic growth and sustainable development for its people.

Zambia is trying to achieve economic growth and sustainable development for its people, in line with the country’s National Long Term Vision 2030 to be operationalised through the five year NDPS and annual budgets. The overriding objective of Vision 2030 is to make Zambia “A Prosperous Middle Income Nation by 2030”\(^{10}\). This will require the design of programmes as well as the identification and execution of projects that are aligned with the stated policy and maximisation of the impact of available resources in pursuit of this objective.

2.1. ECONOMIC GROWTH IN ZAMBIA

In the last decade a number of African countries have experienced robust economic growth – driven largely by rising commodity prices – and favourable capital inflows; Zambia is no exception. Graph 1 shows real GDP growth and inflation in Zambia between 2000 and 2013 GDP growth breached the 5% mark in 2003 and has remained above that figure since then.

The key sectors that contributed to real GDP growth in 2013 were transport, storage and communications (27.1%); construction (24%); and community; social and personal services (17.4%); financial institutions and insurance (13.7%); manufacturing (8.2%); and mining (5%)\(^{11}\).

Zambia has seen a vast reduction in the level of inflation as well as a steady increase in economic growth since the turn of the century. GDP growth in 2013 was calculated at 6.3% and inflation at 6.9%, with the overall results of Zambia’s economic success in the past decade being a significant increase in per capita incomes which more than tripled from USD 399 in 2003 to USD 1,540 in 2013. The forecast for economic growth over the next two years follows the upward trend, with growth rates expected to be 7.1% and 7.4% in 2014 and 2015 respectively. This is a clearly a good foundation for attracting investors. Along with economic growth, peaceful elections in 2011 confirmed that Zambia’s governance landscape is improving. In recognition of this, the country is identified as one of the most significant improvers in the Mo Ibrahim Index of African Governance during the period 2000-2012.

Zambia’s economic momentum has been driven by expansions in a number of sectors, including agriculture, construction, manufacturing, transport and finance. Further, the government has added a specific focus on infrastructure development, as articulated in the SNDP.

2.2. DEVELOPMENT CHALLENGES IN ZAMBIA

Despite Zambia’s recent economic achievements, notable challenges remain. Economic growth has tended to remain concentrated in certain extractive industries, with 70% of export earnings coming from copper mining, and the increases in wealth have not been shared equally by all. Much of the economic success has not trickled down to the majority of the 14 million population. The poverty headcount in Zambia remains high, with approximately 60% of the total population living below the poverty line. With 60% of the population living in rural
areas,\textsuperscript{19} there is an urgent need to ensure that rural dwellers benefit from increased growth. Business confidence has dropped in recent times, with Zambia falling 10 places in the World Bank’s “Doing Business” report to a rank of 94 out of 185 countries in 2013.\textsuperscript{20} In order for the economic success to become sustainable, the GRZ is looking to diversify the economy and make it more conducive to domestic and foreign investment.

The pressing issue of poverty reduction is compounded by the fact that unemployment is also an important economic concern. Official statistics produced by the GRZ’s Central Statistics Office (CSO), limited to data from 2008, put unemployment at around 8%\textsuperscript{21}. More recent research (2010) puts this number slightly higher, with 8.5% of all working-age citizens self-reporting as unemployed\textsuperscript{22}. Unemployment is a particular concern for the urban youth. An average of 27.4% of urban youth in the 15-35 age group are unemployed, compared with just 4.4% in rural areas.\textsuperscript{23} Of the total employed persons, 46% were self-employed, 35.3% were unpaid family workers, 17.8% were paid employees, and less than 1% were employers. 89% of those who reported themselves as being employed were in informal employment.\textsuperscript{24} It is evident that the dividends of growth seen in Zambia over the past decade have not managed to fully permeate into the areas where they are most needed, thereby further entrenching inequality in Zambia.

The growing importance of infrastructure as a key driver of economic growth has been reiterated by the GRZ. It is estimated that Zambia’s infrastructure improvements contributed 0.6 percentage points to Zambia’s annual per capita GDP growth over the past decade.\textsuperscript{25} However, Zambia still has an infrastructure financing gap of around US$ 500 million per annum.\textsuperscript{26} In order to raise its infrastructure capacity to the level found in the rest of the developing world, it would need to spend an equivalent of 20% of its GDP and double the current rate of investment every year.\textsuperscript{27}

Reforming the way infrastructure projects are planned and implemented could result in savings significant enough to meet developmental challenges in a much shorter period of time. According to an Africa Infrastructure Country Diagnostic Report (2010) produced by the World Bank, “Zambia’s funding gap can be dramatically reduced through a range of policy measures aimed at stemming inefficiencies and lowering costs”, and that “if Zambia were able to redress the various inefficiencies identified…. and preserve overall spending at current levels, [its] targets would…be achievable by the year 2020”, rather than the year 2035 as estimated under the current status quo.\textsuperscript{28}

This is an important insight and supports the decision by the GRZ to assess and clarify the programme implementation and project appraisal structures and systems currently in place in order to lead to better developmental outcomes.

\textsuperscript{19} http://data.un.org/CountryProfile.aspx?crName=ZAMBIA
\textsuperscript{23} ibid
\textsuperscript{25} http://www.infrastructureafrica.org/countries/zambia. Accessed on 21 May 2014
2.3. DECENTRALISATION IN ZAMBIA

Zambia is a unitary democratic republic whose constitution provides for two spheres of government, national and local. Over the past few decades, a number of attempts have been made to formulate policy aimed at decentralizing government activity with the ultimate objective of enhancing governance by giving citizens more authority and power in decision-making. These included key reforms such as the National Decentralisation Policy and the Decentralisation and Implementation Plan to promote participation and build capacity at numerous levels of governance.

The President is both head of the state and the government and is directly elected through national presidential and parliamentary elections every five years. The parliament has 150 elected members, each representing a different constituency. In addition, Zambia has a House of Chiefs which acts as an advisory body on traditional and customary matters. Administratively, Zambia is divided into ten provinces, each headed by a Provincial Minister (equivalent to a Deputy Minister) appointed by the President and, in addition, the provincial administration has a secretariat headed by the provincial permanent secretary.

There is only one tier of local government, which is formed by 108 councils – four city councils, 15 municipal councils, and 89 district councils. In general, city councils are located in urban districts with higher populations and more diversified economic activities, while municipal councils cover more suburban regions. District councils are located in more rural, generally poorer areas where economic activity is more reliant on agriculture.

Councils are responsible for a number of functions; around half of them focused on investment and maintenance of infrastructure, which is the sole responsibility of the individual council. These include, for example, public transport services, refuse collection and disposal, sanitation and the supply of water and electricity. Councils also work with sector-specific government agencies and have joint-responsibility in certain areas for certain functions, such as environmental protection, road maintenance, urban planning, and local agricultural and economic development. Sectors and focus areas with larger capital needs and with broader national applicability are generally the responsibility of the central government, such as the development of ports and airports, the provision of welfare services and public education, civil protection and policing, regional planning, and national economic development.

Local government is overseen by the Ministry of Local Government and Housing (MLGH), whose mission is ‘to promote a decentralized and democratic local government system and facilitate the provision of efficient delivery of quality housing, infrastructure and other social services by local authorities and other stakeholders for sustainable development’. The MLGH is responsible for guiding “the implementation of delegated functions and responsibilities by the local authorities by managing the social, economic and political spheres of governance.” Alongside other functions, it is responsible for coordinating Local Government Administration as well as coordinating the implementation of the National Decentralisation Policy which was

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29 National Decentralisation Policy, Foreword.
32 Ibid
33 Ibid, Pg. 194
34 CLGF. Table, Pg. 194
35 CLGF, Pg. 192
revised and re-launched in 2013\textsuperscript{37}. In line with the latter, the MLGH has an established Decentralisation Secretariat that is in charge of managing operational activities, commissioning studies and leading devolution in the ministries and departments. At a provincial level, the office of the PS is tasked with the coordination and consolidation of district plans into provincial development plans for submission to central government structures.\textsuperscript{38}

In order to assist in the implementation of policy at a sub-national level, various institutional structures work alongside councils and provincial administrations, most notably the Provincial and District Development Coordinating Committees (PDCCs and DDCCs respectively) which are mandated with planning, coordinating and monitoring the development of programs and projects in their respective provinces or districts. These institutions are intended to act as mechanisms of decentralised governance\textsuperscript{39} and are outlined in greater detail in Appendix 1.

\textsuperscript{37} NPBP, Pg. 5
\textsuperscript{38} NPBP, Pg. 5
\textsuperscript{39} Zambia Governance Foundation. 2012. \textit{The Policy Formulation Framework in Zambia}. Pg. 19 (Zambia Governance Foundation)
3. ALIGNMENT OF POLICY PRIORITIES WITH PROGRAMME IMPLEMENTATION

This review of the economic development taking place in the country and level of decentralization in the government provides us with the context within which the design of a new programme implementation and project appraisal system for Zambia will take place. In this section, however, we first review the general principles of how policy priorities and programme implementation should be aligned in a country.

3.1. KEY DEFINITIONS

The distinctions between the terms ‘project’, ‘programme’ and ‘policy’ in the context of the national investment cycle are highlighted in Figure 1, which shows that programmes are implemented to achieve policy priorities and multiple projects are executed under the aegis of these programmes.

Figure 1: Relationship between Policy, Programme and Project
A project is the narrowest level of an intervention meant to address a specific developmental challenge and is characterized by the following five key elements:

- **Restricted in scope**: A project has clear objectives which are in line with high level policy priorities.

- **Defined geographical area**: In line with its specific objectives, a project is confined to a particular geographical area. This geographical area would typically be a subset of the entire region which needs to be targeted in line with high level policy priorities.

- **Limited time period**: A project achieves its objectives in a pre-defined period of time.

- **Measurable impact**: The impact of a project is measured in terms of socio-economic returns to the target communities. Clear outputs and outcomes are outlined in order to measure the impact on the ground.

- **Demarcated Institutional Capacity and Arrangements**: There is clear allocation of responsibility between various government departments at the central, state, district and local level for the project’s implementation.

A good example is the Link Zambia 8000 project, launched by the GRZ in 2012 which aims to construct and upgrade specified distances of roads over three phases, with the aim of enhancing trade amongst the ten provinces and comprehensively linking Zambia to neighbouring countries.40

Another example, launched soon after the above project, is the Pave Zambia 2000 Project that uses concrete block paving and cobblestone technology to rehabilitate urban and township

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roads in Zambia.\textsuperscript{41} The project's dual purpose approach is to improve the state of urban roads as well as provide a means for tackling unemployment in the country.

These examples demonstrate how projects have clear objectives and define the locations that are being targeted. In addition, they have specified measurement criteria and institutional structures; they are to be measured using a number of key performance indicators linked to the SNDP and are under the direction of the Ministry of Transport, Works, Supply and Communications (MTWSC) with financial advisory assistance from the Zambian Road Development Agency (RDA).

Programme

"A programme is a portfolio comprised of multiple projects that are managed and coordinated as one unit with the objective of achieving (often intangible) outcomes and benefits for the organization."
– ICB

"A group of projects which have common objectives."
– UN- EPOC

In simple terms, a programme can be understood as a set of projects bound together by shared goals. Programmes are high-level interventions designed to respond to policy priorities. Projects are implemented to address specific problems under the wider umbrella of a programme. Hence, programmes have a wider scope, are aimed at larger geographical areas, have longer time horizons and are expected to deliver greater impact as compared to projects.

There are several benefits that accrue from implementing complementary projects under the aegis of a programme, as follows\textsuperscript{42}:

- **Economies of Scope**: Reduces the cost of implementation as project management tasks for different projects can be undertaken together under a common programme.
- **Cross – project learning**: Learning from one project experience can be rapidly applied to a similar project under a common programme.
- **Eases co-ordination**: The co-ordination of several projects at the central and state level can be managed in a simplified manner under a common programme.

For instance, within the Transport Infrastructure Sector, the GRZ has developed programmes that respond to needs identified within the sector. Two examples of such programmes are the Public Road Infrastructure Development and Management Programme with its focus on road maintenance and rehabilitation and the Railway Infrastructure Development and Rehabilitation Programme that aims to enhance investment in rail infrastructure.\textsuperscript{43} Specific projects can then be undertaken under each of these programmes.


\textsuperscript{42}Solomon islands guide, page 5

Policy:

“A statement of goals, objectives and courses of action outlined by the Government to provide guidance for its intended actions.”

- Government of the Republic of Zambia

“A set of decisions which are oriented towards a long-term purpose or to a particular problem. Such decisions by governments are often embodied in legislation and usually apply to a country as a whole rather than to one part of it.”

- UN FAO

A policy defines the government’s broad, long term perspective towards a development problem, often at a national level. Policies set the wide-ranging parameters of the response towards an identified issue, and outline the priorities and focus areas for the intervention. Policies are formulated and decided by the government and are actualised and implemented through programmes and projects. Translating policies into actionable projects is the task of the public sector bureaucracy.

One of the GRZ's main policies as articulated in its SNDP, for example, centres on infrastructure development as key to economic development and poverty reduction. This policy is further specified to include four main areas of focus; these are:44

- Transport to cover roads, bridges, air, water, rail, and border infrastructure
- ICT to cover backbone infrastructure, digitalisation, next generation networks, centres of excellence
- Energy to cover power generation, transmission, distribution and alternative technology, and
- Water Supply and Sanitation to cover reticulation systems, dams, pipelines and boreholes.

These policy priorities form the umbrella under which programmes and project implementation are expected to occur.

3.2. TRANSLATING POLICIES INTO ACTIONABLE PROJECTS

Programmes and projects are the instruments of policy implementation. As per the UN-ECAP, “Projects are an important way in which the Government achieves development goals......Therefore any project which is identified, and subsequently approved for funding,

44 SNDP, Pg. 8
must in some way contribute to those development goals.' For instance, the two project examples mentioned above - Link Zambia 8000 and Pave Zambia 2000 - speak to the overarching policy priorities of the GRZ as outlined in the SNDP, namely the acceleration of infrastructure development and economic growth, the promotion of rural investment and poverty reduction, and the enhancement of human development.

The process of proceeding from high-level policy making to execution of projects on the ground requires careful thought and consideration to ensure that policy priorities are clearly reflected in individual projects. In a resource constrained environment with multiple needs, alignment of project objectives with policy priorities through the instrument of national level planning provides a straightforward and effective way for the identification of appropriate programmes and projects. Budgetary allocations can then be made for those that are approved, having been deemed to be well-designed and in line with national development plans. Figure 2 depicts these linkages between policy formulation, programme design and project execution, presenting a holistic picture of the National Investment Cycle.

Figure 2: The National Investment Cycle: Linkages between Policy formulation, Programme Design and Project Execution

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45 Solomon Islands guide, page 6
It is important to be aware of the fact that this national investment cycle is not linear, but rather proceeds in a cyclical manner. For instance, programmes and projects approved in the previous phase may give rise to new policy priorities in the next phase through both the assessment of their outcomes and the changing socio-economic environment in the country.

3.2.1. Policy formulation

In general, policy formulation and analysis is the first step in the national investment cycle and one for which the government’s line ministries and cabinet take responsibility. At this stage, high-level policy priorities – for regions, population segments and sectors – are decided for a given period of time. One of the ways of formalising these policies is to embark on a planning process, which results in a Plan document that clearly describes these policy priorities. This process does not happen in a vacuum, but is informed by socio-economic demands within society as well as drawn from experiences of existing programmes and projects which have already been implemented.

In Zambia, policy formulation occurs through sector ministries and public administration entities as well as through forums that provide space for civil society, cooperating partners and industry to contribute. Policy approval takes place at the Cabinet Office, whose final policy decisions are articulated in an NDP, which is then circulated across all levels of government. The responsibility of implementation is borne by Ministries, Provinces and other Spending Agencies (MPSAs) through programmes and projects guided by the national policy priorities. Further, national policy is developed with both a long-term and a short-term outlook.

- The overarching policy context is set by the National Long Term Vision 2030 (Vision 2030), Zambia’s first long-term plan that expresses the Zambian people’s vision to become “a prosperous middle-income nation by 2030”\(^{46}\). Vision 2030 outlines possible different development policy scenarios for the future with a view to operationalising this vision through five-year NDPs.

- NDPs contain the policy agenda as formulated by the GRZ for a five-year period and it is expected that all programmes and projects draw their inspiration from them.

Currently, policy recommendations are circulated by the sponsor MPSA to all MPSAs for comments and consultation in Zambia. Once comments are received by other line ministries, the policy recommendation is finalized and presented before the Cabinet.\(^{47}\) This process could be streamlined in the following manner:

- Sharing the policy recommendation with the Ministry of Finance and 2-3 relevant ministries, likely to be impacted by the policy recommendation;

- Making sponsor departments responsible for the co-ordination and consolidation of comments from relevant ministries;

- Initiating formal inter-ministerial meetings to facilitate discussion around the comments so as to ensure that these concerns are addressed.


\(^{47}\) Understood from meeting with NPPID representatives on 12 May 2014.
3.2.2. Role of National Level Planning

“A good budget is one that is based on planning. In turn good planning is based on sound policy.”
– UN - EPEC

“National planning is a process of setting national targets, and preparing programmes and policies that will help achieve those targets.”
- Planning Commission of India

National level planning is a crucial activity for shaping the overall development agenda in a country. Planning is a dynamic process which forms a significant link between policy formulation and budgeting at the national level, as shown in Figure 2 above.

Though policy formulation and planning are both high-level activities, national planners take a more detailed view of the country’s development objectives than ministerial-level policy makers. Translating policy into actual programmes and projects on the ground requires a clear blueprint which outlines the priorities of the administration in terms of its sector focus, target population segments as well as geographic emphasis for a given period of time. Planning must therefore be a consultative process in which inputs from a variety of stakeholders are gathered in order to refine the policy priorities set out by the cabinet. These stakeholders include, for example, line ministries, quasi-government bodies, academic institutions, non-governmental organisations, donors, development finance institutions, and others.

The key output of the planning process is a ‘plan document’ which details the analyses conducted by planners in each of the above listed areas and serves as a high-level guidance document for all levels of government. Programmes and projects are proposed in line with the focus areas detailed in the plan document. The current Zambian administration’s policy outlook is contained in Zambia’s Sixth National Development Plan (SNDP), a document that articulates the GRZ’s policy priorities for the period encompassing 2011 – 2015. The theme of the SNDP is “Sustained Economic Growth and Poverty Reduction” and this principle will guide the programmes and projects developed by the MPSAs. Hence, the plan document is the primary tool for ensuring the percolation of policy priorities from policy makers in the cabinet office at the level of the national government to line ministries, provincial and district government structures, as well as non-governmental organisations (NGOs).

In Zambia, the preparation of the NDP is managed and co-ordinated by the National Planning Department of the MOF, with overall guidance and direction from the Policy Analysis Committee (PAC) of the Cabinet Office. In essence, the NDP is a culmination of sectoral plans proposed by line ministries and involves a range of actors working together at numerous institutional levels, including the Cabinet Office, the MOF, Sector Ministries, NGOs, private sector and industry, as well as traditional leaders. There are several key positive features in Zambia’s planning process, including:

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48 SNDP. Pg. 8
49 Strategic Plan of the Ministry of Finance and National planning, page 7.
• **Inclusivity:** The process of preparing the first draft of the NDP can take up to 2-3 years\(^5^1\), providing a sufficient window for line ministries and the PAC to consult with various stakeholders, particularly the Sector Advisory Groups (SAGs).

• **Responsibility on line ministries:** Line Ministries develop sectoral plans which feed into the NDP. Sectoral budgets then reflect the aims expressed in the NDP and performance is then monitored against these plans. Line Ministries thus take considerable responsibility for this process.\(^5^2\)

• **Linkages between Planning and Budgeting:** The planning exercise is not conducted in a vacuum and there is conscious realization that plan priorities must be reflected in the Medium Term Expenditure Framework (MTEF).\(^5^3\) These linkages have been further strengthened by the New Policy on Planning and Budgeting and the proposed Planning and Budgeting Act.\(^5^4\) For instance, it is clearly stated in 2013 – 2015 guidelines to the MPSAs on the MTEF that:

> “the budget submissions for the period 2013-2015 should show a clear linkage between MPSAs resource allocation and the development priority programmes as outlined in the SNDP and Ministerial Strategic Plans.”\(^5^5\)

The GRZ’s new approach to public service delivery, as outlined in its recently approved National Planning and Budgeting Policy also supports the need for institutionalising the linkages between planning and budgeting. The policy is encapsulated in the following statement:

> “The National Planning and Budgeting Policy is the first ever policy which seeks to promote co-ordination of national planning and budgeting functions and outline processes and procedures for development planning and provides an effective institution arrangement in the development, implementation and monitoring and evaluation of development plans and budgets.”\(^5^6\)

The document is a high-level, yet clear, outline of both the role and the procedures for national planning and budgeting with the aim of assisting the GRZ in reaching its long term Vision 2030 of becoming a prosperous middle-income country.

The key challenge in this process is related to project appraisals. Various Departments in the MOF have identified that, although project appraisal does occur, there is no institutionalised and mandated project appraisal system in place.\(^5^7\) Project appraisals are required to efficiently and effectively actualise the priorities of the on-
going plans and to ensure that projects receiving financing from the Budget Office are in line with the policy priorities expressed in the Plan document.

### 3.2.3. Budgeting to reflect policy priorities

The national budget document is a statement of the revenues and expenditures of the government, often set for a year. As discussed above in Section 3.2.2, the planning process results in a plan document which provides recommendations for high-level budgetary allocations and financing estimates required for meeting the policy priorities of the government. The Ministry of Finance then initiates a consultative process to draft the annual budget document, taking the recommendations and requirements laid out in the plan document into account. The plan document therefore forms a crucial link in ensuring that government financing disbursed to programmes and projects correctly fulfils specific policy priorities.

In Zambia, the budgeting process is conducted using a Medium Term Expenditure Framework (MTEF), which sets out the priority programmes and projects and their estimated budget over a rolling three-year period and against which sector plans can be developed and reviewed. MPSAs are expected to estimate the cost of all programmes and projects taking place within them. In order to assist in this effort, the Ministry of Finance provides guidelines and timelines to MPSAs for the preparation of their budgets. Further, MPSAs are allocated initial budget ceilings, consistent with the SNDP, within which their budgets are expected to be prepared. Budget hearings are then held where MPSAs’ budget submissions to the Ministry of Finance are reviewed and which provide a space for the negotiation of budget ceilings, based on the estimated costs of meeting their objectives and their contribution to economic growth. After final consolidation, the budget is sent to the President and Cabinet for approval before being presented to the Parliament and the public.

There are certain strong positive features in the current Zambian budget process, as follows:

- Throughout the process, there is a strong emphasis on the alignment of programmes and projects being budgeted for with the NDP and Ministerial Strategic Plans.

- In allocating resources, MPSAs are required to rank programmes and activities, prioritising those which are expected to have the biggest impact on accelerating economic growth and improving service delivery as well as making sure those programmes and activities already being implemented have the first call on resources.

- In order to develop a longer-term outlook that looks beyond the next budgetary year, there is a system in place to ensure that cost-estimates are also projected forward for two years as part of the MTEF, thereby reducing uncertainty and providing a stronger basis for future estimated budget requirements.

However, the budget process could be streamlined to enhance efficiencies in the following manner:

- **Increasing Time for Discussion with MPSAs**: Budget hearings are held in order to review budget submissions of the MPSAs to the Ministry of Finance. These budget hearings are generally held between the months of August and September, while the

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58 Policy Monitoring Research Centre, Zambia. The National Planning and Budgeting Policy Pg. 6 (PMRC)
59 PMRC. Budget Cycle Presentation.
60 Budget Call Circular. Pg. 16
61 PMRC. Budget Cycle Presentation.
budget is constitutionally mandated to be presented in October\textsuperscript{62}. This implies that the time window provided to the MPSAs for airing their concerns around budget ceilings is limited. Increasing the time allocated for consultations with MPSAs could enhance linkages between budgetary allocations and sectoral plans.

- **Strengthening the institutionalised appraisal process**: The projects included by MPSAs in their estimates should undergo socio-economic appraisals to enhance the development impact of the financial budgetary allocation.

- **Improving linkages between successive MTEFs**:\textsuperscript{63} The two ‘outer years’ of the MTEF are often less aligned with the actual resource outlays required, with each successive MTEF starting from a new set of base numbers which are significantly different from earlier documents. Extending consultations with the MPSAs can improve the predictability in the MTEFs.

- **Segregating the cash management and budget functions**: Interactions with officials in the Ministry of Finance revealed that in addition to being responsible for the budgeting function and the development of the MTEF, the Budget Office is also responsible for the cash management function. MPSAs submit a cash disbursement schedule to the budget office. However, this disbursement schedule can be changed and potentially leads to unpredictability in the cash disbursement cycle, thus making MPSAs vulnerable to fluctuations in their cash inflows. Thus, there is a need to review this process, and possibly segregate these functions.

As shown in Section 3.2, budgeting and appraisal of projects are interactive processes. On the one hand, policy priorities set by the government feed into the selection of programmes and projects to be implemented and determine the proportion of the budget to be allocated to them. However, on the other hand, actual outlay of government resources should be made to those specific projects which are expected to have a high developmental impact. The budget cycle in Zambia should therefore be designed in such a way that budget ceilings are set in accordance with policy priorities at the planning stage. MPSAs will subsequently need to include projects which have been through an institutionalised appraisal process (as described in the accompanying manual) in order to be included in the MTEF. Also, there should be a segregation of the budgeting and cash management functions.

These gaps are largely being addressed through the new National Policy on Planning and Budgeting, which incorporates the above suggestions and seeks to promote coordination between the national planning and budgeting functions so as to ensure improved developmental impact from the GRZ’s operations. Although the document provides guidance on the timelines and systems for planning and budgeting, and identifies the need “to undertake ex-ante appraisal of capital projects before being included in the plans and being allocated resources in the annual budget”,\textsuperscript{64} it does provide recommendations on institutionalising the project appraisal process.

### 3.2.4. Programme Implementation and Project Appraisal

Once there is clarity on the policy priorities at the national and provincial level and the high-level budgets of line ministries have been established, programmes are continued or created

\textsuperscript{62} Meeting with Budget Office, 15 May 2014

\textsuperscript{63} NPBP, Pg. 5

\textsuperscript{64} NPBP, Pg. 12
to respond to these needs. As explained in section 3.1, within these programmes specific projects are undertaken to further developmental outcomes.

In Zambia, policies adopted by the GRZ in the National Development Plan are actualised by MPSAs through programmes and projects. Further, the National Planning and Budgeting Policy requires that new and existing programmes started getting included in the formation of the NDP and that they are appraised and/or evaluated before inclusion in the plan.65

A wide range of projects can be suggested to ensure that a programme achieves its goals. A choice must therefore be made regarding which projects are to be financed. In Zambia, a Ministry might submit several project proposals to the Ministry of Finance for budgetary allocation. The challenge for the Ministry of Finance is then to select those projects for implementation which will maximise the GRZ’s value for money. In such a situation, two processes should be undertaken for more informed decision making in accordance with an institutionalised project appraisal system.

Firstly, projects must be screened for alignment with high-level policy priorities. Secondly, projects must be appraised for economic and financial viability to ascertain their value for money. This process is examined in greater detail in section 4, where project appraisal is discussed in depth. In the remainder of this section, we summarise the current institutional arrangements for programme implementation in Zambia and study the example of a programme for illustration of the implementation process.

3.2.5. Current Institutional Arrangements in Zambia

A range of institutions are involved in the policy, programme, and project formulation and implementation processes in Zambia. These comprise of the public administration arrangements, from the highest level to those at the front line, MPSAs who are responsible for carrying out programme implementation itself, and other structures aimed at facilitating the process. This section briefly outlines those actors and platforms involved; more detailed descriptions and diagrammatic representations are found in the Appendix.

Cabinet Office

The Cabinet Office (CO) is the highest administrative office in the public service and is responsible for coordinating the effective implementation of the GRZ’s policies, systems and procedures, as well as monitoring and evaluation of overall performance of the public service.66

The main structures within the Cabinet Office are the Executive, the Cabinet Committees and the Office of the Secretary to the Cabinet, or the Cabinet Secretariat. The Office of the Secretary to the Cabinet is headed by the Secretary to the Cabinet (SC) and is supported by three divisions. All divisions are headed by the SC and all three serve different roles.67

1) Management Development Division is responsible for the provision of internal management consultancy services to all Government Ministries and Institutions with the aim of enhancing efficient and effective performance of the public service.

65 NPBP, Pg. 21
2) **Policy Analysis and Coordination Division (PAC)** is the most crucial to the policy formulation and implementation process and is responsible for the coordination of policy development in the public service, the monitoring and evaluation of the implementation of cabinet decisions, and serving as the Secretariat to the Cabinet.

3) **Administration Division whose role** is the provision of logistical and administrative support services to the CS and other divisions. It also takes responsibility for public service air travel, state functions and guiding policy implementation at Provincial and District levels.

**Ministry of Finance**

The Ministry of Finance (MOF) is charged with economic and national development planning, budgeting, monitoring and evaluation and financial management responsibilities. Its mission is to “to efficiently and effectively coordinate national planning and economic management, mobilize and manage public resources in a transparent and accountable manner for sustainable national development.”

The Ministry’s functions are divided into three divisions with the following broad functions:

1) **Financial Management and Administration Division** (FMA) is mandated to manage the administrative support services, public affairs and procurement in order to assist the Ministry meet its financial, planning and economic management goals.

2) **Planning and Economic Management Division**, (PEMD) is responsible for coordinating the preparation of both the national long-term development vision and the National Development Plans, ensuring the budget aligns with the macro-economic framework, and monitoring and evaluating development programmes.

3) **Budget and Economic Affairs Division** (BEA) facilitates both preparation and implementation of the national annual budget and is in charge of managing government investments and debt.

The three divisions are separated further into twelve departments in total, each tasked with a core function, and which are described in detail in the Appendix. It is worth noting here, however, the two departments within the PEMD, Ministry of Finance primarily responsible for policy and programme preparation and implementation. These are:

- **National Planning Department** (NPD) coordinates the formulation and evaluation of sectoral and regional policies, and for the preparation of programmes and projects and the allocation of government resources in line with national, regional, district and sectoral development plans and the overarching national vision.

- **National Policy and Programme Implementation Department** (NPPID) is responsible for coordinating the implementation of sectoral and regional policies and ensuring that resources allocated to programmes are projects are utilised effectively and efficiently in achieving economic growth. It also ensures that the disbursement of funds for the various sectors of the economy is in line with the overall national vision.

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These two departments have complimentary roles within the Ministry of Finance and they report to the same Permanent Secretary within the Ministry of Finance.

Ministries, Provinces and Other Spending Agencies (MPSAs)

MPSA’s comprise the various government institutions and agencies that are responsible for the implementation of programmes and projects in line with national policy priorities. These institutions are charged with developing plans to guide the conceptualisation of programmes and projects and are responsible for overseeing their effective and efficient rollout. A broad catch-all term, MPSAs are broadly composed of the following institutions:

- **Provincial and District Government Administration** - The Ministry of Local Government and Housing (MLGH) is charged with the administration of the local government system at both a provincial and district level as well as ensuring that Zambian citizens are provided with necessary municipal services.

- **Sector Ministries** – These are the institutions through which national GRZ policy is translated into developmental interventions in Zambia. Ministries are responsible for formulating and implementing programmes and projects that are in line with national goals and each is granted a specific mandate that clarifies its objectives related to the sector or area in which it operates.

- **Other Spending Agencies** – These include those institutions, agencies, boards, and state-owned enterprises (SOEs) that are governed by distinct legislation and that operate in commercial affairs. They often have their own means of collecting revenue as well as their own level of autonomy but are ultimately governed to some extent by an over-arching state authority. Similarly to line ministries, they are responsible for undertaking their own programme and project preparation, implementation, monitoring and evaluation, and budgeting processes.

Governance Institutions

Zambia has certain legal and institutional frameworks at different organisational levels whose task is to assist in planning, implementing, coordinating, and monitoring economic development and various poverty reduction programs. Key stakeholders are brought together in this way to engage and effectively plan and implement public policy objectives as well as play an important role in shaping the GRZ’s National Development Plans.

National Level

At a national level, two structures in particular play an important role in the policy formulation, implementation and supervision phases:

- **National Development Coordinating Committee (NDCC)** – Comprises of representatives from all ministries, major cooperating partners, key institutional players, and the private sector. The major focus of the NDCC is to coordinate and monitor the country’s development programmes and projects and assist in developing the country’s overarching policy framework.

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70 UN Conference on sustainable development. 2012. Pg. 24
• **Sector Advisory Groups (SAGs)** – These are sector-based fora which bring together different stakeholders within their sectors of operation. The members of each sector’s SAG are drawn from the appropriate sectoral ministry, relevant agencies, cooperating partners, academia, civil society, faith-based groups, the private sector, and relevant sectoral experts. SAGs are intended to act as consultative structures for technical discussion relating to programmes and projects in the sector, with a view to helping plan and formulate these interventions. More broadly, SAGs provide a basis for stakeholder participation in planning, supervising and commenting on social and economic interventions undertaken by the GRZ.

3.2.5.1. **Sub-National Level**

At a Sub-National level three distinct organisational levels are of importance: provincial, district, and community level. The Provincial Development Coordinating Committee (PDCCs), District Development Coordinating Committee (DDCC) and Area Development Committee (ADC) are the most important institutions and fulfil analogous functions to the NDCC, albeit at lower respective levels. Their composition is also similar, with relevant stakeholders from the government administration, cooperating partners, civil society organisations, relevant agencies, traditional leaders and so on. Their focus is on the planning, coordinating and monitoring of development programs and projects in their province, district or area.

The Coordinating Structures are intended to act as decentralized mechanisms of governance and thus information flows upward, from communities to ADCs, to DDCCs, to PDCCS and into the national framework.

Figure 3 on the following page provides a visual representation of the institutional arrangements for policy formulation and implementation in Zambia.

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71 UN Conference on sustainable development. 2012. Pg. 24
73 Zambian Governance Foundation. Pg. 19
Figure 3: Institutional arrangements for policy formulation and implementation in Zambia

A Programme Illustration: Road Infrastructure in Zambia

The importance of linking the policy, programme and project processes cannot be overestimated. Systematic progression through each ensures that projects implemented are both aligned with national policy priorities and have clearly delineated boundaries for effective budgeting and monitoring of overall developmental progress.

The examples used in Section 3.1 regarding the development of road infrastructure in Zambia provide a good insight into how this process functions in Zambia. Infrastructure development is outlined as a key national policy priority in the SNDP, with a specific focus on transport, energy, ICT, water supply and sanitation. The importance of the transport sector to fulfil the role “as a central delivery mechanism in the generation of quality socio-economic development”74 is further emphasized. Transport policy is further broken down to cover: roads and bridges, railways, airports, and maritime and inland waterways.75

In relation to roads the strategic goals in the transport sector include a focus on “the maintenance of feeder roads, tourist access and urban roads”76. Further, it is stated that “during the SNDP period, the sector will develop the National Transport Infrastructure Master Plan”.77

These policy prescriptions are highlighted due to their importance in providing the high-level guidance required for effective programme and project implementation. These clear policy priorities form the basis of programme design in the sector.

Although the SNDP was formed in 2011, these goals have seen fruition years later through a number of recently launched projects under the Zambian Road Development Agency (RDA). The RDA has developed a number of programs which are extensively detailed in its 2013 Road Sector Annual Work Plan. One of these is the Road Infrastructure Rehabilitation programme78, under which a number of projects fall, including the Pave Zambia 2000 example used earlier as well as the L400 project, a project aimed at upgrading and rehabilitating urban roads in Lusaka.

Both projects are specifically mentioned in both the 2014 Budget Speech79 and in the 2014-2016 Medium Term Expenditure Framework80 (where references to budgetary allocations for these projects are also outlined), an indication that they are well-aligned to policy priorities and have been appropriately budgeted. This provides a good example of the translation of policy priorities to project implementation in Zambia.
4. THE PROJECT LIFE CYCLE

From the discussion in section 3.2, we note that there is a high degree of complementarity between policy formulation, programme design and project appraisal. Hence, for successful programme implementation to take place, it is essential to design a system which takes these into account. In this section, the concept of the project lifecycle and the need for each of its stages is outlined. We further contrast these stages with the current system in Zambia in order to further emphasize the importance of linking policy priorities and project objectives.

Between its inception and final execution, each project passes through several stages that build progressively on one another. This evolutionary process is known as the project life-cycle and its key phases are summarised in Figure 4.

Figure 4: The project life cycle

It should be emphasised that these project phases are not linear and represent the continuous, dynamic flow in the project’s development. The activities in each phase often overlap with the preceding or succeeding phase. However, this phased approach is useful as it provides a structured framework for the project’s growth. Further, monitoring the project’s progress becomes easier as goals, measurable in terms of specific outputs, can be set for each stage and monitored with clarity.
4.1. PROJECT IDENTIFICATION

Once the Cabinet has determined its high level policy priorities, programme design and implementation to address these commences. Under the mandate of these programmes, individual projects need to be identified which can help in achieving policy goals. In general, project ideas can come from a number of sources, including line ministries, planning departments, provincial governments, local bodies, NGOs, as well as donors.

The key aim of the project identification phase is to conduct a first screening of all project ideas to come up with a ‘long list’ of projects to be considered for inclusion in the government’s financing pipeline. The line ministry must ensure that the projects which enter the government’s financing pipeline are closely responding to high-level policy priorities.

The first screen applied to sift between competing project ideas is premised on their alignment with policy priorities and programme objectives based on the following criteria:

- Sector/Sub-Sector Focus
- Geographical Area
- Project Size
- Implementation timeline

In addition, the line ministry can better align projects with similar objectives in order that they are more efficiently undertaken under suitable programmes. The key output of this phase is a long list of projects which then move to the preparation stage. This long list is compiled by the line ministry but requires inputs from the Ministry of Finance so that alignment with policy priorities and the national budget can be included as crucial judging criteria during the first screening.

In Zambia, project identification currently takes place within MPSAs, who are responsible for identifying project ideas. Through a consultative process, representatives from the Government, private sector, civil society and other relevant agencies come together in collaborative institutional structures, such as the Sector Advisory Groups (SAGs) or the relevant Development Committees, and provide input on those projects that are then brought to them by the MPSAs.

Therefore, while the current system in Zambia allows for wide consultation, efficiencies in the process for project identification could be enhanced in the following manner:

- Developing a project identification methodology: A clear assessment tool is needed so that line ministries can objectively evaluate various project ideas. This should ultimately lead to the identification of a long list of potential project ideas, based on alignment with policy priorities.

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81 It may be possible that a line ministry already has a programme idea addressing a particular policy concern, but it is implemented only when the issue it is addressing becomes a policy priority for the government. Hence, it is not necessary for programmes to be designed only after a policy is announced.

82 The rationale for undertaking programmes composed of projects with common objectives was outlined in Section Error! Reference source not found.

83 Meeting with MoF, 16 May 2014

84 Meeting with MoF ST, 15 May 2014.
• **Streamlining the SAGs:**

SAGs are meant not only to be a source of project ideas but also to provide technical capability and know-how to line ministries in order to help them in assessing whether a particular project idea is suited to the country and is in line with policy priorities. However, as the SAGs are not based on any statutory or constitutional framework, their ability to contribute to project selection is constrained. Therefore, there is a need to strengthen the SAGs, particularly by enhancing their contribution at the project identification stage.

### 4.2. PROJECT DEFINITION

Once a project has been selected for inclusion in the funding pipeline, a considerable amount of preparation is required to take the project forward. The key aim of the next stage in the project life-cycle, the project definition stage, is to interrogate the project details so that the project can be readied for appraisal. Project definition involves ensuring that the following key project details are determined:

- **Clarity of Scope in terms of:**
  - Objectives
  - Components
  - Target communities and geographical area

- Cost estimates of each project component
- Initial options for technical and conceptual design
- Initial understanding of the key socio-economic costs and benefits
- Initial understanding of the institutional arrangements proposed
- Potential sources of finance.

The line ministry collects and reviews all the necessary data and information required to complete the key project details outlined above, which are summarised in a project report, the key output for this stage. At this stage, it is essential to plan the timetable for the entire project life-cycle as well as set milestones which can be measured. These milestones are stated in terms of clearly defined outputs and outcomes for each phase and are contained in the same project report.

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In Zambia, MPSAs conduct feasibility studies for donor or debt funded projects, often with the assistance of external consultants. The NPD is tasked with the preparation of programmes and projects implemented under the umbrella of the SNDP. Finally, the NPPID takes responsibility for ensuring that the allocation of funds amongst sectors of the economy is in line with the overall national vision. In this process, efficiencies can be enhanced in the following manner:

- **Clear institutional responsibility**: There is a need to give the responsibility for project definition to the sponsor department within the MPSA, so that the sponsor department can feel an ownership for the project.

- **Institutionalising early consultations with SAGs**: In the current system, instead of advising on project identification, SAGs provide comments on projects once considerable investment has been done in project definition. This can result in lowering the likelihood of rejection due to the amount of time and energy that has gone into preparation. This is inefficient, since it becomes difficult to determine if the project is truly in line with policy priorities or if it is affordable given the allocations in the Medium Term Expenditure Framework (MTEF). Hence, there is a need to enhance consultation with the SAGs at the project identification stage, so that their advice is captured before the preparation of the long list.

### 4.3. PRE-FEASIBILITY

It is essential for a government to put in place a project appraisal system which can sift through the various project ideas and finally select those projects that meet two key criteria:

1. Close alignment with overall policy priority and programme objectives
2. Technical, socio-economic, legal and financial feasibility

To recap, at the end of the project identification phase, the long list of projects that have passed through the first screening is taken up for preparation. During the definition phase, information on the project’s scope, costs and other parameters are gathered. Thereafter, the project is taken up for pre-feasibility by the line ministry so that it can be appraised before considerable resources are invested in a detailed feasibility study.

The key aim of this stage is to produce a pre-feasibility study which covers the technical, legal, financial, and socio-economic aspects of a project. This pre-feasibility study could, for example, adopt the cost benefit analysis (CBA) technique so as to weigh the costs and benefits of the technical options under consideration and prescribe a preferred option at the end of the analysis. Line ministries can engage the help of technical experts from within the government or external consultants in order to develop this pre-feasibility study.

Once the pre-feasibility study has been prepared, it passes to a common ‘Gateway’ within the government where it is thoroughly reviewed.

Figure 5 illustrates the placement of the Gateway institution within the project life cycle and provides a simple overview of the functions it must perform. The Gateway is a multi-disciplinary body which acts as a common authority that takes responsibility for assessing all
projects that are being developed. The Gateway should have the technical skills and authority to perform the following functions:

1. Review the pre-feasibility and detailed feasibility studies;

2. Make the procurement choice based on the recommendation of the pre-feasibility study, as follows:
   - The project should proceed as a conventional public sector project
   - The project should include the private sector, and proceed as a public – private partnership or other formation;

3. Make recommendations on the capital allocation for projects for the consideration of the Budget Office.

At this stage, when the pre-feasibility study is passed to the Gateway, it provides a clear recommendation on whether the project should proceed to the detailed feasibility and therefore takes responsibility for the appraisal of the pre-feasibility study. This leads to a short list of projects for further feasibility analysis. This recommendation draws on the results of the CBA, which in turn are based on relevance, feasibility, and sustainability criteria.

Those projects which are not feasible for any reason – technical, legal, regulatory, or financial – are shelved or studied further. If a shelved project is found to have significant socio-economic benefits, for example, it is considered useful to assess whether constraints can be overcome, particularly by revising the technical solution.

In the current setting, two departments under the Zambian Ministry of Finance - the NPD and the NPPID - are expected to play a role in the final selection of projects. The NPD takes responsibility for the planning function and is expected to make sure that the allocation of funds amongst the various sectors of the economy is in line with the overall national vision expressed in the NDPs. On the other hand, the NPPID takes responsibility for implementation, and engages with the MPSAs on the budgetary implications of the policies that have already been approved by the Cabinet Office and then filtering this information back to the Budget Office. In order to enhance efficiencies at the pre-feasibility stage, the following can be considered:

- **Instituting a project appraisal system:** Evaluating the socio-economic costs and benefits of projects would assist in structuring the project financing to maximise the expected developmental impact.

- **Instituting a single Gateway:** Instituting a multi-disciplinary entity which can perform the Gateway functions efficiently, and possesses the technical capabilities for the assessment of pre-feasibility and feasibility studies. The Gateway could have a two-tier structure such that there is a secretariat to handle the day-to-day functioning and project management tasks, and a specialist technical working committee which is constituted to evaluate the pre-feasibility/feasibility studies pertaining to different sectors from time to time. In addition to technical and sector experts, the Gateway would consist of senior officials from the MOF.

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89 MOF website, National Planning Department
90 Ministry of Finance and National Planning. 2007. Report on the Creation of the Planning and Economic Management Division (EMD)
91 Meeting with the NPPID’s Assistant Director, 13 May 2014.
4.4. DETAILED FEASIBILITY

At the project definition and pre-feasibility stages, preliminary conceptual designs of the project are reviewed and the selection of the technical option takes place based on the technical feasibility and socio-economic CBA. However, since the socio-economic, financial and legal feasibility are not confirmed at these stages, preparing detailed technical designs is not recommended as these often require large investments to complete. Once the pre-feasibility has been reviewed by the Gateway and the project becomes part of a ‘short list’, the project then enters the detailed feasibility stage. At this stage, a detailed technical design, in-depth
financial and economic analyses and implementation work-plans for the project are prepared. Importantly, as part of the development of the detailed feasibility study, a comprehensive risk assessment is conducted and risk mitigation arrangements are put in place.

Once the feasibility study has been prepared, it proceeds back to the Gateway for review. The Gateway then makes a recommendation on the procurement choice, capital budgeting (in consultation with the Budget Office) and takes a final decision on whether the project should move to the financing stage.

There is a need to devise uniform guidelines on how the detailed feasibility stage should be conducted for government funded projects in Zambia. Donor or debt funded projects have detailed feasibility studies; however, these studies follow the guidelines of the co-operating partner that commissions and finances the study, not the GRZ. These guidelines would also assist in devising a clear, institutionalised process of deliberating the optimum ways of implementing projects. In addition, they would also assist in the assessment of procurement options and devising the project finance structure.

4.5. FINANCING

The key aim of this stage is to develop a sustainable financing strategy to ensure that a sufficient level of financing is made available to the project at key intervals throughout its lifetime and to bring the project to financial closure. There is variety in the type and source of domestic and international financing that is available to fund projects. At the financing stage, it is essential for project sponsors (i.e. the line ministry under which a project is anchored) to consider all sources and select one or more which are most suitable for the project based on the results of the feasibility study and corresponding financing allocated to the project. The project sponsors should review both domestic and international sources of financing as well as explore the nature of available financing, including the use of grants, concessionary loans, commercial loans, and user fees. Even a project that receives 100% financing from the government's budget may require a financing strategy to justify the selection of the public financing option as well as to ensure that donors/other external financiers of government revenue remain interested in the particular project.

Once project sponsors have studied the financing options available, and a comprehensive financing strategy has been developed, negotiations are conducted with priority financiers and projects are showcased before them. This requires the development of materials such as a project pitchbook and project information memorandum which clearly communicates the project’s objectives, costs and benefits.

In Zambia, the financing process involves assessing the capital requirements of the project and making a decision as to how the project should be funded. This process involves the Planning Directorate in the Line Ministry submitting financing requirements to the Budget Office in the Ministry of Finance once the project has been approved. The challenges confronting the Budget Office is then the how to choose projects for inclusion in the national budget. This can be addressed in the following manner:

- **Use of CBA techniques:** Lack of clear, institutionalised systems to appraise project impact could lead to selection of projects with low value for money. Unstructured allocation can leave projects short of capital and unable to be effectively implemented.

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92 Meeting with MoF ST, 15 May 2014.
93 Meeting with MoF, 16 May 2014.
Projects brought before the Budget Office should demonstrate the results of a socio-economic CBA, and outline financial costs, revenues as well as economic benefits clearly so that the Budget Office can use these results to appraise them. In addition, the Budget Office should allocate finances on the basis of Sectoral Plans and conformance with the NDP.

- Institutionalising financing strategy development: A process should be adopted to institutionalise the consideration of several financing options and outreach to non-traditional sources of finance, such as private sector investors. It should not be assumed that all financing for projects would come from the GRZ. Further, in addition to the Budget Office, the Investment and Debt Management Department, as well as the PPP Unit should be involved in devising the financing strategy alongside the sponsor department.

### 4.6. IMPLEMENTATION AND MONITORING

Once the project appraisal and detailed feasibility studies have been completed and financial closure is reached, the detailed designs presented in the feasibility study are confirmed. In addition to a detailed technical design, implementation work plans for the project are also prepared, including specification of key milestones in terms of measurable outputs and outcomes. A detailed monitoring plan is drafted and institutional responsibilities are assigned for implementation and monitoring. Importantly, following the development of the detailed technical design, a comprehensive risk assessment is conducted and risk mitigation arrangements are put in place.

Following this, a formal approval to begin with implementation is sought from a competent agency. This is generally a senior government agency located within the Ministry of Finance or at the Cabinet Level, depending on the project size and level of capital required from the government. Once the final approvals are obtained, the line ministry takes the responsibility for the implementation of the project. It is the line ministry’s responsibility to ensure that the operation of the project proceeds smoothly on the ground and that each institution carries out its allocated responsibility.

USAID has noted that “implementation is a dynamic process in which everyone involved with the project has to constantly respond to new problems or changing circumstances that may affect the project’s outcome.”

Hence, in order to ensure efficient co-ordination at the project level, a dedicated project management team, led by a project manager is appointed by or on behalf of the line ministry. It is then the project management team’s responsibility to ensure the smooth functioning of the project and to liaise regularly with technical experts, consultants, financiers, contractors and suppliers for effective project delivery.

On-going assessment of performance is an integral part of project implementation and is done in line with the monitoring plan. UN-EPEC has noted that, “The aim of monitoring is to ensure that the project activities are achieving the project purpose and that any unforeseen difficulties in implementation are addressed as quickly as possible.”

With this in mind, project operations are constantly tracked against milestones established as part of the monitoring plan. The project management team measures project performance and

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94 USAID, page 40.
adopts remedial strategies to bridge performance gaps. In addition, periodic checks on project performance are also conducted by higher management within the line ministry.

The focus in Zambia is on monitoring the implementation of the national policy objectives as outlined in the SNDP, the direct responsibility of which lies with the Monitoring and Evaluation (M&E) Department of the Ministry of Finance while overall coordination of efficient resource allocation is undertaken by the NPPID. The plans are monitored through tools such as Quarterly Progress Reports, Annual Progress Reports, Mid-Term Review Reports and Final Evaluation Reports. The systems and processes envisaged for the monitoring of plans include project spot monitoring, surveys and research. Further, the M&E Department has devised key performance indicators to measure the progress of the NDP. In order to strengthen these processes further, the following could be considered:

- **Regular monitoring of individual projects:** In Zambia, implementation of the programmes and projects is undertaken by the MPSA responsible for preparing the project. However, monitoring of individual projects to date has been limited. Weaknesses in the regular monitoring of projects could imply that accountability of the line ministry is hampered and adversely impacts on reporting on progress. A well-developed M&E plan for every project should be created and the M&E personnel within the line ministry should be tasked with regular monitoring of project implementation.

- **Assigning clear institutional responsibility for monitoring:** Under the current structure, final responsibility for carrying out the monitoring of individual projects is not assigned to a single body. Firstly, the National Development Co-ordinating Committee (NDCC) currently bears the overall responsibility for the implementation and monitoring of the programmes under the NDP and is meant to report on progress to the Cabinet. Secondly, it is envisaged that the NDP will be implemented and coordinated by Provincial and District Development Coordinating Committees (PDCCs and DDCCs) and Area Development Committees (ADCs). Thirdly, M&E sub-committees of the Sector Advisory Groups (SAGs) are meant to track the progress of the sectoral plans under the NDP and their inputs are taken for annual reports by the M&E Department. Fourthly, the NPPID is tasked with ensuring that resources allocated to programmes and projects are utilised effectively and efficiently. Therefore, there is a need to streamline the monitoring of the SNDP and its sectoral plans, to reduce duplication of effort.

- **Need for improved co-ordination on monitoring at different levels:** Projects may need to be monitored at various levels (i.e. national, provincial and district levels). However, there is a need to clearly record the M&E process and outline the institutional arrangements in which M&E takes place so as to improve co-ordination between different departments and agencies.

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95 Meeting with the M&E Department, 13 May 2014.
96 SNDP, Monitoring the Implementation Framework of the SNDP, pg. 11.
97 Meeting with M&E Department, 13 May 2014.
99 SNDP, Implementation, Monitoring and Coordination. Pg. 228
100 Institutional structures established by the GRZ to provide “bottom-up” support for policy and program implementation at provincial, district, and sub-district levels respectively. PDCCs and DDCCs provide a forum for government institutions, private sector, non-governmental organisations, and civil society participation in the implementation and coordination of programmes. The operations of the PDCCs and the DDCCs are facilitated by the Planning Directorates within the Provincial and District public administrative structures. For more, refer to the appendix.
101 Meeting with M&E Department, 13 May 2014.
Dealing with implementation failure: There is no clear process of determining mitigation actions to combat the potential for implementation failure. This responsibility should be allocated within the project management team.

4.7. EX-POST IMPACT EVALUATION

The overall aim of an impact evaluation exercise is to assess whether the project has been able to achieve its specific objectives. The World Bank notes that, "The goal of an impact evaluation is to attribute impacts to a project and to that project alone." The responsibility of impact evaluation often falls on the line ministry, but they might be assisted by technical experts within government and/or external consultants.

An impact evaluation exercise requires elaborate preparation and design. Appropriate indicators need to be developed and survey questionnaires designed. In general, three surveys spread throughout the implementation phase will suffice, structured as follows:

- Baseline survey before the project becomes operational to map the base data and situation;
- A midline survey close to the mid-point of the project implementation timeline to see if certain early impacts of the project are being felt;
- Endline survey when the project is nearing completion for comparison with baseline and midline data.

In Zambia, both monitoring and ex-post evaluation of the SNDP take place through M&E personnel that operate within each of the Line Ministries. These M&E personnel report to the M&E department located within the Ministry of Finance. There is a need to ensure that all three phases of the ex-post implementation are carried out for the evaluation of each project and that these results are reported by the M&E Department to the Cabinet.

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102 Isolating the impact of a particular project is a complicated exercise and there are several sophisticated statistical methodologies which can be effectively applied for this purpose. Detailing these methodologies is beyond the scope of this Report and the reader is encouraged to visit the website of the World Bank. [http://web.worldbank.org/WSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTIISPMA/0,,menuPK:384339~pagePK:162100~piPK:159310~theSitePK:384329,00.html]
5. LESSONS FROM INTERNATIONAL EXPERIENCE

This section details the system in place for programme implementation and project appraisal (the appraisal system) in three countries – India, South Africa and Mauritius. The description also outlines the national level planning and budgeting process in the two countries.

The selection of these countries does not imply that they have faultless systems. Rather, they are used to highlight in simple terms how the same processes can be alternatively implemented in different contexts. While India was chosen to showcase a system devised to deal with the needs of a large country with a decentralised framework and complex structures, South Africa was chosen for the way it centralises functions and reaps efficiencies in implementation. We review each country’s systems for project appraisal in turn.

5.1. INDIA

India’s governance is split into multiple levels – central, state, district, and local. India presently has 29 states and each state has a democratically elected government. This means that India has central as well as state administrative machinery dedicated to development projects in each of its 629 districts. In addition, each village has a ‘panchayat’ or village council, which is responsible for the development of the village and each city has a municipal body. While this structure of governance is meant to ensure effective project delivery, the multiplicity of bodies can also result in delays, political tussles and diverging priorities.

The discussion below focuses on describing the appraisal system in place for national level programmes and projects in India.

5.1.1. Policy Formulation, Planning and Budgeting

Figure 6: Linkages between policy priorities and project execution in India

<table>
<thead>
<tr>
<th>Outlining Policy Priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Minister's Office</td>
</tr>
</tbody>
</table>

Planning

| Planning Commission of India |

Annual Budget

| Ministry of Finance | Parliament |

Programme Design | Project Identification | Project Preparation

| Line Ministries |

Project Appraisal and Gateway

| Planning Commission of India |

Financing | Detailed Design | Implementation and Monitoring | Evaluation

| Line Ministries |
As can be gauged from Figure 6 above, in India there is a clear system in place for ensuring that projects undertaken are in line with the policy priorities of the central government. The Prime Minister, Cabinet Ministers and Parliament are responsible for providing overall direction for development projects and outlining high level policy priorities. This is followed by a detailed national planning process handled by the Planning Commission of India.

The Planning Commission of India was established in 1950, soon after India attained Independence, with the specific mandate of providing overall direction to the development agenda in the country. The Planning commission continues to be a key body responsible for “making assessments of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilisation of resources and determining priorities.”

The Planning Commission formulates five-year plans outlining development priorities which are then operationalised through the creation of annual plans. While the process of formulating the five-year plans is elaborate and involves detailed consultations with the cabinet, line ministries, state governments, local bodies and technocrats, the annual plans are more focused on scheduling and providing capital outlays to particular projects. The key components of the five-year plans and annual plans are presented below.

Table 1: Key components of Plan documents in India

<table>
<thead>
<tr>
<th>Five-Year Plan</th>
<th>Annual Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of priority sectors and sub-sectors as well as target sections of the population (such as women and children).</td>
<td>Actual outlay of public expenditure as per the central budget for the current and previous year segmented by sector.</td>
</tr>
<tr>
<td>Target growth rates for each sector, and sometimes sub-sectors, and other milestones to be achieved by each sector/sub-sector within the five year period.</td>
<td>Actual outlay of public expenditure on flagship programmes of the central government.</td>
</tr>
<tr>
<td>GDP and economic growth targets for the plan period.</td>
<td>Actual outlay of public expenditure of the central government to each ministry and department.</td>
</tr>
<tr>
<td>Detailing the achievements of the previous plan and description of baseline scenarios.</td>
<td>Actual outlay provided by the central government to state governments.</td>
</tr>
<tr>
<td>Suggested allocations of public expenditure for financing the plan (sector-wise).</td>
<td></td>
</tr>
</tbody>
</table>


Based on the allocations suggested by the Planning Commission in the five year plan, and on consultations with a range of stakeholders from the public and private sector, the Ministry of Finance prepares a budget. The central (or union) budget is “an annual statement to Parliament of how much money the union government expects to raise in the next financial year and how it will spend that money.”

The expenditure in the union budget is divided into plan and non-plan expenditure. Plan expenditure is organized according to the suggestions and requirements outlined in the five-year plans. Non-plan expenditure covers expenses for government functioning, not included in
the five-year plans. Hence, actual outlays made in the union budget are very closely linked to the policy priorities outlined in the five-year plan in India.

5.1.2. Project Life cycle in India

For projects which seek public-sector financing, the process begins when projects are identified and a brief pre-feasibility/feasibility report providing an overview of the project is prepared by the line ministry. Based on the feasibility report submitted by the line ministry, the planning commission considers the project for inclusion in the five-year or annual plan. In the planning commission, the technical subject matter experts and project appraisal specialists in the Project Appraisal Management Division (PAMD) study the feasibility report before providing an In-Principle Approval (IPA).

The PAMD carries the specific mandate of appraising each project proposed by line ministries as well as assisting the Expenditure Finance Committee (EFC) and the Public Investment Board (PIB) in its investment decision making.105

The EFC and PIB, constituted for the appraisal of public sector projects, are outlined below.

Figure 7: Composition of the EFC and PIB

<table>
<thead>
<tr>
<th>EFC</th>
<th>PIB</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Secretary, Department of Expenditure, Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Line Ministry proposing the project</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Planning Commission</td>
<td></td>
</tr>
<tr>
<td>• Financial Advisor, Line Ministry proposing the project.</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Department of Expenditure, Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Planning Commission</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Line Ministry proposing the project</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Department of Economic Affairs, Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Ministry of Statistics and Programme Implementation</td>
<td></td>
</tr>
<tr>
<td>• Secretary, Ministry of Environment and Forests</td>
<td></td>
</tr>
<tr>
<td>• Joint Secretary (PF.II), Department of Expenditure</td>
<td></td>
</tr>
</tbody>
</table>

Once the IPA is obtained, the project then proceeds to the preparation stage where a Detailed Project Report (DPR) is prepared by the line ministry. This report is then referred back to the PAMD for a thorough appraisal. The PAMD, in consultation with the subject matter experts, produce an Appraisal Note. This is utilised by an inter-ministerial group – as well as the EFC and PIB – to guide them on whether government financing should be provided to the particular project in question. Following this, an inter-ministerial consultation takes place and the project is considered for financing by the EFC/PIB. The Ministry of Finance or the Cabinet (depending on project size) receives inputs gained from previous consultations and from the EFC/PIB and takes a final decision on whether or not a project is approved. The line ministry then takes responsibility for the detailed design, implementation, and monitoring and impact evaluation of the project. This process is summarised in Table 2 below.

105 For more information on the PAMD and its functions, see the website of the Planning Commission of India.
Table 2: Process of approval for publically-funded projects in India

<table>
<thead>
<tr>
<th>Project Life Cycle Stage in India</th>
<th>Institution Responsible</th>
<th>Timeframe</th>
<th>Documents Required</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification</td>
<td>Line Ministry</td>
<td></td>
<td>Feasibility Report</td>
<td></td>
</tr>
<tr>
<td>In-Principle Approval of the Planning Commission</td>
<td>Planning Commission of India</td>
<td>4 weeks</td>
<td>Feasibility Report</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Subject Matter Division</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Project Appraisal Management Division</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparation of Detailed Project Report (DPR)</td>
<td>Line Ministry + External Consultants</td>
<td>Not specified; to be decided by line ministry and planning commission based on project size. Once the first draft of the DPR has been submitted, the planning commission must provide comments in 6 weeks</td>
<td>DPR</td>
<td>The DPR aims to is a thorough examination of the project and includes the following elements:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This feasibility report does not consist of a CBA. The following components are needed:

- Project concept and design
- Needs analysis
- Estimation of project costs

If the planning commission finds the feasibility report satisfactory, then the project is included in the Ministry’s budget and can then receive 100% financing from the government.

The DPR aims to is a thorough examination of the project and includes the following elements:

- Context/Background
- Problem Definition
- Objectives
- Target Beneficiaries
- Strategy-specification of implementation options and rationale for selection of preferred options
- Legal Framework
- Environmental Impact Assessment
<table>
<thead>
<tr>
<th>Pre-feasibility &amp; Feasibility Stages</th>
<th>Project Appraisal</th>
<th>Inter-Ministerial Consultation</th>
<th>Line Ministries are required to submit DPRs which are complete in all respects in order to ensure that the appraisal by the Planning Commission can be conducted successfully. All project documents are presented before an inter-ministerial group including the Ministry of Finance, the Line Ministry, related ministries and the Planning Commission for their consideration.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning Commission of India</strong></td>
<td><strong>Line Ministry</strong></td>
<td><strong>1 week for preparation of EFC/PIB memo</strong>&lt;br&gt;<strong>4 weeks for convening meeting</strong>&lt;br&gt;<strong>1 week for issue of meeting minutes.</strong>&lt;br&gt;<strong>DPR</strong>&lt;br&gt;<strong>Memorandum for the Expenditure Finance Commission (EFC) and the Public Investment Board (PIB)</strong>&lt;br&gt;<strong>Appraisal Note by</strong></td>
<td><strong>Ongoing initiatives and synergies</strong>&lt;br&gt;<strong>Technological Options Analysis</strong>&lt;br&gt;<strong>Management arrangements and organisational structure</strong>&lt;br&gt;<strong>Means of finance and analysis of financing options as well as project budget</strong>&lt;br&gt;<strong>Time frame and work plan</strong>&lt;br&gt;<strong>Risk Analysis</strong>&lt;br&gt;<strong>Evaluation lessons from similar projects undertaken in the past</strong>&lt;br&gt;<strong>Success criteria for each deliverable/output of the project based on baseline data analysis</strong>&lt;br&gt;<strong>Financial and economic analysis of project benefits</strong>&lt;br&gt;<strong>Sustainability analysis</strong></td>
</tr>
<tr>
<td>Financing Stage</td>
<td>Project Approval</td>
<td>Ministry of Finance and Line Ministry</td>
<td>Planning Commission</td>
</tr>
<tr>
<td>-----------------</td>
<td>------------------</td>
<td>--------------------------------------</td>
<td>----------------------</td>
</tr>
</tbody>
</table>
| For projects below Rs. 100 crore (USD 16.7 million) | 2 weeks | DPR  
EFC/PIB Memo  
Appraisal Note | Once the final approval is received by the competent authority, project implementation can be undertaken in accordance with the institutional arrangements proposed in the DPR by the Line Ministry.  
The Line Ministry then bears the authority for detailed design, implementation, and monitoring and impact evaluation. |
| For projects above Rs. 100 crore (USD16.7m) | 4 weeks | | |

Source: [http://efc.planningcommission.nic.in/guideline.html](http://efc.planningcommission.nic.in/guideline.html); Planning Commission of India: [http://finmin.nic.in/the_ministry/dept_expenditure/plan_finance2/updated.PDF](http://finmin.nic.in/the_ministry/dept_expenditure/plan_finance2/updated.PDF)

Notes:  
(1) Smaller projects can also be sent to Standing Finance Commissions instead of the EFC  
(2) This table is based on a review of latest available guidelines, which may be subject to change in line with Cabinet Decisions.
The process for approval of a PPP project differs from publically financed projects. Projects are identified for financing through a PPP structure once a detailed feasibility has been conducted at the line ministry. A memorandum on the project is then prepared for the consideration of the Public Private Partnership Appraisal Committee (PPPAC) for its IPA.

The PPPAC was created in 2005 under the oversight of the Cabinet and is comprised of:

- Secretary, Department of Economic Affairs, Ministry of Finance;
- Secretary, Planning Commission;
- Secretary, Department of Expenditure, Ministry of Finance;
- Secretary, Department of Legal Affairs, Ministry of Law;
- Secretary of Department proposing the project.

The appropriate body for providing the IPA is the PPPAC rather than the Planning Commission, since a PPP project is not fully financed by the Planning Commission. However, the secretary of the Planning Commission is a member of the PPPAC, clearly underscoring the importance of the fact that the PPP project would also need to fall under plan priorities.

Following the IPA, the procurement process begins and an expression of interest is released for shortlisting preferred bidders on the basis of a Request for Qualification (RFQ). Simultaneously, a draft concession agreement, detailed project proposal and draft Request for Proposals (RFP) is prepared. These project documents, alongside the feasibility report, are then sent to the PAMD for its approval/appraisal. The PAMD prepares an Appraisal Note for the consideration of the PPPAC based on which the PPPAC grants final approval/rejection to the project. Following this, the RFP is released and the process for the selection of a final preferred bidder from the shortlisted bidders ensues. Finally, the line ministry and the preferred bidder take joint responsibility for the detailed design, implementation, and monitoring and impact evaluation of the project. This process is summarised in Table 3 below.
Table 3: Approval Process for PPP projects in India

<table>
<thead>
<tr>
<th>Project Life cycle Stage in India</th>
<th>Institution Responsible</th>
<th>Timeframe</th>
<th>Documents Required</th>
<th>Comments</th>
</tr>
</thead>
</table>
| Pre-feasibility and Feasibility Stage | Line Ministry, Technical, Legal, Financial and other external consultants | | Feasibility Report, Term sheet of proposed Concession Agreement | A full feasibility study should be ready at this stage. The following components are needed:  
- Context/Background  
- Problem Definition  
- Objectives  
- Target Beneficiaries  
- Strategy-specification of implementation options and rationale for selection of preferred options  
- Legal Framework  
- Environmental Impact Assessment  
- On-going initiatives and synergies  
- Technological Options Analysis  
- Management arrangements and organisational structure  
- Means of finance and analysis of financing options as well as project budget  
- Time frame and work plan  
- Risk Analysis  
- Evaluation lessons from similar projects undertaken in the past |
<table>
<thead>
<tr>
<th>Pre-feasibility and Feasibility Stages</th>
</tr>
</thead>
</table>
| **Inter-Ministerial Consultation**    | **Line Ministry** | • Success criteria for each deliverable/output of the project based on baseline data analysis  
                                  • Financial and economic analysis of project benefits  
                                  • Sustainability analysis
|                                      |                  | The details of the project and concession agreement may be discussed at this stage and inputs and comments sought from related ministries.
| **In-Principle Approval of the Public Private Partnership Appraisal Committee (PPPAC)** | **PPPAC** | 3 weeks  
                                  • Memorandum for PPPAC  
                                  • Feasibility Report  
                                  • Term sheet of proposed Concession Agreement  
                                  If the PPPAC finds the project proposal satisfactory, then the project can move to the procurement stage. The memorandum for the PPPAC must contain:  
                                  • Project description  
                                  • Financing Arrangements  
                                  • Internal Rate of Return and Net Present Value Calculations (Financial and Economic)  
                                  • Clearances (all clearances should be sought at this stage itself, e.g. from the Ministry of Environment)  
                                  • Support sought by Government of India  
                                  • Term Sheet of Proposed Concession Agreement.
| **Expression of Interest**            | **Line Ministry** | Request for Qualification  
                                  A shortlisting of preferred bidders will be conducted at this stage.
<table>
<thead>
<tr>
<th>Formulation of project documents</th>
<th>Line Ministry</th>
<th>Concession Agreement</th>
<th>Project documents will vary depending on sector and size of the projects.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval/Appraisal of PPPAC</td>
<td>• PPPAC</td>
<td>• Request for Proposal (final and draft versions)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Planning Commission of India</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>o Subject Matter Division</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>o Project Appraisal Management Division</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 3 weeks for appraisal by the Planning Commission</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 2 weeks for final approval by the PPPAC</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Final project proposal</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Draft Concession Agreement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The line ministry should present the draft RFP and concession agreement to the PPPAC for approval.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Further, the line ministry should also present final project proposal to the PPPAC for approval. The Planning Commission will then conduct the final appraisal of the project and provide an Appraisal note to the PPPAC. The Appraisal by the Planning Commission would require the submission of all project documents.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>This final project proposal would be similar to the memorandum for the PPPAC, but would be more detailed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invitation of bids</td>
<td>Line Ministry</td>
<td>Final RFP</td>
<td>The outcome of this process will be the selection and appointment of the preferred bidder.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Detailed Design, implementation and monitoring and impact evaluation will then be as a shared responsibility between the selected bidder and the line ministry.</td>
</tr>
</tbody>
</table>

Source: GOI PPP Guidelines

Notes: This table is based on a review of latest available guidelines, which may be subject to change in line with Cabinet Decisions.
5.1.3. **Key Lessons from the Indian model**

The key lessons which emerge from this study of the Indian appraisal system are as follows:

1. There is a good integration between policy priorities, budget allocation and project objectives due to the involvement of the planning commission at each stage of the project life cycle.

2. The fact that budget outlays are made under the headings of ‘Plan’ and ‘Non-Plan’ expenditure institutionalises the alignment between the policy priorities outlined in the Plan document and the actual outlays made for programmes and projects.

3. The PAMD ensures that project appraisal is institutionalised and the inclusion of subject matter experts adds further technical rigour to the appraisal process. In addition, the requirement of an Appraisal Note for each project, regardless of whether it is a conventional public sector project or a PPP, ensures that economic and financial feasibility (whether with or without grants) becomes a pre-condition for project approval.

4. The constitution of inter-departmental bodies such as the EFC and PIB promotes coordination and helps in investment decision making. In particular, the inclusion of the Secretary of the Ministry of Statistics and Programme Implementation in the PIB can prevent the investment decision from taking place in a vacuum and for the project to find its place under a suitable programme. Further, the inclusion of the secretary of the Environment Ministry can ensure that suitable environmental impact analysis has been conducted.

5.2. **SOUTH AFRICA**

South Africa is one of the largest economies in Africa. The reason for showcasing the development processes in South Africa is rooted in the fact that the Government of South Africa’s (GoSA) systems have supported positive economic growth in a country with a complex political scenario in the past two decades. Further, the provincial system of decentralization in South Africa is comparable to Zambia.

The GoSA is headed by the Cabinet consisting of the President, the Deputy President and Ministers, who are members of the Parliament. There are two houses of Parliament, the National Assembly the National Council of Provinces. The GoSA has 47 national departments; each tasked with the affairs of a sector/sub-sector and headed by a Minister. In this section, we highlight some of the structural features which have been adopted by the GoSA to streamline programme implementation in the country.

5.2.1. **Cluster Approach**

Recognizing the need to exploit the complementarities between the knowledge of related government departments, the GoSA has instituted a cluster based approach so as to streamline programme implementation. Clusters are technical advisory groupings, providing cross-departmental consultation on issues of critical importance for priority programmes. There are five clusters that are currently operations in South Africa. These are:

1. Economic Sectors and Employment and Infrastructure Development Cluster
2. Social Protection, Community and Human Development Cluster
3. International Cooperation, Trade and Security Cluster
4. Governance and Administration Cluster
5. Justice, Crime Prevention and Security Cluster

The two key functions of clusters are as follows:

- **Ensuring alignment of government-wide policy priorities**: Clusters provide a platform for discussion on sectoral issues, and have representation from various government departments, so that developmental concerns can be dealt with holistically. Further, clusters also encourage discussion on how the government’s priority policies, such as job creation, can be encouraged in each sector.

- **Facilitating and monitoring the implementation of priority programmes**: Clusters provide oversight on the implementation and monitoring of priority programmes. This, in essence, implies that clusters are involved in providing technical assistance for particular projects being undertaken as part of priority programmes.

Hence, it can be observed from the themes around which departments are grouped in these clusters that they serve as effective platforms for discussion of programmes being implemented in related sectors. Further, clusters serve to ensure that policy priorities are translated into actual project objectives, thereby increasing efficiency in programme implementation.

### 5.2.2. Planning and Budgeting

South Africa has a different planning system to that of India and Zambia. Whereas in India and Zambia, policy is guided by 5-year National Development Plans, in South Africa, the first National Development Plan was formulated in 2012 and articulates a vision for the country until 2030. This Plan was drafted by the National Planning Commission, which is housed directly under the Presidency. Hence, the South African National Development – Vision 2030, is very similar to Zambia’s Vision 2030 policy document. Both of these articulate a high-level blueprint of how to achieve the hopes and aspirations of the South African and Zambian people respectively. GoSA is now planning continuous 5-year planning cycles for the implementation of the National Development Plan 2030. Preparation has now begun for the 2014 – 2019 Medium Term Strategic Framework. However, despite there not being a 5-year plan document at present, budgeting in South Africa has been in line with policy priorities expressed in key policy documents, the winning party’s manifesto and the annual state of the nation address by the President.

South Africa follows the Medium Term Expenditure Framework (MTEF) Approach to budgeting and releases a 3-year rolling estimate of its revenues and expenditures for the national and provincial government. This reduces the uncertainty over allocations to key programmes of the GoSA and provides continuity in the budget process.

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106 [http://www.npconline.co.za/](http://www.npconline.co.za/)
The GoSA has adopted the function budgeting methodology for estimating the expenditure of the national government. This entails a review of the budget proposals by Medium Term Expenditure Committees (MTECs). These MTECs review budget proposals from a macro-economic perspective, keeping the overall policy priorities expressed by the GoSA in view. Their review goes beyond a review of the budgetary requirements of individual departments and aims to understand if the budgetary allocations made to various functions, such as health, education, defence, are in line with policy priorities. Adding such a review layer to the budgetary process ensures that sufficient allocations are made to priority sectors. The budget process in South Africa follows the cycle shown in Figure 8 below. As can be seen from this figure, the South African budget process provides at least two months to the MTECs for their review process, and the draft budget is not formulated without their inputs.

The South African budget cycle also ensures that there is sufficient time for discussion and engagement between the National Treasury and other Departments of the GoSA. During the preparation of the baseline budget, the National Treasury provides detailed technical guidelines and holds information sessions for Departments. There is engagement between the Departments and MTECs throughout the three phases of the MTEC review process. Even after preliminary allocations letters have been issued, departments can suggest changes to the allocation through their estimates of the national expenditure, with final allocations decided by the Cabinet. This ensures that Departments get a fair hearing before the Cabinet as the National Treasury is not the sole forum for them to express their needs.

Departments explain how their expenditures will contribute to the National Development Plan 2030, thus ensuring a strong linkage between planning and budgeting, despite the absence of a specific 5-year plan. In addition, Departments must suggest specific performance indicators alongside their estimated expenditure on each programme against which their performance would be measured. This directly strengthens the implementation and monitoring of each programme and increases the Department’s accountability to the Cabinet.

5.2.3. Continuous Engagement

The budgeting process in South Africa is both well-defined as well as dynamic, where different departments within the National Treasury play different roles during the budgeting process.\(^\text{109}\) The Budget Office is responsible for coordinating the national budgeting process, a role that requires the efficient allocation of resources to meet the political priorities set the government. It does this through, among other functions, providing fiscal policy advice and guidelines to line ministries and overseeing expenditure planning in the budget cycle.

It does not, however, actively engage with line ministries in the planning of their own budgets. Rather, this is the role of the Public Finance Division, which works with line ministries in assessing their budget proposals and providing them with budgetary support. This is a

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\(^{109}\) http://www.treasury.gov.za/divisions/info.aspx#PF
continuous engagement process, with the implication that final budget submissions presented by line ministries to the budget office have been rigorously thought out and are well understood within the National Treasury structures. This provides for an efficient and effective budget planning process that allows for the sharing of capacity and expertise and that reduces externalities associated with excessive communication in the public sector.

**Figure 8: Budget Cycle in South Africa**

<table>
<thead>
<tr>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Departments, public entities and constitutional institutions receive (MTEF) technical guidelines and databases from the National Treasury.</td>
</tr>
<tr>
<td>• Information sessions are held on MTEF technical guidelines and databases.</td>
</tr>
<tr>
<td>• Departments submit their budget proposals to National Treasury.</td>
</tr>
<tr>
<td>• Phase I of the Medium Term Expenditure Committee (MTEC) review process.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>July</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Phase II of the Medium Term Expenditure Committee (MTEC) review process.</td>
</tr>
<tr>
<td>• The Baseline Budget is submitted with a narrative and databases by mid-July.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>August</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Phase II of the Medium Term Expenditure Committee (MTEC) review process continues.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Phase III of the Medium Term Expenditure Committee (MTEC) review process; process ends.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>October</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Medium Budget Policy Statement is tabled in Parliaments.</td>
</tr>
<tr>
<td>• Preliminary allocation letters are issued to departments.</td>
</tr>
<tr>
<td>• The Estimates for National Expenditure (ENE) guidelines are issued by the National Treasury to the various departments so that they can submit their detailed requirements by programme. Departments must also explain how their expenditure would contribute to the National Development Plan 2030 and suggest key performance indicators for each programme.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>November</th>
</tr>
</thead>
<tbody>
<tr>
<td>• First draft of the completed ENE submitted by departments to the National Treasury.</td>
</tr>
<tr>
<td>• Final Allocation Letters, with Cabinet approved allocations, issued by the National Treasury to the departments.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Final ENEs, revised according to final allocation letters, submitted by departments to the National Treasury.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>February</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Final MTEF tabled in Parliament.</td>
</tr>
</tbody>
</table>

*Source: Medium Term Expenditure Framework Guidelines: Preparation of Expenditure Estimates for the 2014 Medium Term Expenditure Framework*
5.2.4. Capital Planning Guidelines for Infrastructure Projects

Infrastructure Development is one of the stated policy priorities of the GoSA and in order to ease the project life cycle process for infrastructure projects, the National Treasury issued a set of ‘Capital Planning Guidelines’ in 2014. The primary aim of these guidelines is to ensure consistency in the methodology used by Departments when conducting the identification, early stage preparation and appraisal of Infrastructure projects. They outline the minimum information that must be provided at each project life cycle stage to the National Treasury and processes that must be followed for project approval. This consistency in information submitted and methodology adopted also helps the National Treasury in prioritising those projects for financing which have the maximum development impact.

Importantly, these guidelines emphasize the importance of the project life cycle approach for project approval, stating that:

“All projects go through a series of distinct stages from the initial project idea to the time the project is completed and handed over. It is important for institutions to understand these project stages and the analysis to be carried out at each stage. These analyses are integral to a logical approach to project planning that will assist in the appraisal of the project. The analyses will also provide the rationale or justification for government funding for the project.”

As per these guidelines, all Departments must submit an Infrastructure bid to the National Treasury in accordance with the Department’s own Infrastructure Plan and in line with their anticipated MTEF budget. The Infrastructure Bid is then evaluated by the National Treasury. The process for approval of Infrastructure projects followed by the National Treasury is summarised in Table 4 below. As can be gleaned from this table, these guidelines provide light-touch guidance suitable for infrastructure projects, while also ensuring that all the key analyses are covered by the Line Ministry in their Infrastructure Bid to the National Treasury.

Table 4: Approval process for Infrastructure projects in South Africa

<table>
<thead>
<tr>
<th>Project Life cycle Stage in South Africa</th>
<th>Institution Responsible</th>
<th>Documents to be submitted to the National Treasury</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification Stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification</td>
<td>Line Ministry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparatory Work</td>
<td>Line Ministry</td>
<td>• Needs Analysis • Options Analysis</td>
<td></td>
</tr>
<tr>
<td>Viability Evaluation</td>
<td>Line Ministry</td>
<td>• Financial Analysis • Economic Analysis</td>
<td></td>
</tr>
<tr>
<td>Risk Assessment and Sensitivity Analysis</td>
<td>Line Ministry</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Line ministry identifies Infrastructure Projects in line with its own policy priorities.

The Needs analysis must include the following:
- Problem Definition including extent and urgency
- Specification of the services the facility intends to provide
- Assessment of the long term factors driving demand
- How the proposed infrastructure facility fits with the strategic policy priorities of the Department.

The Options analysis must include the following:
- Evaluation of all technically feasible options
- Recommendation of the preferred option in terms of value for money and affordability parameters
- A comparison with the “do-nothing” base scenario.

The Financial Analysis must be a financial cash flow analysis whereas the Economic Analysis can follow the Cost Benefit Analysis, Cost Effectiveness Analysis or Economic Impact Assessment Approach.

A review of all the risks and accompanying mitigation arrangements must be provided as part of the risk assessment exercise. Further, a sensitivity analysis of key modelling assumptions of the financial and economic analysis must be done.
<table>
<thead>
<tr>
<th>Financing Stage</th>
<th>The Preferred Option</th>
<th>Line Ministry</th>
<th>This will be the culmination of the Preparatory Work, Viability Evaluation, Risk Assessment and Sensitivity Analysis. The preferred technical option is that which &quot;meets the project objectives most economically.&quot;[^112]</th>
</tr>
</thead>
</table>
| Implementation Readiness | Line Ministry | Institutional Capacity Procurement Plan | The institutional capacity checks should cover:  
- Institutional arrangements are clear and appropriate responsibilities are assigned to bodies with appropriate mandate.  
- Accountability and Transparency appropriate risk mitigation arrangements  
- Review of governance issues  
The procurement plan must recommend a preferred procurement option. |
| Project Concept Note | Line Ministry | | A summary of the project's basic information. |

5.2.5. Key Lessons from the South African guidance

The key lessons which emerge from the review of South African guidance are as follows:

1. **Importance of planning as a guide for policy priorities:** The fact that GoSA has adopted national planning as a formal approach for identifying and articulating the policy priorities of the government shows that it is an important framework.

2. **Budget Process providing space for engagement:** The South African budget process provides enough room for engagement between Departments and the National Treasury to ensure that they can get the opportunity to express their needs and requirements. Further, by issuing several guidelines on the MTEF, ENE and sector-specific guidance (e.g. Capital Planning Guidelines), the National Treasury assists Departments in their functions.

3. **Institutional process for alignment between policy and budgeting:** South Africa has recently adopted the planning approach; the alignment between policy priorities and budget allocations is institutionalized through the currently functioning budgeting system and the METC review process.

4. **Clear project appraisal system:** The Capital Planning Guidelines by the National Treasury provide clear guidance on the requirements from the Departments proposing Infrastructure Bids; these guidelines emphasize the project life-cycle approach for detailed project appraisal before approval to infrastructure projects.

5.3. MAURITIUS

In this section, financial management in Mauritius is covered as the economy is more comparable to Zambia in size, relative to India or South Africa. In particular, the cash management function and the separation between the budget process and cash management in Mauritius are discussed. This separation of functions works well in Mauritius.

The World Bank notes that government cash management should be defined as," the strategy and associated processes for managing cost-effectively the government’s short-term cash flows and cash balances, both within the government, and between government and other sectors." Further, it is noted that there are several benefits of efficient cash management including:

- Increased certainty in cash-flows for line ministries;
- Reduced operational risk;
- Reduced risk of corruption;
- Direct savings in terms of reduced need for borrowing ready cash required for spending agencies;
- Direct savings as the amount of idle cash is reduced.

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While budgeting is the responsibility of the Ministry of Finance and Economic Development, cash management falls under the Office of the Accountant-General. The process works as follows, once the budget has been passed in Parliament, the Minister of Finance issues a ‘General Warrant’ to the Accountant-General asking her/him to issue funds from the Consolidated Fund to meet the expenditure requirements as demonstrated in the budget estimates. Accounting Officers are then tasked with actually disbursing funds to departments which fall under their charge.\textsuperscript{114}

The key lessons which emerge from the study of this system are as follows:

1. **Separation of budget formulation and budget execution:** While budget formulation is a strategic exercise which is meant to ensure that the government’s policy priorities are addressed through sufficient budgetary allocations, budget execution is a complementary function which involves timely disbursement of the cash for the approved budget. The separation of these functions ensures that there is distribution of budgetary control and responsibility between various offices in the Government of Mauritius. This enables both functions to be performed efficiently.

2. **Dissolution of cash disbursement responsibility:** The office of the Accountant General decentralizes the responsibility of cash disbursement for different government departments to specific Accounting Officers. This allows the line ministries to interact with the Accounting Officers with regard to a mutually agreeable disbursement schedule. Also, this helps the Accounting Officers understand the needs of the line ministry more deeply and engage with them on a regular basis.

3. **Optimising Development Impact:** Efficient cash management by the Office of the Accountant General and liaising with the Accounting Officers introduces predictability in the cash inflows for line ministries. This allows them to plan the implementation of their programmes and projects taking the disbursement schedule as a given. Hence, it helps in optimising the development impact of programmes and projects.

\textsuperscript{114} http://mof.gov.mu/English/Documents/financial\%20management\%20kit/FMKitVolI.pdf
6. RECOMMENDED FRAMEWORK FOR A NEW PROJECT APPRAISAL SYSTEM IN ZAMBIA

Based on the review of the National Investment Cycle outlined in Section 3, the Project Life cycle in Section 4, and best practices from India, South Africa and Mauritius in Section 5, this section aims to formulate a framework for a new project appraisal system in Zambia. This new framework seeks to improve the alignment between policy priorities, programme implementation and project appraisal in government institutions in the country. In addition, suggestions on timelines will be made in order to better manage the alignment between the project life cycle appraisal process and the annual budget cycle.

6.1. SUGGESTED FRAMEWORK FOR PROJECT APPRAISAL IN ZAMBIA

The biggest challenges in the project life-cycle identified through a review of the current situation in Zambia are (i) need for a formal, institutionalised project appraisal system within government, and (ii) clear alignment between budget office expenditures outlays and project funding need. Therefore, the suggested project appraisal framework rests on four key pillars:

1. **Achieving optimum development impact**: If government financing is provided to those projects which have the highest socio-economic impact on target communities and which maximise value-for-money, then the developmental outcomes of the government's investment are optimised. The government should invest in those projects which can provide the most sustainable solution option for a community's developmental challenge and, given that the government has limited resources and faces multiple demands, those should have measurable outputs and outcomes.

2. **Gateway for project selection**: A multi-disciplinary government entity is required to act as a Gateway for all project proposals from all MPSAs in order to provide a common appraisal process to all projects. The Gateway entity must have the technical expertise to appraise the feasibility report. It must have the institutional mandate to recommend financing allocation for the project from the national budget as decided by the Parliament, in consultation with the Budget Office. Finally, the Gateway should be able to decide on the procurement strategy for the project. The functions of the Gateway within such a framework would be as follows:
   - Setting standards and issuing guidelines to the MPSAs for conducting feasibility studies;
   - Evaluation and review of pre-feasibility and detailed feasibility studies;
   - Recommending a procurement route for project execution as in line with the feasibility studies;
   - Recommending a financial model for project execution upon reviewing the feasibility study in consultation with the Budget Office and the PPP Unit.

3. **Enhanced alignment between budget office outlays and project financial needs**: A government entity with in-depth knowledge of planned projects and their work-plans is required to work closely with the Budget Office and MPSAs to ensure the timeous
disbursement of project funds so as to avoid extended delays with project execution. Such delays significantly reduce the development impact of projects.

4. **Enhanced co-ordination between the NPD and NPPID:** Within the present system the NPD and the NPPID have been tasked with performing complementary policy planning and implementation functions. This is to ensure consistency between policy priorities as expressed in the SNDP and the Vision 2030 document on one hand, and programme implementation at the level of the MPSAs on the other hand. In order to bring a closer alignment between policy priorities, programme implementation and project appraisal, it is recommended that there be closer alignment between the NPD and the NPPID.

In the suggested framework presented in Table 5, each step of the project life-cycle as well as suggested institutions\(^\text{115}\) within the GRZ are outlined. The rationale for these suggestions is also provided.

\(^\text{115}\) It is to be noted that these institutions are only suggestions and could be replaced with more suitable institutions in the opinion of the GRZ.
Figure 9: Suggested framework for project appraisal in Zambia

GATEWAY
- Review of feasibility study
- Implementation Approval and Choice of technology
- Procurement Choice
- Capital Budgeting recommendation

- Financing
- Implementation & Monitoring
- Ex - post Impact Evaluation
### Table 5: Suggested Framework for the project life cycle in Zambia

<table>
<thead>
<tr>
<th>Project Life cycle Stage</th>
<th>Anchor Ministry</th>
<th>Anchor Department / Body (within Ministry)</th>
<th>Additional Ministry/Department which may be consulted</th>
<th>Functions</th>
<th>Rationale for suggestion</th>
<th>Key Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Identification</td>
<td>MPSA</td>
<td>Sponsor Department</td>
<td>Planning Directorate, MPSA</td>
<td>Project ideas generated by variety of sources are brought before the Planning Directorate of the MPSA for deliberation. These could be presented on ‘Project Information Sheets’ prepared by the Sponsor department within the MPSA.</td>
<td>It is suggested that MPSAs take the responsibility for anchoring projects under the programmes involving their ministry. Further, representatives of the Sponsor department within the MPSA could gather project ideas from a number of sources and assimilate the ones they are interested in implementing in the form of formal documents, i.e. the Project Information Sheets.</td>
<td>Project Information Sheets for all projects, Draft Long list of projects</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>NPPID, MOF</td>
<td>The MOF could then conduct a screening of project ideas to ensure that projects that enter the preparation process are aligned with high-level plan and budgetary priorities. The result is a draft long list of projects along with project information sheets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>NPD, MOF</td>
<td>The draft long list is then sent to the Cabinet Office for approval along with the relevant project information sheets. Projects approved at this stage can then proceed to the project definition stage.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Relevant SAGs</td>
<td>An internal review of project ideas can take place within the MPSA’s Planning Directorate so that alignment with sectoral and regional plans can be established.</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The MOF is well placed to prepare the draft long list as it can verify if financing for the projects can be available and advise on alignment with overall policy priorities for the GRZ.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>It has been suggested that the Cabinet Office provides the final approval for the draft long list so that it can have oversight of the projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Life cycle Stage</td>
<td>Anchor Ministry</td>
<td>Anchor Department / Body (within Ministry)</td>
<td>Additional Ministry/Department which may be consulted</td>
<td>Functions</td>
<td>Rationale for suggestion</td>
<td>Key Outputs</td>
</tr>
<tr>
<td>--------------------------</td>
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<td>-------------------------------------------</td>
<td>-----------------------------------------------------</td>
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<td>-------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Project Definition</td>
<td>MPSA</td>
<td>Sponsor Department</td>
<td>NPD, MOF, Planning Directorate, MPSA, NPPID, MOF, Relevant SAGs</td>
<td>The Sponsor department within the MPSA could then prepare a ‘Project Concept Note’ that outlines key details of the project, including clarifications on the project’s scope, cost estimates, initial design options, key socio-economic costs and benefits, an understanding of the institutional arrangements proposed, and potential sources of finance. Assistance for preparing this report can be taken from the Planning Directorate in the MPSA and from the relevant SAGs. - A timetable for the entire project life cycle and clearly defined outputs and outcomes for each phase of the life cycle are also included in the concept note. - The MPSAs could then present these concept notes before the MOF which reviews each project concept note. - Then, the MOF prepares the final long list of projects which have been approved. These projects move to pre-feasibility stage.</td>
<td>- It is suggested that the department within the MPSA proposing/anchoring the project, i.e. the Sponsor department, undertake the preparation as it would have knowledge of the project. - The MOF should approve and maintain the final long list so that it has an oversight of all projects moving to pre-feasibility and can then track their preparation process.</td>
<td>- Project Concept Note including timetable - Final long list of projects</td>
</tr>
<tr>
<td>Project Life cycle Stage</td>
<td>Anchor Ministry</td>
<td>Anchor Department / Body (within Ministry)</td>
<td>Additional Ministry/Department which may be consulted</td>
<td>Functions</td>
<td>Rationale for suggestion</td>
<td>Key Outputs</td>
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<tr>
<td>--------------------------</td>
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</tr>
</tbody>
</table>
| Pre-Feasibility          | MPSA            | Pre-Feasibility Study to be prepared by Sponsor Department | NPD, MOF, Planning Directorate, MPSA, Relevant SAGs | Technical, socio-economic, legal and financial pre-feasibility is conducted and the projects are assessed using the Cost-Benefit Analysis approach. This results in the production of a pre-feasibility study which is used to assess the value of investing in the project. Hence, the pre-feasibility study provides a recommended technical implementation option. This pre-feasibility study is to be prepared by the Sponsor Department, with technical guidance from the NPD in the MOF and from the Planning Directorate in the MPSA. It can enlist the assistance of external technical experts for the production of the pre-feasibility study. | The pre-feasibility stage shall be split into two sub – stages. The first sub – stage would involve the production of a pre-feasibility study using the CBA approach. It is suggested that this be anchored by the Sponsor Department with technical assistance from the NPD, Planning Directorate in the MPSA and external consultants as the Sponsor Department has complete knowledge of the project. | - Project Pre-Feasibility Study  
- Draft short list of projects moving to detailed feasibility. |
|                          |                 | Gateway to review pre-feasibility          |                                                     | - The pre-feasibility study is then assessed at the ‘Gateway’, a dedicated institutional structure which does a final selection for projects that proceed to detailed feasibility.  
- At the end of the pre-feasibility study’s evaluation, a final decision is made on whether the project should move to a detailed feasibility stage. All projects moving onto detailed feasibility together form the draft short list. |                                                     |             |
|                          |                 |                                          |                                                     |                                                     |             |


<table>
<thead>
<tr>
<th>Project Life cycle Stage</th>
<th>Anchor Ministry</th>
<th>Anchor Department / Body (within Ministry)</th>
<th>Additional Ministry/Department which may be consulted</th>
<th>Functions</th>
<th>Rationale for suggestion</th>
<th>Key Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed Feasibility</td>
<td>MPSA</td>
<td>- Feasibility Study prepared by Sponsor Department</td>
<td>- NPD, MOF, Planning Directorate, MPSA, Relevant SAGs, NPPID, MOF</td>
<td>Technical, socio-economic, legal and financial feasibility is conducted and the projects are assessed using the Cost-Benefit Analysis approach using data collected by extensive survey of the project sites. This results in the production of a feasibility study which is used to assess the value of investing in the project. Hence, the feasibility study confirms recommended technical implementation option, presents the detailed design and identifies the preferred procurement option. This feasibility study is to be prepared by the Sponsor Department, with technical guidance from the NPD and Planning Directorate in the MPSA. It can enlist the assistance of external technical experts for the production of the feasibility study. The feasibility study is then assessed in a final screening process that scrutinises the value of the investment in the project at the Gateway. At the end of the feasibility study’s evaluation, a final decision is made on implementation, procurement structure and financing. Projects selected at this stage proceed to the financing stage.</td>
<td>The first sub – stage would involve the production of a feasibility study using the CBA approach, including detailed technical designs. It is suggested that this be anchored by the Sponsor Department with technical assistance from the NPD, Planning Directorate, the relevant SAGs and external consultants as the Sponsor Department has complete knowledge of the project. The second sub – stage would be the review of the feasibility study. This would be done at the Gateway. Upon reviewing the feasibility study, the Gateway would also make the decision on whether the project should move to the financing stage as by this point the Gateway has also interrogated the pre-feasibility study. If the Gateway’s appraisal of the feasibility study results in an approval for further preparation, then the Gateway should also provide recommendations on how the project should be financed and on the procurement choice.</td>
<td>- Project Feasibility Study. - Final short list of projects moving to financing.</td>
</tr>
<tr>
<td>Project Life cycle Stage</td>
<td>Anchor Ministry</td>
<td>Anchor Department / Body (within Ministry)</td>
<td>Additional Ministry/Department which may be consulted</td>
<td>Functions</td>
<td>Rationale for suggestion</td>
<td>Key Outputs</td>
</tr>
<tr>
<td>--------------------------</td>
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<td>---------------------------------------------</td>
<td>-----------------------------------------------------</td>
<td>----------</td>
<td>-------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Financing</td>
<td>MPSA</td>
<td>- Sponsor Department, MPSA</td>
<td>- Budget Office (BO), MOF - Investments and Debt Management (IDM) Department, MOF - Public Private Partnerships (PPP) Unit</td>
<td>- At this stage, the Gateway also recommends a project financing structure based on the analysis done in the feasibility study. - A project that is selected by the Gateway is then budgeted for and financed according to the selected financing and procurement strategy. - The first part is a capital budgeting process in which the part of financing requirements apportioned to the government is either allocated funds from the national budget or is managed through debt. This process is managed by the BO and IDM Departments in the MOF. - The second part involves developing a financing strategy to raise the required investment costs that are not covered by the government from external financiers, including private sector financiers. - The Sponsor Department should liaise with the BO, MOF and PPP Unit to assist with the finalisation of the Financing Strategy and conducting engagements with financiers to bring the project to Financial Closure.</td>
<td>- The BO and IDM can advise on the level and forms of financing which can be provided by the government. - If it is decided that the project should be implemented with private sector participation, the PPP Unit is best placed to advise on the financing strategy and sources of private sector finance. - The primary aim of this stage is to bring the project to financial closure so that implementation can begin.</td>
<td>- Final Financing Strategy according to the preferred procurement model. - Leveraging financing for achieving financial closure.</td>
</tr>
<tr>
<td>Project Life cycle Stage</td>
<td>Anchor Ministry</td>
<td>Anchor Department / Body (within Ministry)</td>
<td>Additional Ministry/Department which may be consulted</td>
<td>Functions</td>
<td>Rationale for suggestion</td>
<td>Key Outputs</td>
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</tr>
</tbody>
</table>
| Implementation and monitoring | MPSA | Sponsor Department - Project Management Team - Monitoring Team | - M&E Unit, MPSA  
- Provincial and District Development Co-ordinating Committees  
- NPPID, MOF  
- M&E Department, MOF | - The implementation schedule, management functions and monitoring plan associated with the implementation of the project are also devised at this stage. A project implementation and monitoring plan report showcasing these issues could be drafted by the Sponsor Department, with assistance from the MOF.  
- Implementation and monitoring is undertaken by the Sponsor Department through a Project Management Team (PMT).  
- The PMT could then review all monitoring reports and provide suggestions to make project implementation more efficient, with assistance from the M&E Unit of the Sponsor MPSA.  
- The M&E Department, Ministry of Finance could finally review the annual monitoring report and report to the Cabinet Office on implementation. | - The project implementation and monitoring plan should be prepared by the Sponsor department as they would have the best idea of how they can implement and monitor the project going forward. The MOF could provide technical assistance in the preparation of this report.  
- The project management team tasked with the project implementation should be anchored by the Sponsor department as they would be familiar with all the details and intricacies of the project. They would be best placed to deal with uncertainties and challenges as they would have complete clarity of the project's objectives.  
- A monitoring team headed by the project manager and comprising of a representative from the relevant SAGs, the relevant PDCC and DDCC as well as from the M&E Unit of the MPSA needs to be constituted to execute the monitoring plan.  
- The PDCCs and DDCCs can play an active role in monitoring the project's | - Project Implementation and Monitoring Plan including detailed design, logical framework, implementation schedule and monitoring schedule.  
- Monitoring reports. |
<table>
<thead>
<tr>
<th>Project Life cycle Stage</th>
<th>Anchor Ministry</th>
<th>Anchor Department / Body (within Ministry)</th>
<th>Additional Ministry/Department which may be consulted</th>
<th>Functions</th>
<th>Rationale for suggestion</th>
<th>Key Outputs</th>
</tr>
</thead>
</table>
| Ex- post Impact Evaluation | MPSA           | - M&E Unit with the MPSA                  | - M&E Department, Ministry of Finance               | - M&E Unit within MPSA could take the lead in conducting impact evaluation on the field.  
- M&E Department of the Ministry of Finance could review impact evaluation report and present findings before the Cabinet Office.  
- Impact evaluation should ideally be conducted in line with M&E guidelines of the Ministry of Finance. | - The M&E Unit within the MPSA would have both the technical expertise as well as sector knowledge to conduct the impact evaluation, while the M&E Department of the Ministry of Finance can exercise overall supervision. | - Impact evaluation report. |
As can be surmised from Table 5, the project appraisal process will be primarily anchored by the Department proposing the project. Specialist technical expertise can be harnessed both from within the GRZ (such as from the NPD, NPPID, and M&E Unit in the MOF) and from external consultants.

6.2. ALIGNMENT OF THE PROJECT APPRAISAL SYSTEM AND THE BUDGET CYCLE

When a new project appraisal system is instituted to improve consistency between policy priorities, programme implementation and project objectives, increased alignment will also be required between this new system and the budget cycle. This would help in ensuring that the programmes suggested by the MPSAs for inclusion in the sectoral plans and the budget would be comprised of projects that have gone through the appraisal process.

The primary responsibility of drafting sectoral plans for the NDP and budget process falls upon the MPSAs. When a new framework for project appraisal is instituted, it is expected that more specific sectoral plans and budget proposals can be drafted, as MPSAs will likely have a clearer view of their project pipeline. They will therefore require more time for drafting their budget proposals and for budget hearings than what is currently allocated in Zambia. The National Planning and Budgeting Policy 2014, sets out timelines for budget preparation to clarify this process.

Keeping the above outlined considerations in mind, we suggest certain changes to the current budget cycle in Zambia, summarized in Table 6 below.

Table 6: Changes suggested to the current budget cycle

<table>
<thead>
<tr>
<th>Month</th>
<th>Suggested Budget Process Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>November, December and January</td>
<td>Drafting of Concept Note by the PAC, Cabinet Office while Ministry of Finance provides general budget guidelines in line with the NDP and other policy documents.</td>
</tr>
<tr>
<td>February</td>
<td>Cabinet provides a Concept Note in line with the NDP to the Ministry of Finance by early February.</td>
</tr>
<tr>
<td>March</td>
<td>Macroeconomic modelling, forecasting and finalization of the fiscal framework for budget estimations by the Economic Management Division (EMD), Ministry of Finance.</td>
</tr>
<tr>
<td>April</td>
<td>• Green Paper including indicative sector allocations prepared by the EMD based on fiscal framework.</td>
</tr>
<tr>
<td></td>
<td>• Green Paper passed by the Ministry of Finance to the Cabinet for approval.</td>
</tr>
<tr>
<td></td>
<td>• Cabinet approves the Green Paper.</td>
</tr>
<tr>
<td>Month</td>
<td>Event</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>May</td>
<td>Interactions held with all MPSAs on budget ceilings and budgetary requirements for various programmes.</td>
</tr>
<tr>
<td>June</td>
<td>MPSAs to prepare their budget proposals.</td>
</tr>
<tr>
<td>July</td>
<td>• MPSAs submit final budget proposals to Budget Office by mid-July.</td>
</tr>
<tr>
<td></td>
<td>• Ministry of Finance reviews budget proposals by MPSAs.</td>
</tr>
<tr>
<td>August</td>
<td>Budget hearings are held</td>
</tr>
<tr>
<td>September</td>
<td>• Finalized budget is compiled and sent to Cabinet for final approval in early September.</td>
</tr>
<tr>
<td></td>
<td>• Cabinet provides approval for revenue, expenditure framework and budget speech.</td>
</tr>
<tr>
<td>October</td>
<td>• Budget presented in Parliament in 2nd week of October.</td>
</tr>
</tbody>
</table>

It is recommended that this revised budget cycle be implemented alongside the new project appraisal system for increased alignment between the two complementary processes.

### 6.3. ALIGNMENT OF BUDGET OFFICE DISBURSEMENT SCHEDULE WITH PROJECT FUNDING NEEDS

Improving project appraisal and producing detailed feasibility studies may improve the selection of projects, however, without addressing the challenges associated with the project implementation stage, the true development impact of a project may not be realised.

One of the main challenges that government projects encounter in Zambia is that of timely disbursement of funds for project execution. As elucidated in Section 3.2.3, the cash management function in Zambia is also performed by the Budget Office. Further, even though MPSAs submit disbursement schedules, there are delays in cash disbursement which increase uncertainty and jeopardise efficient project execution. There seem to be two main reasons for this misalignment:

1. Unplanned expenditure on the basis of pronouncements by elected officials;
2. Lags between the government financial year (starting in January) and when the revenue services hands over the money to the MOF (March).

The effect is that there are periods during which MPSAs are unable to access funding from the Budget Office for their activities and projects. This has created a situation in which MPSAs
structure their funding requirements in a way that tries to manage/avoid the risk that they
would not receive cash disbursements in accordance with their submitted schedule.

MPSAs are requested to submit a disbursement schedule to the Budget Office indicating when
they want to receive their approved budget allocations in accordance with when they need the
funds for projects and other expenditure. However, due to the above-mentioned challenges,
most MPSAs request that the majority of their allocated funds early in the year. The result is
that MPSAs have large cash holdings that sit in commercial bank accounts accruing charges,
while causing cash shortages within the government. Consequently, the government often
borrows money from the commercial banks to cover their cash needs. This effectively leads to
an unnecessary increase in the cost of government projects, which can be avoided with a
proper cash management system.

Even if an appraisal system was put in place to ensure that the best projects were chosen,
such funding delays would materially reduce the impact those projects would have. It is
therefore recommended that an improved cash management system be devised in order to
circumvent these issues. Such a system could be modelled around the cash management
system currently in place in Mauritius, presented in Section 5.3. Further, the Gateway should
work closely with the Budget Office and the MPSAs to support the cash disbursement
schedule.

7. RECOMMENDATIONS AND CONCLUSIONS

This report has analysed the current policy process, planning process, budgeting process, and
programme implementation processes in Zambia. In addition, it has assessed the best
practices in India, South Africa and Mauritius as well as presenting two key overarching
concepts – the national investment cycle and the project life cycle process – which are
put forward for translating policies into actionable programmes and projects. In this regard, the
report recommends a framework for effective project appraisals in Zambia based on the
project life cycle approach.

This section presents a succinct summary of the key recommendations to improve the
alignment between policy priorities, programme implementation and project appraisal in
Zambia.
Adopt a new project appraisal system based on the project life cycle approach with a strong Gateway institution

In order to complete the alignment between policy recommendations and programme implementation, it is essential that the projects which are approved within specific programmes have objectives which are in agreement with policy priorities. This requires that a project life cycle view be taken for project appraisals. Projects need to be taken from concept stage through to actual implementation and this requires ascribing responsibility for each stage to specific institutions. A framework for such a system in Zambia has been suggested in Table 5. This framework should apply to all MPSAs across the GRZ.

One of the key recommendations of this framework is the concept of a Gateway, which would be responsible for reviewing all feasibility studies produced by the GRZ and would recommend how a project would be implemented and how it could be financed, based on a review of the feasibility study. This will ensure that there is consistency in the appraisal of projects and that project approval follows a clear, structured and transparent process. In order to perform its roles, the Gateway needs technical know – how to assess a feasibility study; knowledge of possible procurement systems; and intimate knowledge of the MTEF framework. The key functions of the Gateway would be as follows:

- Setting standards and issuing guidelines to the MPSAs for conducting feasibility studies;
- Evaluation and review of pre-feasibility and detailed feasibility studies;
- Recommending a procurement route for project execution as recommended by the feasibility studies;
- Recommending a financial model for project execution upon reviewing the feasibility study in consultation with the Budget Office and the PPP Unit.

It is recommended that the Gateway be a multi-disciplinary government entity. In addition to technical and sector experts, the Gateway could consist of senior officials from the MOF. The Gateway could have a two-tier structure such that there is a secretariat to handle the day-to-day functioning and project management tasks, and a specialist technical working committee which is constituted to evaluate the pre-feasibility/feasibility studies pertaining to different sectors from time to time.
Strengthen the Sector Advisory Groups (SAGs) for greater alignment between policy formulation, planning and budgeting

The policy priorities expressed in the National Development Plans do not always translate into actual budget outlays. In order to improve this alignment we suggest the streamlining and strengthening of the SAGs.

There are currently 27 SAGs that are meant to provide technical advice to the National Development Coordinating Committee in Zambia. Having this many SAGs has proven difficult to coordinate. As was discussed in Section 4.1, the functioning of the SAGs has not been as envisioned and very few of them have met during the course of 2014. Additionally, the large number of SAGs makes the participation of all relevant stakeholders cumbersome. South Africa for example, has five clusters coordinating the sector policies and priorities of 35 ministries. There are overlaps resulting in ministries participating in multiple clusters, but the number of clusters is not prohibitive.

SAGs act as advisers to government on sector policy issues and on the budget process, ensuring that the objectives of the SNDP are adhered to and realised. However, SAGs do not have the legal authority to enforce project choices. If a Minister chooses a project for implementation, for example, it is likely to move ahead regardless of whether it gets backing within a SAG. This prevents even functional SAGs from fully carrying out their envisioned mandate and implies that there is a need to strengthen the authority of the SAGs, particularly at the project identification stage.

SAGs have the potential to provide a platform for the deliberation of cross-department and intra-governmental policies questions, as well as involve technical experts and civil society representatives in these deliberations. They are a very valuable platform for engagement and technical advice. Hence, we recommend reviewing the organisation of the SAGs, with the aim of determining the optimal number of SAGs to achieve efficient operation and effective participation. As noted in Section 3.2.1, policy formulation is presently hindered by ineffective co-ordination and the revised arrangement of the SAGs can help Zambia realise the benefits of improved coordination between related sector stakeholders.

Create clusters for greater inter-disciplinary alignment

It is recommended that groupings or clusters of MPSAs be created based on their sectoral mandates. These clusters should have regular meetings, at least once per quarter. Further, each cluster should produce an Annual Policy Paper by November, in line with policy priorities expressed in the NDP. These Policy Papers should consist of clear policy recommendations applicable to all MPSAs within the cluster and should be submitted to the PAC in the Cabinet Office. The PAC should use these Policy Papers to draft the Concept Note for the Ministry of Finance which provides guidelines on the MTEF. In this manner, there will be an institutional set-up to ensure that policy priorities expressed in the NDP are reviewed through an inter-disciplinary lens each year, are operationalized and become a basis for actual budget outlays.
Review the budget process timetable and cash management process

The current budget cycle in Zambia does not allow for sufficient engagement between MPSAs and the Ministry of Finance. There is a need to alter the current timetable in line with Table 6 to achieve better alignment between policy priorities with actual budget outlays. This can be done as follows:

- Starting the drafting of the Concept Note in the Cabinet in November would allow the PAC sufficient time for discussion with MPSAs about their policy priorities. Further, in line with Recommendation 2, clusters could present Annual Policy Papers to the PAC which will need sufficient time to review for inclusion in the Concept Note.

- The new timetable gives MPSAs more time for the preparation of their budgets, which is necessary in light of the recommended project appraisal framework as they would need to include specific projects from their pipeline in their estimates.

- There is a need to increase the time for budget hearings and for the integration of the final budget submission so that the MPSAs and the Ministry of Finance can engage properly in this regard.

In addition, as discussed in Section 6.3, we recommend that there be a review of the cash management function presently performed by the budget office so that efficiencies for the new project appraisal system can be maximized and so that an element of predictability can be maintained in the cash in-flows to MPSAs. A cash management system akin to the Mauritian model can also be adapted for Zambia.

Provide sufficient and early guidance to MPSAs

As has been noted in both the South African and the Indian models, MPSAs need to be provided with a set of detailed guidelines so that the information requirements of a project appraisal exercise and feasibility study are clearly communicated to them. Further, they also require guidance on the approach that must be adopted to conduct the pre-feasibility and feasibility studies. There is a need to bring in a consistent approach throughout the GRZ and all MPSAs in how feasibility studies are written so that quality standards can be maintained in the analysis and also ensure consistency in the evaluation of the feasibility studies. The MOF should issue a set of guidelines to the MPSAs and then conduct bilateral engagements with them in order to actualize and ease the adoption of these guidelines.
**Ensure a clear, transparent project approval process at the Gateway**

As has been noted in recommendation 1, the Gateway would be responsible for reviewing the feasibility studies prepared by MPSAs in line with guidelines issued by the Gateway as per recommendation 5. It is then the responsibility of the personnel at the Gateway to ensure that the evaluation of the feasibility studies is done in a fair and objective manner. A transparent process needs to be designed in order to conduct fair evaluations at the Gateway.

**Streamlining the Monitoring and Evaluation Process**

It is noted that the current M&E Department within the Ministry of Finance has made several attempts to increase the level of monitoring and evaluation across the GRZ at the level of the MPSAs and the SAGs. As currently structured, the M&E Department has been able to successfully report on progress on the implementation of the national development plan. Quarterly and annual SNDP progress reports are published by the M&E department. More detailed M&E is needed to compliment the appraisal system and SNDP progress reports.

In order to strengthen the M&E function, there needs to be continuous programme and project monitoring at the level of MPSAs. There is a need to develop a unified M&E process where emphasis is placed on the monitoring and ex-post evaluation of projects which are part of the programmes for which actual budget outlays have been provided.

Given the human resource constraints within the M&E Department – there are only seven professional staff in the department – it is unlikely that they could do all the monitoring and evaluation in-house. This M&E Department therefore needs to play a coordinating role for all the M&E units across the MPSAs.

The M&E Department should develop reporting guidelines and templates to be used by the M&E units within MPSAs to report project progress. MPSAs should do project and programme level M&E and report to the Ministry of Finance, while the M&E Department continues to do spot checks on on-going projects as currently carried out. This will ease the reporting process while giving the M&E Department oversight on the progress of all programmes and projects of the GRZ. Finally, the M&E Department can liaise with the Gateway to understand if project appraisal is being done in line with the policy priorities of the GRZ.
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Apart from the sources listed below, information was also drawn from meetings held by the project team in Lusaka, Zambia over the course of a week from 12th to 16th May 2014, and in Lusaka, Zambia over a workshop from 15th to 18th January 2015. Where cited in the text, the relevant department/officials have been indicated.

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APPENDIX 1: INSTITUTIONS RESPONSIBLE FOR PLANNING IN ZAMBIA

The development of the Government of the Republic of Zambia’s national policy priorities is a collaborative process that occurs at a number of different institutional levels that seek to take into account a divergent range of interests and concerns. This section outlines key institutions involved in the development of national policy and the Sixth National Development Plan.

7.1. CABINET OFFICE

The Cabinet Office (CO) is the highest administrative office in the public service and is responsible for coordinating the effective implementation of the GRZ’s policies, systems and procedures, as well as monitoring and evaluation of overall performance of the public service. Its mission is “to coordinate and oversee the development and implementation of Government policies and systems and facilitate the conduct of Cabinet business in order to secure the general efficiency and effectiveness of the Public Service”.

The main structures within the Cabinet Office are the Executive, the Cabinet Committees (groups of members of the executive concerned with specific types of national policy) and the Office of the Secretary to the Cabinet, or the Cabinet Secretariat.

The Cabinet Executive is composed of the President of the Republic of Zambia, the Vice-President, the Ministers who head the various GRZ Ministries, and the Attorney-General (ex-officio member). In order to execute its mandate, the CO has in place an Office of the Secretary to the Cabinet (CS), whose role it is to translate government policies into structures for effective implementation. The CS is also responsible for ad-hoc commissions, new functions not yet allocated to a specific ministry, and considering appeals and arbitrations between conflicting ministries.

The Office of the Secretary to the Cabinet is headed by the Secretary to the Cabinet (CS) and two Deputy Secretaries and is supported by three divisions. All divisions are headed by the CS and all three serve different roles:

4) **Management Development Division** is responsible for the provision of internal management consultancy services to all Government Ministries and Institutions with the aim of enhancing efficient and effective performance of the public service.

5) **Policy Analysis and Coordination Division (PAC)** is responsible for the coordination of policy development in the public service, the monitoring and evaluation of the implementation of cabinet decisions, and serving as the Secretariat to the Cabinet.

6) **Administration Division whose role** is the provision of logistical and administrative support services to the CS and other divisions. It also takes responsibility for public service air travel, state functions and guiding policy implementation at Provincial and District levels.

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117 Ibid


120 Ibid

Of these, the PAC is the most crucial to the policy formulation and implementation process and it is the responsibility of the Cabinet Secretariat to ensure that all stakeholder consultation has taken place, all necessary technical input has been obtained and all Ministries concerned are adequately involved before Cabinet documents are included on the Agenda and presented to Cabinet and Cabinet Committee meetings.\(^{122}\)

In order to enhance intra- and inter-Ministerial consultation in the policy process, provision is made for the appointment of Cabinet Liaison Officers and the establishment of Cabinet Liaison Committees, Inter-Ministerial Committees of Permanent Secretaries and Inter-Ministerial Committees of Officials. Intra and Inter-Ministerial consultation is thus an integral part of the development of policy proposals.

The following diagram gives an outline of the structure of the Cabinet Office:

**Figure 10: Organisational Structure of the Cabinet Office**

![Organisational Structure of the Cabinet Office](image)

*Source: Website of the Cabinet Office of the Government of the Republic of Zambia*

### 7.2. MINISTRY OF FINANCE

The Ministry of Finance (MOF) is charged with economic and national development planning, budgeting, monitoring and evaluation and financial management responsibilities. Its mission is to “to efficiently and effectively coordinate national planning and economic management, mobilize and manage public resources in a transparent and accountable manner for sustainable national development.”\(^{123}\)

The Ministry's functions are divided into three divisions with the following broad functions\(^{124}\):

- **Financial Management and Administration Division** (FMA) is mandated to manage the administrative support services, public affairs and procurement in order to assist the Ministry meet its financial, planning and economic management goals.

- **Planning and Economic Management Division** (PEMD) is responsible for coordinating the preparation of both the national long-term development vision and the

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\(^{122}\) ibid


National Development Plans, for ensuring the budget identifies with the macro-economic framework, and monitoring and evaluating development programmes.

6) **Budget and Economic Affairs Division** (BEA) facilitates both preparation and implementation of the national annual budget and is in charge of managing government investments and debt.

The three divisions are separated further into twelve departments in total, each tasked with a core function, and which are outlined in Figure 12:

**Figure 11: Organisational Structure of the Ministry of Finance**

For the purposes of this report, only those departments directly associated with policy, programme and project processes are of concern. These are the departments within the PEM and BEA Divisions and whose roles are briefly described below:

**Planning and Economic Management Division**

Economic Management Department, whose primary role is to develop the macro-economic policy framework (including monetary and fiscal policies) that guides the GRZ’s medium and long-term expenditure decisions. It is also responsible for monitoring important economic indicators and coordinating external financial resource mobilisation.

National Planning Department (NPD) is responsible for coordinating the formulation and evaluation of sectoral and regional policies, and for the preparation of programmes and projects and the allocation of government resources in line with national, regional, district and sectoral development plans and the overarching national vision.
**National Policy and Programme Implementation Department** (NPPID) is responsible for coordinating the implementation of sectoral and regional policies and ensuring that resources allocated to programmes are projects are utilised effectively and efficiently in achieving economic growth. It also takes responsibility for ensuring that the disbursement of funds for the various sectors of the economy is in line with the overall national vision.

**Monitoring and Evaluation Department** (M&E) provides the mechanisms and systems for assessing the performance, relevance, efficiency and effectiveness of development policies and programmes. Its primary objective is to monitor and evaluate the performance of the National Development Plan (NDP) over its five-year lifetime.

**Department of Census and Statistics**, commonly known as the Central Statistics Office (CSO) is mandated with the central formulation of statistical policy and the collection and dissemination of official Government statistics.

**Budget and Economic Affairs Division**

**Department of Budget**, also known as the Budget Office (BO), is responsible for budget preparation and implementation through the MTEF and Activity Based Budgeting processes as well as setting revenue targets, managing cash flows and the release of funds to MPSAs.

**Investments and Debt Management Department** (IDM) is responsible for the management of both the GRZ’s investments and its total debt stock. Further, it takes responsibility for meeting the GRZ’s debt service payment obligations as well as its operations in the capital market needed to satisfy public cash flow requirements.

### 7.3. MINISTRIES, PROVINCES AND OTHER SPENDING AGENCIES (MPSAS)

MPSA’s comprise the various government institutions and agencies that are responsible for the implementation of programmes and projects in line with national policy priorities. These institutions are charged with developing plans to guide the conceptualisation of programmes and projects and are responsible for overseeing their effective and efficient rollout. A broad catch-all term, MPSAs are broadly composed of the following institutions:

**Provincial and District Government Administration**

The Ministry of Local Government and Housing (MLGH) is charged with the administration of the local government system at both a provincial and district level as well as ensuring that Zambian citizens are provided with necessary municipal services. The MLGH oversees the implementation of functions and responsibilities delegated to local authorities by managing the social, economic and political spheres of governance through undertaking the following functions:125

1. Co-ordination of Local Government Administration
2. Regulation and provision of Social Amenities
3. Urban Planning and Regional Planning
4. Valuation of Property

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5. Chiefs’ Affairs and House of Chiefs
6. Water Supply and Sanitation
7. Provision of Housing
8. Provision of Municipal Infrastructure and Support Services
9. Co-ordination of the Implementation of the National Decentralisation Policy, and
10. Provision of Feeder, Community and Urban Roads

The Ministry’s functions also include the creation and classification of local authorities, their establishment, functions, and operations, as well as the establishment of various statutory bodies to undertake specific assignments in the sector, such as commercial water utilities, a national housing authority, and a local government training institute.

**Sector Ministries**

Sector Ministries are the institutions through which national GRZ policy is translated into developmental interventions in Zambia. Ministries are responsible for formulating and implementing programmes and projects that are in line with national goals and each is granted a specific mandate that clarifies its objectives related to the sector or area in which it operates.

The different Ministries in Zambia are as follows:

- Ministry of Finance
- Ministry of Justice
- Minister of Defence
- Ministry of Home Affairs
- Ministry of Health
- Ministry of Foreign Affairs
- Ministry of Agriculture and Livestock
- Ministry of Information and Broadcasting Services
- Ministry of Commerce Trade and Industry
- Ministry of Local Government and Housing
- Ministry of Mines, Energy and Water Development
- Minister of Tourism and Arts
- Ministry of Labour and Social Security
- Ministry of Education, Science Vocational Training and Early Education
- Minister of Lands, Natural Resources and Environmental Protection
Sector Ministries take responsibility for the development, planning, budgeting, coordination, and monitoring and evaluation of policies, programmes and projects that are undertaken by them. This is a shared responsibility, and within each Ministry is a Department assigned to these functions (generally a Planning and Information Department) and which works closely with the Monitoring and Evaluation Department in the Ministry of Finance to achieve outcomes that both make efficient use of the state’s resources and that are in line with the GRZ’s policy priorities.

Other Spending Agencies

Other Spending Agencies (OSAs) include those institutions, agencies, boards, and state-owned enterprises (SOEs) that are governed by distinct legislation and that operate in commercial affairs. They often have their own means of collecting revenue as well as their own level of autonomy but are ultimately governed to some extent by an over-arching state authority. Although guided by sectoral policies, OSAs are also generally responsible for undertaking their own programme and project preparation, implementation, monitoring and evaluation, and budgeting processes.

An example can be found within the Ministry of Finance in Zambia, which takes responsibility for a significant number of SOEs; a few examples drawn from a range of sectors are given below:126

- Development Bank of Zambia
- Tanzania Zambia Railways (TAZARA)
- The Times of Zambia
- Zambia Postal Services, and
- National Housing Authority

7.4. GOVERNANCE INSTITUTIONS

Zambia has certain legal and institutional frameworks at different organisational levels whose task is to assist in planning, implementing, coordinating, and monitoring economic development and various poverty reduction programs.127 Key stakeholders are brought together in this way to engage and effectively plan and implement public policy objectives as well as play an important role in shaping the GRZ’s National Development Plans.

7.4.1. National Level

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126 Ministry of Finance Strategic Plan, Pg. 27
127 UN Conference on sustainable development. 2012. Pg. 24
At a national level, two structures in particular play an important role in the policy formulation, implementation and supervision phases.

**National Development Coordinating Committee (NDCC)**

The National Development Coordinating Committee (NDCC) is made up of representatives from all ministries, major cooperating partners, key institutional players, and the private sector. The major focus of the NDCC is to coordinate and monitor the country’s development programmes and projects and assist in developing the country’s overarching policy framework (its National Development Plan) and in identifying challenges in implementing policy.

**Sector Advisory Groups (SAGs)**

Sector Advisory Groups (SAGs) are sector-based fora who bring together different stakeholders within their sector of operation. The members of each sector’s SAG are drawn from the appropriate sectoral ministry, relevant agencies, cooperating partners, academia, civil society, faith-based groups, the private sector, and relevant sectoral experts. SAGs are intended to act as facilitation spaces for technical discussion relating to programmes and projects in the sector, with a view to helping plan and formulate these interventions. Cabinet guidelines prescribe that the role of a SAG is the sharing of “information on the performance and outcomes of policy, providing alternatives, and strategizing on partnerships, particularly with regard to implementation.”

SAGs are headed the lead ministry in the relevant sector and membership is only loosely prescribed, such that any person or organisation can join provided it is at a minimum operational and functionally effective in the sector. More broadly, SAGs provide a basis for stakeholder participation in planning, supervising and commenting on social and economic interventions undertaken by the GRZ. It is important to note that as they are not based on any statutory or constitutional framework, SAGs do not have any power of enforcement and, as such, are merely consultative bodies towards whose decisions and opinions the GRZ is under no legal obligation to meet.

**7.4.2. Sub-National Level**

At a Sub-National level three distinct organisational levels are of importance: provincial, district, and community level. The Provincial Development Coordinating Committee (PDCCs) and District Development Coordinating Committee (DDCC) are two of the most important institutions and fulfil analogous functions to the NDCC, albeit at their lower respective levels. Their composition is also similar, with relevant stakeholders from the provincial government administration, cooperating partners, civil society organisations, relevant agencies, traditional leaders and so on. The PDCC is chaired by the provincial Permanent Secretary and the DDCC is chaired by the appropriate District Commissioner.

The mandate of these institutions is again a replica of the NDCC, with their focus on the planning, coordinating and monitoring of development programs and projects in their province or district. Further down, at a sub-district level, the Area District Committee (ADC) undertakes the same functions as the DDCC but has a different member composition, given the more limited number of organisations that often lie within its scope, and which often includes a few

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128 UN Conference on sustainable development. 2012. Pg. 24
129 Zambian Governance Foundation. Pg. 17
130 ibid
government ministries, relevant organisations with a presence in the community and traditional leaders.\textsuperscript{132}

The Coordinating Structures are intended to act as decentralized mechanisms of governance and thus information flows upward, from communities to ADCs, to DDCCs, to PDCCS and into the national framework.\textsuperscript{133}

\textsuperscript{132} ibid
\textsuperscript{133} Zambian Governance Foundation. Pg. 19