

POVERTY REDUCTION BUDGET SUPPORT PROPOSAL

PERFORMANCE ASSESSMENT FRAMEWORK

Annex 2 to the JOINT APPRAISAL MEMORANDUM

prepared for possible budget support from bilateral agencies to the Government of
the Republic of Zambia

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Zambia: Poverty Reduction Budget Support (PRBS) Performance Assessment Framework (PAF)

1. Objectives

1.1 The main objective of the Performance Assessment Framework (PAF) is to provide a concise and monitorable set of indicators, drawn from government's own existing commitments under the PRSP and other related agreements with cooperating partners. These will be selected and revised on an annual basis in line with progress in the implementation of GRZ's reform strategy. The PAF matrix will be used by PRBS donors as the main focus for the joint assessment of progress in the implementation of the Government's reform programme.

1.2 It is also an important objective of the PAF to contribute to GRZ's institutional capacities in planning, implementing, monitoring and evaluating its programmes. This will be achieved via a process of both intra-governmental and government/donor dialogue over the selection and definition of the indicators to be used in the initial 2005 PAF over the coming months. In the medium-term, it is hoped that the PAF "process" will become further institutionalised within the Government's own planning systems. The vision is for all sectoral ministries and other government agencies to produce their own quantified and monitorable input, output and outcome indicators as a part of their annual planning processes¹.

1.3 The preparation of a common PAF should contribute to a reduction of transactions costs within the Budget Support arrangement. With this in mind, PRBS donors are concerned to ensure that the system is simple, and that all PRBS donors, including both bilateral government agencies and multilateral institutions (including the IMF, the World Bank and the EU) adopt a harmonised approach. Accordingly, a new PAF for bilateral Budget Support should be seen as transitional in the first instance, to recognise that it will change rapidly with experience, and as harmonisation improves.

1.4 In Zambia, there is already some experience of using a PAF-type instrument in the context of EU Budget Support (PRBS01). The lessons of this experience, particularly concerning the need to keep indicators simple and ensure that systems are in place to produce the data necessary to monitor progress on a timely basis, will be incorporated into the design of the PAF.

1.5 The PAF will be used differently in relation to the fixed and variable elements of PRBS disbursements: (1) Fixed elements of PRBS disbursements will be linked to a broad assessment of Zambia's general

¹ This process is more advanced in some ministries e.g. health and education where there is a track record in the use of quantified and monitorable output and outcome indicators as part of their existing sectoral strategies.

eligibility for budget support, including progress with PRS implementation, and the review of the PAF will help to confirm whether or not progress is being made in this regard; (2) Variable elements of PRBS disbursement will be linked to a more detailed assessment of performance against individual indicators in the PAF, to encourage performance and better development outcomes in key sectors.

2. Principles for PAF Preparation

2.1 The following principles for PAF preparation have been discussed and agreed between GRZ and PRBS donors:

- The PAF is a government-owned document which sets out priority reform measures and agreed targets in priority sectors under the PRSP/ NDP. GRZ will each year identify from among its goals and targets a concise list of the highest priority indicators and targets for the subsequent year (year n+1) in areas including macro performance, public financial management reform, system reform and priority poverty reduction sectors.
- The selection of appropriate targets and indicators will be the responsibility of MFNP, in consultation with sectoral ministries and spending agencies, donor partners and other stakeholders.
- This short list, the Performance Assessment Framework (PAF), will orient the dialogue on priorities and performance between GRZ and the PRBS donors. The PAF should also include, as far as possible, indicative targets and indicators for the succeeding two years (year n+2 and n+3) based on medium-term commitments in the PRSP and MTEF.
- Some indicators may be quantified outputs and outcomes e.g. in health and education sectors; other indicators will be milestones in the implementation of specific on-going reform programmes e.g. PEMFA, Pay & Right-sizing, FSDP and Private Sector Development.
- The conditions linked to specific disbursements of the variable (performance) tranches will be clearly specified and leave little margin for interpretation, thus reducing uncertainty surrounding disbursement decisions.
- Budget support providers will link their funding to a single framework of conditions and/or a reduced set of indicators drawn from the PRSP or equivalent national framework and jointly agreed with GRZ. However, individual partners may choose to link their variable tranches to a subset of these agreed indicators. Donors should aim to express clearly and transparently how performance against disbursement triggers will be assessed and what "good enough" progress will look like

3. Choice of Indicators

3.1 It has been agreed between GRZ and the PRBS donor group (including the EC) that the categories of indicators to be included in the PAF are as follows:

- Macroeconomic indicators – linked to continued adequate performance under the Government's PRGF arrangement with the IMF. How severe is it when an economy is off-track?
- PRSP-related indicators – which have been drawn from the PRSP-monitoring framework. These indicators will focus on priority sectors for poverty reduction including health, education and agriculture and should be consistent with the performance indicators being developed by these sectoral programmes. .
- Public financial management related indicators – these will be linked to the implementation of the PEMFA programme (key milestones) and also outcomes in the areas of budget execution and evidence of alignment of budget allocations and expenditure allocations with PRSP priorities.
- Core structural reforms – benchmarks and milestones drawn from the World Bank's Economic Management and Growth Credit (EMGC) arrangement and other reform commitments.

4. Current Status of PAF Development

4.1 Following a joint Government/ PRBS donor workshop held on 15 November 2004, MFNP has undertaken an initial consultation exercise with key sectoral ministries over the shape of the PAF for 2005 and selection of indicators.

4.2 On the basis of these consultations, an initial draft PAF was presented to donors by officials from the MFNP (Planning Department and Budget Office) on 29 November 2004 - see initial draft attached after section 6 of this note, below. PRBS donors have provided comments on this initial draft which focused upon:

- The most appropriate selection of indicators – some indicators, particularly those related to the economic sectors were felt to be outside of the Government's direct ability to influence;
- The need to include specific milestones related to the implementation of the PEMFA reform programme;
- The need to reconsider the current weighting system to focus this on measuring the priority that GRZ attaches to specific indicators, rather than the ease/ difficulty of either measuring particular indicators or actually achieving.

- The need to ensure that the actual targets for 2004 and 2005 are consistent with those already agreed under the EC's PRBS1 programme and the PRGF.

4.3 On the basis of these comments, MFNP will undertake a revision of the existing draft and further internal consultations over the selection of structural reform measures that they would wish to see included in the PAF.

4.4 Once a first draft of the PAF has been completed, it is GRZ's intention that this will be the subject of a wider consultation exercise involving relevant sector ministries and Sectoral Advisory Groups (SAG's).

5. Review Process

5.1 Progress against the PAF indicator set will be reviewed on an annual basis as part of the planned PRBS review mechanism. This envisages a rolling annual cycle of reviews of past performance against the PAF indicators and agreement of the priority areas for future reforms to be incorporated into the PAF for subsequent years of the programme.

5.2 For example, the PAF indicator matrix for 2005 will be developed during Q1 2005 and formalised at the first bi-annual review meeting (proposed for May 2005). Performance during 2005 against this set of indicators will subsequently be assessed in the third review meeting in May 2006.

5.3 At the second review meeting in Sept/Oct 2005, the PAF indicators for 2006 will be formalised and agreed. These would be assessed at the review meeting in May 2007.

5.4 There will be an interim process for 2005 to take account of the fact that the PAF is being prepared at the end of 2004 and will be initially reviewed in mid-2005. GRZ has indicated that it is willing for PRBS donors to base their May/ June 2005 review on performance in 2004 under existing commitments under other related programmes, including those with the European Commission under its PRBS arrangement, the World Bank under its Economic Management and Growth Credit and the IMF under the PRGF.

6. Response Mechanism

6.1 To assist GRZ and PRBS partners in determining the size of the variable element in PRBS disbursements each year, a detailed "response mechanism" will be developed for the PAF to guide review meetings. Relative weightings will be assigned to individual indicators within this response mechanism, depending upon their importance to achievement of poverty reduction goals and the MDGs. A calculation will then be made using these weightings, based on an assessment of progress against the indicator in question, to determine the actual amount to be paid by a particular PRBS partner. This is likely to be expressed in terms of percentage of the maximum amount which might be available from that PRBS partner for full performance against the indicator(s) in question.