

The Bank of Zambia - Way Forward

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and Social Development**

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Sida Evaluation 98/32

**Department for Democracy and
Social Development**

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Executive Summary

The co-operation between the Bank of Zambia (BoZ) and Sida has now been going on for nearly a decade. The first contact was established in 1988/89 and resulted in support to the Bank in the areas of Computer Systems, Foreign Exchange Control and Bank Supervision. The assistance to the area of Bank Supervision was phased out after three years, mainly because other donors took over this area. During the last three years, the accounting system area has received support, together with Management Training and Development.

It was agreed with the Bank that an evaluation be carried out towards the end of the support period. The Swedish support ended in Dec. 1996 and it is now possible to carry out an evaluation of the total support. It was further agreed that projects for future support would be identified, based on an existing request from the Bank of Zambia. The mission should assess whether the Swedish support has been, in terms of outcomes which are measurable today, effective. Questions to be answered included the following:

Has Zambia got a good Central bank? Is the Bank able to fulfil its tasks in a manner that is required of and consistent with instructions (BoZ Act 1996)?

Are the objectives of the Project Identification Mission of 1993 fulfilled? Has the Swedish support been cost-effective?

Is the development experienced so far in the Bank sustainable? Will the Bank be able to keep going at the present level of competence or better?

In 1989, the BoZ was an organisation without focus, weak in resources and capability. It was suffering from inadequate organisational structure, obsolete work methods and poor management. It did not perform well as a Central Bank. Accounts were in arrears, the output of economic planning information was very limited, its supervisory performance was very weak, and the foreign exchange control functions were badly managed.

In 1997, the BoZ is an altogether different organisation, with a clear mission and organisational focus, generally fulfilling its role as a Central Bank. The improvements are visible in all areas. Annual reports are produced on time with unqualified audits, the volume and quality of economic information improves continuously, most basic IT systems are in place and functioning, supervision of financial institutions has reached new levels etc.

One of the greatest problems in an evaluation of this kind is to distinguish between the impact of Swedish input, and other inputs and external factors on the institution, in terms of production and sustainability. To what extent the co-operation between the BoZ and Sida has been instrumental in the transformation is not easily assessed; institutional transformations are complex and follow sometimes mysterious ways. The long-term nature of the assistance has been important; it has been an on-going process for nearly a decade, and approximately every two years there has been an assessment of the results achieved. These assessments have been made in a very constructive dialogue with the BoZ management, and the assistance has been adjusted and fine-tuned in support of the strategic direction of the Bank. Also it can be stated with a high degree of certainty, that in the areas in which the Swedish input has been clearly focused during the period 1994-1996, i.e. computerisation, systems development and management development, the impact has been substantial.

Thus, in terms of measurable outcomes the Swedish support to the Bank has been effective. The objectives of the Project Identification Mission of 1993, specified in the Project Proposals of 1994, have generally been fulfilled. The targets in the three main support components - Computerisation, Development of Account Systems and Management have

been reached. To a great extent, problems observed by the organisation itself even indicate maturity, development and higher aspirations.

Applying the Staircase Model dimensions, the Bank of Zambia has taken a great step forward. In 1994, output was still unreliable in the main areas of production. Thus, at that time the Bank was still at Stage 1 in terms of the Staircase Model. In 1997, the situation is drastically changed.

The Bank of Zambia is now climbing to Stage 3: The organisation is able to deliver expected output with reasonable reliability and quality. It is gradually taking over its own development.

Thus production is generally carried out within installed capacity and with available resources. **Regular production** is not critically dependent on external financial and technical inputs. However, the organisation still lacks capability to fully respond to new and even some of the present demands.

Change is substantial but still dependent on external inputs. For the immediate future the Bank is dependent on external funds for its development, but with the presently ongoing financial development and consolidation of the Bank, it should be possible to gradually decrease external financial input. However, when it comes to technical capacity, the Bank is dependent on external input in the areas of both production and management development, also at a strategic level. Thus donors, specifically Sida, have an important role to play in identifying the most crucial areas of change and also in actively supporting changes.

Being virtually a Stage 3 organisation - with reservations regarding external dependency - its development appears impressive when generally compared with the other young central banks in the region. It also stands out very favourably in comparison with other governmental institutions in Zambia.

As the Bank of Zambia has gone through a substantial restructuring programme, it now enters a new stage in its business development. This phase will include further changes, big and small.

Continued Swedish support is recommended. The support will promote the change process, through attention to crucial areas. The main strategy for the support should be to develop the core business of the Bank, in order for it to meet client demands. A main thrust should be on the production systems. In addition, support to continued institutional development should be provided.

The Bank has embarked on a search for a new **banking system**, and some possible candidates have been identified. This evaluation exercise should be resumed and finalised, with the aim of eventually installing a fully integrated system before the end of 1998. As a first step in the continued support to the IT area, funds for an evaluation project should be provided by Sida. As a second step, the financing of software and installation of the new system can be agreed upon, after considering a detailed proposal from the Bank.

The cost of a new production system for the Bank cannot be estimated with any certainty at this point. However, it is proposed that Sida commit financing for the new system up to a maximum of 1,0 million US dollars for the fiscal year 1998.

An evaluation team should be formed within the Bank, under the leadership of one of the Bank's senior officers. Representatives from the Bank's operative divisions, from Finance

and from the IT department should be members of the team. It is important that this exercise is not seen as an IT exercise, but as an exercise to provide the Bank with new production facilities. The team should be reinforced with an experienced consultant, with a proven track record of having successfully participated in similar system evaluations for banks. The project should present their recommendations not later than Dec. 20, 1997.

To finance this exercise, it is proposed that Sida agrees to pay for the international consultant for a maximum of three months, and for two four day study tours for five persons, one to South Africa and one to Europe.

The achievements of **institutional development** must be safeguarded. Main areas of continued Swedish support should be:

- Individual leadership development

The thrust on leadership should be based on individual programmes for each manager at least to a layer below Assistant Director, in order to secure recruitment of new managers. The exact contents of these programmes have to be decided by the Bank, but probable ingredients are on-the-job-training, supported by mentorships and/or local consultants, management training courses and visits/short-term secondments in other financial institutions.

- Monitoring procedures

The procedures for planning, monitoring and follow-up should be strengthened. Support should be directed towards the development of such procedures and tools, and be built on the achievements of the institutional and management development activities so far (The BoZ Way etc.).

- Consolidation of management development activities

Consolidation of the Bank's achievements in the branches of business and in institutional development has to be secured at different levels. Support should be given to complete the present programme of activities for management development. In this process it is important that further institutional development be driven and carried by the Management of the Bank. Such an approach does not in any way exclude deployment of external competence, but it implies a gradual shift of the initiative to the Bank itself.

To finance this exercise, it is proposed that Swedish funds be extended for

- a) international and local consultants to finalise and consolidate the BoZ Way programme, to a maximum amount of USD 400 000;
- b) continued development of management and monitoring procedures, to a maximum amount of USD 100 000 per year.

In terms of the Staircase Model the proposed support should equip the Bank to secure its climb to stage 3, i.e. to fully seize the command over its own development. When the proposed changes in production and monitoring systems are implemented, the Bank will also be able to deliver the quality of services required for stage 4.

Programme Context

The co-operation between the Bank of Zambia (BoZ) and Sida has now been going on for nearly a decade. The first contact was established in 1988/89 and resulted in a proposal to support the Bank in the areas of Computer Systems, Foreign Exchange Control and Bank Supervision. A project was started, resulting i.a. in the formulation of a computer strategy in 1991, and the subsequent provision of technical assistance in the IT field and in Bank Supervision, the project being co-ordinated by a unit of Statistics Sweden.

Over the years, the IT area has received technical assistance for a total of nearly 10 man-years. In addition to this, a large number of short term consultants, mainly in the IT area, has been provided, along with a substantial amount of training in several forms. Over the years, a number of evaluations and project missions have taken place, changing and adjusting the direction of the co-operation as the situation in the BoZ has changed. The results of the co-operation have been very tangible, and there is little doubt that the projects have been instrumental in building the substantial capacity now available in the IT department. Earlier evaluation missions have repeatedly expressed satisfaction in this respect.

The assistance to the area of Bank Supervision was phased out after three years, mainly because other donors took over this area. During the last three years, the accounting system area has received support, together with Management Training and Development. The change of focus was requested by the Bank, which at the time experienced a critical situation in the accounting area, and at the same time was planning a major restructuring of the organisation.

In 1989, the BoZ was an organisation without focus, weak in resources and capability, and suffering from inadequate organisational structure, obsolete work methods and poor management. It did not perform well as a Central Bank. Accounts were in arrears, the output of economic planning information was very limited, its supervisory performance was very weak, and the foreign exchange control functions were badly managed.

During the time of the project, the BoZ has had six different Governors. However, the previous Bank Secretary, Mr. Mupunda, has been able to provide continuity and vision for the project. In the deepest decline of the Bank, he was able to look beyond the horizon, and to point out a direction for the project. The drive for a transformation to a modern Central Bank came out of his office, increasing the leverage of the Sida assistance. Without this Mentor, the restructuring would have been much slower and less radical.

There have also been external factors influencing the Bank. One such was the abolition of the Foreign Exchange Controls, and the scrapping of the Import- and Export licensing. A large number of people in the BoZ worked in this area, which was slow, inefficient, and vulnerable to corruptions and frauds. The Bank's image to the public was not good, and it was generally seen as a hindrance to trade. Its role as a Central Bank was totally obscured by its control apparatus. The exchange control was completely totalitarian, no foreign transaction was too small to require the attention of the controllers¹. The liberalisation of this area made many people redundant, and their reallocation opened the way for the restructuring process.

Several other donors have been involved in the assistance to the BoZ over the last decade, notably UNDP and IMF. A UNDP project has been run between 1994 and 1996, providing a substantial input of resources to the BoZ. That project has been evaluated separately by UNDP in 1997, and we refer to the evaluation report.

¹

To give just one example - if one wanted to subscribe to TIME or Newsweek for a year, the foreign exchange allocation had to be approved, and it could well take six months to get the required allocation of 50 dollars.

The Evaluation; Methodology

Terms of Reference

The Terms of Reference of this mission² state as follows:

Purpose and Scope of the Evaluation/Project Identification.

It was agreed with the Bank that an evaluation of the development of the management training component be carried out towards the end of the support period. During discussions held between Sida and the Swedish Embassy, it was agreed that an evaluation be carried out encompassing the whole Swedish support to the Bank of Zambia. The Swedish support ended in Dec. 1996, which is why it is now possible to carry out an evaluation of the total support. In addition it was agreed that projects for future support would be identified, based on an existing request from the Bank of Zambia. The findings of the mission should give answers to questions like:

- Has the Swedish support been, in terms of outcomes which are measurable today, effective?
- Has Zambia got a good Central bank?
- Is the Bank able to fulfil its tasks in a manner that is required of and consistent with the current policy framework paper (BoZ Act 1996)?
- Are the objectives of the Project Identification Mission of 1993 fulfilled?
- Has the Swedish support been cost-effective; Has the money been well spent?
- Is the Central Bank that Zambia has to-day worth the funds that were expended upon getting it there?
- How is the Bank of Zambia doing compared with other central banks in the region?
- Is the development experienced so far in the Bank sustainable?
- Will the Bank be able to keep going at the present level of competence or better?

In addition, a solid basis for possibly continuing with a full-fledged project identification mission will exist.

The assignment (Issues to be covered in the Evaluation/Project Identification)

Within the overall objective of the evaluation/project identification, the following activities should be carried out:

1. Study of available written material in Sweden concerning support to the Bank of Zambia and discussions with relevant personnel at Sida's Division for Democratic Governance and

²

Terms of Reference for the Evaluation of the Impact of the Swedish Support to the Strengthening of the Bank of Zambia and Project Identification of Future Support, DESO-1995-0171. Full text of the ToR are attached to this report as Appendix 1.

Statistics Sweden. Discussion should also be held with relevant representatives of the Mike Robson Group.

2. Discussions on the evaluation/project identification with relevant personnel at the Swedish Embassy at Lusaka.
3. Interviews with personnel at the Bank of Zambia.
4. Interviews with different users of the Bank of Zambia.
5. Look into the request from the Bank of Zambia regarding continued Swedish support to the Bank.
6. Look into what a possible future Swedish support to the Bank of Zambia could consist of - regard taken to other donors.
7. Look into how a possible future Swedish support could be focused - 3-5 year perspective.
8. Look into the possibility of involving local consultants/local expertise/local dialogue partner/local administrator - depending on how many components the support would consist of.
9. In the event of a future Swedish support, what are the costs and the possibilities for cost sharing between Sweden and the Bank of Zambia?
10. Look into the effect of the limited administrative resources at the Swedish Embassy in Lusaka.
11. Presentation and discussions of preliminary findings and conclusions of the evaluation/project identification with the management of the Bank of Zambia and personnel at the Swedish Embassy in Lusaka.
12. Delivery of a draft report to Sida and the Swedish Embassy in Lusaka and a final report after receipt of comments from Sida, the Swedish Embassy and the Bank of Zambia.

The consultants and the Sida official shall participate and present the final report at a seminar arranged by Sida during October 1997.

Method

The mission has been carried out by a consultancy team, consisting of Olof Hesselmark³ and Peter Winai⁴.

In this evaluation a number of analytic tools have been used.

The Project Identification Mission in 1993⁵ and the following report with Project Proposals for Sida Support 1994-1996 have together provided an important framework for the evaluation. The proposals regarding computerisation, accounting and management development are presented in tables specifying objectives, indicators and means of verification, which have been used to verify the progress of the project components. In this report these tables have been reproduced⁶ and complemented with observations regarding each item.

Another analytic tool has been the Staircase Model for Institutional Development⁷. The model identifies four development stages:

- *Stage 1: There is an organisation, but with low and unpredictable output*

At stage 1, an organisation has been established, but output is unpredictable. Output is defined as the products or services produced by the organisation for use outside its borders. Output is measured in quantitative and qualitative terms.

- *Stage 2: The organisation is able to deliver expected output with reasonable reliability and quality*

Production is carried out within installed capacity and with available resources. However, the organisation lacks capability to respond to new demands, e.g. change output or maintain the production if external conditions are changed or if key staff leave the organisation.

- *Stage 3: The organisation carries out changes on its own*

When the organisation has reached stage 3, it meets performance standards in output delivery. It is also capable of making changes of its own, and actually executes such changes: in terms of output quantity and quality, production methods and administrative/management systems. The model is thus based on the assumption that the ability to develop is manifested in implemented changes and on-going development activities.

- *Stage 4: The organisation works actively with its clients or customers*

The organisation which has climbed to stage 4, works actively to increase the value of its products or services in the client/customer system. Such an organisation knows its clients, has an on-going dialogue with them and allocates resources to facilitate utilisation of its output.

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⁵ Andersson, G., Hesselmark, O. and Strømme, O.: Continued support to the Bank of Zambia, Report from a Project Identification Mission, 10 Dec. 1993

⁶ Except for external factors and baseline information.

⁷ A short description of the model is appended in Appendix 2.

Output and ability to change are thus the two basic dimensions used to describe the development stage an organisation has reached. Output is defined as the end product, i.e. the product or service which leaves the organisation to be used by another organisation or individual. The ability to change manifests itself in implemented or on-going changes in output, production methods, internal administrative systems and processes etc. Measurements of the two basic dimensions have to be complemented by observations of dependency on external financial inputs and external know how.

Financial dependency implies that the organisation needs external financial support to carry out its operations. Dependency of external know how is manifested in the use of technical assistance for the running of the organisation and to bring about changes. However, the mere fact that an organisation uses external expertise is in itself no sign of critical dependence of importance for its ability to change and develop.

An important part of the evaluation has been the study of a number of documents, including progress reports of the project, obtained from Sida.

In Zambia interviews were held with the Directors of all Departments of the Bank and as well as a number of managers and officers in central functions. Interviews were also conducted with central Governmental officials, representing views of the most important clients, and with representatives of commercial banks. The average length of the interviews was one and a half hour, followed by analysis of the answers. Through the interviews additional documents were provided.

The access to data has generally been good. The Bank of Zambia and its staff have been very helpful in providing information. One of the evaluation mission members, Olof Hesselmark, has visited the Bank of Zambia on a number occasions before, in conjunction with Sida missions. This has provided the mission with valuable pre-understanding.

One of the greatest problems in an evaluation of this kind is to distinguish between the impact of Swedish input, and other inputs and external factors on the institution, in terms of production and sustainability. To what extent the co-operation between the BoZ and Sida has been instrumental in the transformation is not easily assessed; institutional transformations are complex and follow sometimes mysterious ways. The long-term nature of the assistance has been important; it has been an on-going process for nearly a decade, and approximately every two years there has been an assessment of the results achieved. These assessments have been made in a very constructive dialogue with the BoZ management, and the assistance has been adjusted and fine-tuned in support of the strategic direction of the Bank. Also it can be stated with a high degree of certainty, that in the areas in which the Swedish input has been clearly focused during the period 1994-1996, i.e. computerisation, systems development and management development, the impact has been substantial.

Findings

In 1997, eight years after the Swedish support commenced, the BoZ is an altogether different organisation, with a clear mission and organisational focus, generally fulfilling its role as a Central Bank. The improvements are visible in all areas. Annual reports are produced on time with unqualified audits, the volume and quality of economic information improves continuously, most basic IT systems are in place and functioning, supervision of financial institutions has reached new levels etc.

Although there are many things that can be improved, it would be unfair to lose sight of the historical perspective. The transformation of the Bank from its Cinderella state only a few years back is a major achievement.

The following diagram illustrates one aspect of the development in the Bank over the last few years. The restructuring of the Bank led to a substantial reduction of staff. At the same time the professional qualifications of the staff has increased, and average salaries have increased substantially. BoZ remuneration package is now highly competitive.

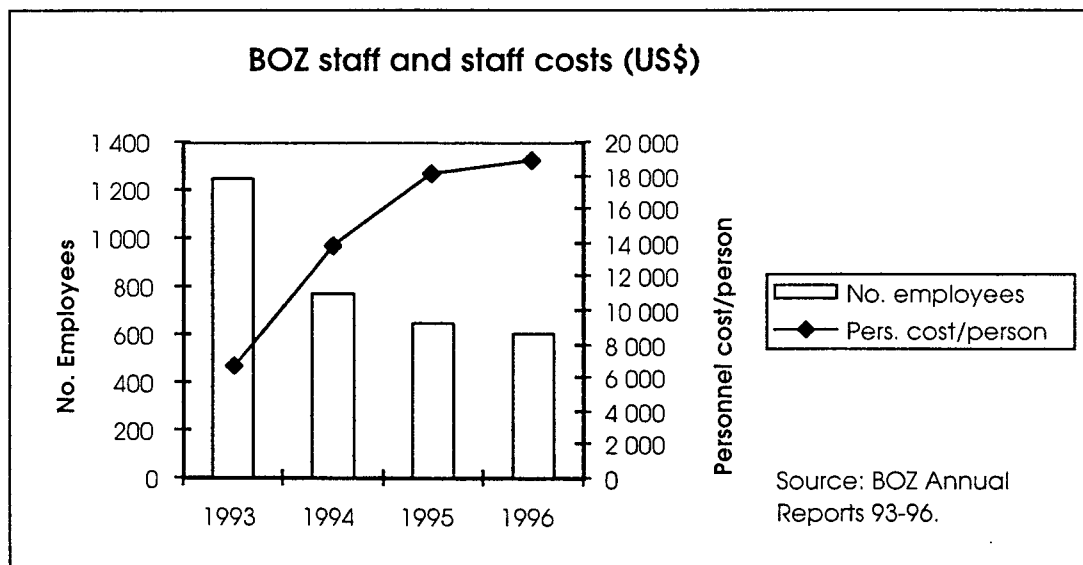


Fig.1: Development of Bank of Zambia staff numbers and staff costs

Banking and Accounting software; IT Department

Current situation

A modern bank is highly dependent upon the performance of its IT systems. They constitute the production facilities of the Bank. The systems are necessary at all levels of the operations, from teller and check processing to the production of reports and external information.

The production facilities at the BoZ are not adequate for the Bank to fulfil its role as a Central Bank. There are delays in the reconciliation of books, leading to delays in the Bank's delivery of information to the financial sector. The systems lack in integration, leading to cumbersome and time-consuming manual routines to overcome system incompatibilities. Experiences from

other banks show that the savings from good integration may have a substantial value, both saving in expenses and by evading losses incurred through missing, faulty or untimely information.

Installed systems

The following graph shows the essential system architecture of BoZ production systems.

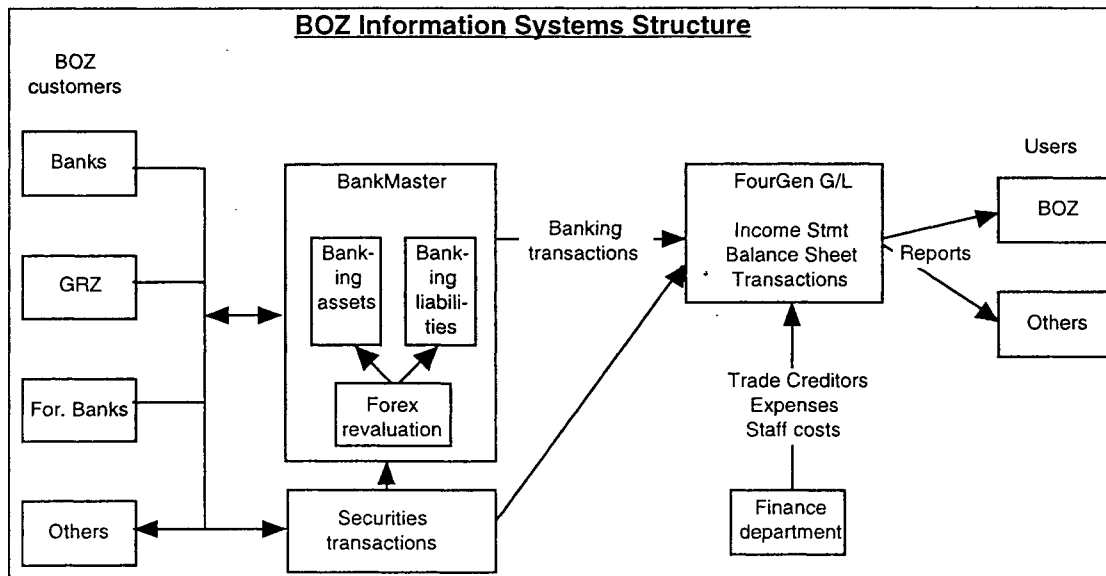


Fig. 2: Bank of Zambia information systems structure

Performance and user satisfaction

BankMaster

This is the primary interface between the BoZ and its banking clients. All banking transactions are passed through BankMaster (BM), either entered through the front office terminals or through back office entries. Ndola transactions are entered on the second day, after transfer to Lusaka and reconciliation. All foreign transactions are entered through BM, but the conversion to Kwacha amounts presents some difficult problems. BM provides records of transactions, and prints account statements for external and internal customers. The system does not provide immediate customer access to account balances. BM transfers account balances to FourGen on a daily basis. There are delays in note counting and verification in the Currency department.

BM is not a modern bank system. It is lacking in speed and functionality, there are doubts as to how the year 2000 will be dealt with, and no modern Client-Server version has been presented yet.

FourGen

This is the General Ledger of the Bank. It produces daily balance sheets for internal customers. There are serious problems with reconciliation between BM reported balances and FourGen. FourGen does not have access to transactions posted in BM. This is a problem par-

ticularly with foreign transactions, since there are frequent errors in the revaluations, and hence with the reconciliation of foreign currency accounts. The structure in the chart of accounts provides for account type and cost/profit centre, but not for project/object. Search for and extract of transactions for a particular purpose is therefore very cumbersome. Compared with the latest generation of accounting software, FourGen has an old-fashioned design, appearance and performance.

Financial market system

The in-house developed program for this department is not adequate for the needs of the department.

Communication

The banking operations in Ndola are performed with a different system, developed by the IT department. BM has never been installed at Ndola. The integration with BM is done through a transaction file, transferred daily over a telephone line. The Ndola transactions are imported into BM the following day. The communication between BM and FourGen is on an account balance level, i.e. the total movements on each account are transferred to BM every day. These are the only automatic data links between the systems.

Problems

The lack of integration creates a number of problems.

1. Account balances are not available on-line, since events at Ndola are not recorded.
2. Delays in the processing of some transactions occasionally give incorrect account balances.
3. The revaluation of forex transactions is manual and labour-intensive. Much manual work is needed to reconcile the figures in BM with FourGen .
4. Because of the lack in integration, the Bank's balance sheet can only be produced with some days delay.
5. Monthly balance sheets can only be reconciled with a delay of several weeks. This causes problems for BoZ in fulfilling its obligations to external parties.
6. FourGen has not access to individual transactions from the banking system.
7. Because of the purchase and payment procedures, where trade invoices are sent directly to the departments incurring the expense, the creditors account, fixed assets and the related expense accounts are only updated when the payments are due. This creates delays and extra work in the financial department when the monthly accounts are prepared.

Solutions

A modern bank system has the following characteristics:

1. There is on-line integration between branches.
2. All account transactions are immediately updating the account balances.
3. Account balances and transactions are immediately available on-line for all customers, inside or outside. Electronic statements are available.
4. Revaluation of foreign transactions are done in the system, and are fully automatic.

5. Communication between the bank system and the G/L is fully automatic at the end of trading.
6. All types of banking transactions are provided for in the system.

It is our view that a new, modern bank system should be implemented as soon as possible, well before the year 2000. The internal and external advantages would easily outweigh any extra costs incurred - if any. An upgrade of BM to a possible new version would probably cost a similar amount as the new system, and the current licence fees for BM are on a four year basis equivalent to the purchase price of a new system.

FourGen is now available in a new version. This version is now evaluated in the Bank. It should be a definite requirement that the new system has a more modern design and functionality than the current version. Changing to a new version of the same software is not always easier than changing to a new system. The option to select a late model accounting system should be kept open.

An integrated bank system would also remove several of the manual tasks that exist because of system incompatibilities. We think that staff reductions in Banking and Accounting could be substantial; at least 30 to 50 posts could be saved. The annual savings from such a reduction would more than outweigh the investment costs.

Comments on the market of financial system software

The area of financial and accounting software has developed extremely fast during the last five years. Since one of the persons in the evaluation team has spent the last six years in the accounting software industry, we find it appropriate to make some comments in this area.

What is said here should not be taken as criticism of the solutions in place. They were selected at another time and under other conditions, and may well have been the correct choice then.

The new generation of accounting software now is taking over the market have the following things in common:

1. Enhanced functionality and integration. Where before modules and functions typically were designed as separate programs, communicating through importing and exporting of files, the new systems have one integrated database, accessible from all modules. File transfer is replaced by full integration, where for instance an entry in a fixed assets module immediately updates the correct asset account in the G/L.
Existing modules have received more functions, typically with the aim of automating routine tasks, e.g. automatic recalculation of purchase invoices in foreign currency, automatic calculation, booking and control of VAT amounts.
2. Client-Server architecture, where the computing workload is distributed between a database server computer, and the users' (clients') computers. The effect of this architecture is greatly increased speed and reduced waiting times for data entry and reporting. Another effect of this is that installations in simple local networks with PC:s can now with ease handle transaction volumes that earlier required minicomputers. NT servers

are rapidly replacing Unix as the standard environment for medium size accounting systems.

3. A Windows user interface is now standard. This makes training and installation much easier, and allows the users to perform a wider number of accounting tasks. The best Windows applications are completely re-designed, and incorporate thousands of functions that make the use of the program easier and faster.
4. Improved reporting facilities. The new software generation comes with a large number of standard reports. The existence of these reports reduces installation times, since in almost all cases the report functions are so flexible that no modifications are necessary.
5. Excellent external integration. Flexible import and export facilities allow for the use of other software, spreadsheets etc. with very little effort. Most systems are using a relational database, allowing independent use of accounting data.
6. Rapidly improving hardware performance and falling prices are factors that consistently work in favour of PC solutions using the latest operating systems and network technology. Today, an NT network with the same performance as a five year old Unix installation would cost approximately 30-40% of the old solution. The skills required to maintain and use a NT solution are also considerably easier to acquire.
7. The competition between software developers in the accounting field is fierce. Software prices are dropping rapidly in general, and network solutions now typically sell for 20-30% of comparable Unix licenses.
8. The scalability of the software is much better. Several of the new solutions can be scaled in a PC network from single user to hundreds of simultaneous users. Capacity and functionality are priced in a flexible way, so the user pays only for the functions he needs.

The FourGen installation cost (Sida's contribution) was about 2.8 million Swedish Kronor. 1.6 mill. of this was paid software licenses, 0.6 was allocated for the project manager and installation. A similar solution with at least the same performance, with a modern architecture and user interface, can to-day be purchased for 300-400 000 Swedish Kronor. It can be installed in the existing network, using the workstations and servers already in use, and be installed in a short time.

Evaluation Charts

In the Project Proposal report from 1994, the expected outputs and activities of the project were described using the LFA methodology. We are using the tables from the Project Proposal as a basis for our detailed evaluation. In the following, the tables relating to the accounting system part comes first, followed by the charts for the support to the IT department.

Accounting Systems

Project objectives/output	Indicators	Verification	Observation	Comments
BoZ has an integrated accounting environment in full operation. This environment will enable BoZ to meet both its external legal and internal reporting and accounting requirements.	1. BoZ has an integrated environment in place and all financial transactions pass through this system. 2. BoZ meets all legal obligations with regard to accounting reports	Verify with GRZ that all requirements are met. Verify with BoZ that all needed financial information is provided. Verify with external auditors.	Basic needs have been met. There are some delays in providing the Economics Dept. with accounting information. The reports of the auditors to the latest annual reports indicate gradual improvement. The 1995 report of the auditors state that the accounting records meet all legal obligations	

Project objectives/output	Indicators	Verification	Observation	Comments
1. An enhanced fully multicurrency BankMaster system is operational by 12/94.	BoZ is able to: i) Produce a Daily Trial Balance ii) Revaluation of Forex holdings daily iii) Reconcile all accounts daily iv) Produce Reports to BoZ Management v) Export daily transactions to the General Ledger	Verify that i) The Daily Trial Balance exists ii) Forex holdings are revalued daily iii) Confirm with the Internal Audit that accounts are reconciled iv) Reports are passed on to the General Ledger v) Transactions are passed on to the General Ledger	i) Daily Trial Balance exists ii) Forex holdings are revalued but not daily, and calculations are manual iii) Current accounts are reconciled daily, but not necessary on all accounts (not confirmed with Internal Audit) iv) Reports are passed on to the General Ledger, but manual intervention sometimes necessary=delays v) Transactions are passed on to the General Ledger	
2. A general Ledger module which is installed and operational by 1/95	i) Finance Department will produce Flash reports to BoZ Management ii) Production of Trial balance iii) Production of Profit and Loss statements iv) Production of Budget reports vi) BoZ will provide timely information to meet GRZ requirements	Verify that: i) Flash reports are produced daily ii) Other financial reports are produced when needed iii) Interview GRZ to ensure that they receive the information requested Interview external auditors to ensure compliance with accounting standards	G/L installed and active 6/96; i) Flash reports are produced: -Government Gazette monthly -Forex reserve position daily -report to Governor each afternoon; iii) GRZ receive the information requested Compliance with accounting standards ensured through external auditors annual statement	

Project objectives/output	Indicators	Verification	Observation	Comments
3. A replacement Payroll module is installed and operational by 7/95	The Payroll will i) hold accurate details of BoZ staff; ii) Produce reports on Payments, Deductions and Loans by each category; iii) Automatically produce salary cheques for staff or update the staff bank accounts	Verify that: i) All staff receive their salaries through the Payroll system; ii) Timely production of reports iii) All salary cheques are automatically printed or credited directly to staff accounts	i) All staff receive their salaries through the Payroll system; ii) Reports are produced timely iii) All salary cheques are automatically printed/ credited directly to staff accounts	The FourGen Payroll system could not be implemented. This has been acknowledged by the vendor, and negotiations about the having the costs of the module credited are going on. The cost of the Payroll module was approx. 180000 SEK.
4. A Fixed Assets module which is installed and fully operational by 9/95	The Fixed Assets register will: i) Hold an accurate and comprehensive register of the Bank's assets; ii) Update the General Ledger balances with monthly depreciation schedules; iii) Produce reports on Depreciation Schedule, Asset Schedules, Acquisition and Disposals.	Verify that: i) All Asset types are recorded on the register; ii) Depreciation transactions are passed to the General Ledger iii) Reports are produced on the status of the assets	i) All Asset types are recorded on the register; ii) Depreciation transactions are passed to the General Ledger, item by item iii) Reports are produced on the status of the assets, part of monthly account	Fixed assets register in place with delays, in 1996
5. An Accounts Payable module which is installed and operational by 9/95	The Accounts Payable Module will: i) Record details of all disbursements; ii) Automatically produce cheques to the recipients; iii) Provide BoZ management with summary reports and payments; iv) Automatically pass transactions to the General Ledger	Verify that: i) All trade payments pass through the module ii) Cheques are prepared using this module; iii) Summary reports are produced on the disbursements; iv) Transactions passed automatically to G/L	i) All trade payments pass through the module ii) Cheques are <u>not</u> prepared using this module; iii) Summary reports are produced on the disbursements; iv) Transactions passed automatically to G/L	Accounts Payable Module in place June 1995. Module could be used more - accounts not up to date, invoices are late, checks manual. The organisation of the processing of vendor invoices should be reviewed.

Project objectives/Outputs	Indicators	Verification	Observation	Comments
6. A Securities trading system which is developed and operational by 4/95	System should be capable to: i) Provide complete accounting and financial details for each issue; ii) Produce reports on Accepted Bids, Rejected Bids and Unclaimed Maturities iii) Disclosure Reports to GRZ iv) Sale proceeds are passed to GRZ via BankMaster	Verify that: i) Each issue is accounted for separately ii) Reports are produced for each issue; iii) GRZ are fully informed on each issue iv) Sales proceeds are passed on to GRZ	i) Each issue is accounted for separately ii) Reports are produced for each issue <i>except for</i> Unclaimed Maturities; iii) GRZ are fully informed on each issue iv) Sales proceeds are passed on to GRZ	GRZ informed through Annual report and statements
7. A Currency stock control system which is installed and operational by 6/95	The Currency system will provide the following information: i) Daily position of note holdings by BoZ; Details of all issues of currency by customer; iii) Details of volumes of notes destroyed iv) Provide reorder information	Verify that: i) BoZ has accurate records of notes held; ii) Currency movements are held on the system; iii) Details are held of destroyed notes; iv) BoZ is provided with early warning to reorder	FourGen Stock module is not used as planned. Purchasing order module missing link.	The FourGen stock module needed certain modifications to be used for this purpose.

Computerisation

Project objectives	Indicators	Verification	Observation	Comments
1.BoZ will have access to adequate computer facilities to support BoZ overall operative objectives. This includes a secure IT environment consisting of an adequate number of work stations, central file server capacity, network services, operative systems facilities and data base engines	Satisfaction with computer facilities among - BoZ users - external stakeholders.	Through special study of BoZ users and external interested parties.	Basic needs have been met. Production systems are getting old and obsolete. Reservations about Year 2000. Upgrade to Win 95 and modern office systems is underway.	As users get more computer oriented, demand grows.

Project objectives	Indicators	Verification	Observation	Comments
2.BoZ computer department has a sustainable capability to supply BoZ with all required existing and new software, hardware, support and training facilities	Computer department can operate all required systems at a service level determined by the IM committee; Department user support is adequate; Department is capable of providing new systems on time in line with systems owner specifications and department's existing guidelines; User training needs receive adequate attention.	Verify service level, support and training through study of user satisfaction and systems delivery and external interested parties through follow up of plans and realisation	No major shut-down during 1997. Six people for support + two staff at help desk; New systems basically on time, but there are reservations: BankMaster is badly integrated with Accounting, Ndola office is stand-alone, delays in reconciliation, low service level to Com. Banks. Bank Supervision and Currency are lacking systems. IM committee is not operating.	FOURGEN most demanding of systems; User criticism of systems: Although the difference is great from the situation in 1994, there are still misfits between delivery of systems and user demands. IM Committee should be revived to ensure the continuous evaluation of user needs.

Systems development

Project objectives	Indicators	Verification	Observation	Comments
1. Systems development competence (capability objective)	Ability to assess and evaluate the Bank's needs for computer systems Ability to evaluate and set priorities to competing demands Ability to select appropriate delivery modes Ability to manage the development process	Through a special study by the project to assess: Quality of existing systems development strategy; Existence of prioritised project lists; Records of proposals to the IMC regarding software selection; Project management records	General systems development policy in place, but No clear priorities expressed in documents IMC/ IT Committee not meeting regularly; IT matters brought up in Executive committee monthly; Project (FourGen) run by external project manager	Risk for "skills gap"; project team consisted of external and international consultants; limited transfer of skills. The IT department selected in 1993-94 Unix and Informix as the production system infrastructure. To date, FOURGEN is the only application using Unix/Informix. Today, more adequate system architectures for medium sized organisations are available.

Systems development

Project objectives	Indicators	Verification	Observation	Comments
2. Hardware and software provision (facilities objective)	Central hardware resources: Computers/ servers, storage, communication/ network resources, printers acquired and installed according to plan Operating systems and network software installed according to plan New installations of hardware and software actively used	Verify by comparing plan and actual implementation in Computer department annual report Verify by assessing utilisation by users through special studies by Computer department	Implementation according to plan New installations actively used, but special studies/ follow-up not conducted by computer dept)	Financing constraint for provision of software and hardware to encompass all needs of core production (e.g. Lack of system for back up of financial systems inspection restrains dept from carrying out duties in new areas (apart from banks)
3. Data base competence and an installed data base environment (capability objective)	Evidence of data base related development, e.g. operating data base applications in use in the Bank	Records of Unix and Informix training and/or implementation; documented internal standards	Three staff members competent in Unix; Three persons gone through Microsoft training in S.A. FOURGEN is the only Unix application running; not an inhouse development.	Records not assessed

Project objectives	Indicators	Verification	Observation	Comments
4.Improved security administration (Facilities objective)	Existence of adequately staffed security administration and Computer Audit functions Security procedures adhered to Guidelines for computer auditing applied	Follow-up by computer department of decision of staffing and follow-up of adherence to procedures and guidelines	Two security staff. Focus on standards; reviving antivirus measures; Auto-scanning for virus on server.	Potential risk for data intrusion Firewall hardware and software in pipeline Degree of risk awareness in BoZ still low .
5. User Training capacity (capability objective)	Existence of active User Training Group withing DP department	Record of training	Training group being established. User training has been going on since 1993.	

Management Development

The restructuring and retrenchment programme carried out in early 1995 gave the basis for the management development efforts. Since then impressive results have been achieved in the field of management development. Comparing with the Project Proposals for Sida support (1994), there is a substantial difference in approach. The scope has become broader, but the aim is generally the same: The introduction of management by objectives (MbO).

The main components of MbO are the objectives which should be possible to follow up - measure - in terms of results, and the communication procedures through which performance is assessed. Communication regarding objectives and results is taking place through group meetings and bi-lateral sessions between manager and subordinate. MbO has two distinct characteristics: It is both a management method and a leadership philosophy.

The evaluation of the progress in the management development field has been carried out using two approaches:

- a) By comparing the results with the indicators of achievement provided in the Project Proposal of 1994. These indicators still give a structure for evaluation, although individual items to some extent are outdated due to the change of scope;
- b) By applying accepted criteria of well functioning MbO. These criteria give a structure for a more future-oriented discussion of business development.

In terms of the indicators provided, the result is, as has already been said above impressive.

MbO is already partly being practised. The mission of the Bank has been defined and specified at different levels, including the individual level. The communication patterns include workshops carried out by most departments and task forces. The departmental workshops have involved all staff levels and resulted in action plans covering commitments to customers and required changes in performance monitoring. The task forces which are bank-wide and departmental include Health-Check Teams, Problem Solving Groups and Quality First teams.

A "two way performance feed back system" is being implemented, i.e. the Performance Agreement System (PAS). This system is intended to cover all levels of staff in management grades.

Effective team behaviour is likely to develop through the team-building activities. Managers, e.g. the Directors of departments, are given the opportunity to develop leadership through PAS and other means.

Since the management trainee approach has not been chosen, the indicators given in that section are partly irrelevant. However, the PAS provides a tool for more systematic attention to the development of new leaders, possibly supported by external consultants.

A management philosophy of the Bank has been agreed upon. The BoZ Way expresses both the mission of the Bank and a management philosophy, based on MbO or result based management.

Thus the management development efforts so far seem to have been successful. The questions and queries in the following have to be assessed against this background: The Bank has developed a long way in respect of management.

Queries concern the following areas:

- Some departments have still not conducted their workshops. What measures are needed in order for them to carry out these exercises?
- The PAS is being implemented throughout the organisation. But the format requires effort from both parties in the agreement. Is there a risk that the routines and format of PAS are too bureaucratic? Will PAS be sustainable without consultant support?
- There seem to be different expectations of PAS: On one hand PAS is perceived to be a tool for individual assessment (and even comparisons of individuals in different departments), on the other hand PAS is implemented as a channel of communication between manager and staff. Is there a risk that the important communicative function will suffer?
- The exercises at different levels (e.g. the workshops) produce more specified objectives. But do they produce measurable targets and indicators to verify achievement, as a basis for monitoring?
- Many different approaches and routines have been introduced during the latest period of about one and a half year. Is there a risk that they gradually become too cumbersome and time consuming for an organisation which has gradually become more target oriented through these exercises?

Evaluation Charts

Project objectives	Indicators	Verification	Observation	Comments
1) Within a year after the training programme has been completed, the BoZ will have managers at all levels performing their managerial duties as defined by the managerial philosophy of the Bank	1.1 Management by Objectives is practised; 1.2 A two way performance feed back system is in operation 1.3 Effective team behaviour is developing 1.4 Managers are practising individual leadership behaviour that motivates staff and promotes efficiency	Evaluation study carried out a year after the training programme has been completed.	1.1 MbO is partly practised, including definition of mission and communication patterns 1.2 A two way performance feed back system is being implemented (PAS) 1.3 Team work is introduced through task forces 1.4 Managers are given opportunity to develop leadership through PAS and other means	Change in approach. MbO application, but not training programme; No specific evaluation study carried out; Introduction of PAS raises queries; There is general top management support, but vacancies at the top may cause difficulties to give MbO process sufficient support
2) At the end of the management trainee programme the Bank shall have a cadre of qualified candidates prepared to take in managerial duties	At least 15 candidates have themselves declared preparedness	Follow-up interviews by the Bank Project Manager	This avenue (management training programme) has not been chosen.	There is a potential for leadership development through PAS, reinforced by other support.
3) 45 managers have been trained through the in-house management training programme	The number of managers actually trained	Report by the consultants and Bank Project manager implementing the programme	No exact figures/report are provided as to the output/results of management training	
4) A management philosophy of the Bank has been agreed upon	Existence of an accepted document	Existence of an accepted document	MbO - articulated in the BoZ way documents - provides a management philosophy.	
5) 20 trainees have been trained through the in-house management trainee programme	The number of trainees actually attending the whole programme	Report by consultants and Bank Project Manager implementing the programme	Programme not implemented	

Diagnosis in Terms of the Staircase Model

In terms of measurable outcomes the Swedish support to the Bank has been effective. The objectives of the Project Identification Mission of 1993, specified in the Project Proposals of 1994, have generally been fulfilled, as shown in the previous chapter. Thus the targets in the three main support components - Computerisation, Development of Account Systems and Management have been reached. To a great extent, problems observed by the organisation itself even indicate maturity, development and higher aspirations.

Applying the Staircase Model dimensions, the Bank of Zambia has taken a great step forward. In 1994, output was still unreliable in the main areas of production. Thus, at that time the Bank was still at Stage 1 in terms of the Staircase Model. In 1997, the situation is drastically changed.

Output

Basically, the services produced are well defined. Exercises are ongoing or underway in all departments to define performance standards. It is too early to assess whether the performance standards will be specified in all areas in such a manner that they can be monitored well, i.e. in terms of quantities, qualities, costs, profits etc. (In fact monitoring and management is an area for strengthening, which will be commented on further in chapter Recommendations.) However, there is a general will in the Bank to improve and meet new performance standards. Also as the more detailed analysis in the previous chapter shows, production is gradually being stabilised. Apart from those observations, other indicators of improvement are the Annual Reports which now appear as scheduled with "clean" auditor statements, as well as the quarterly, monthly and weekly reports from the Economic department.

Change and development

a) output and production methods

Substantial internal changes have been carried out in production methods, which have also affected output. There remains more to be developed. A few new services have been introduced (e.g. the reports from the Economics Department).

b) administration and management

In these areas the most spectacular changes are the structure and retrenchment efforts followed by the management development programme, as described in earlier chapters. These changes have been and are accompanied by a shift in organisational values, encompassing client orientation and a certain degree of cost awareness. Given budget allocations are adhered to.

Virtually the retrenchment and restructuring of the organisation was internally driven, whereas the management development programme - the BoZ way - has been supported by local and international consultants.

Customer value of output

In the BoZ way exercise an important element is to identify the customers and their needs. Certainly the Bank is aware of how its different kinds of output is utilised. Also, it has personnel allocated for public relations. Apart from the regular reports mentioned earlier, means of communication with customers are

- monthly meetings between the Governor and the managing directors of the commercial banks
- a staff magazine also distributed externally e.g. to the commercial banks
- radio programs about the Bank and the Zambian economy (which have been transmitted weekly, and are planned to be resumed)
- leaflets/handouts in connection with e.g. fairs
- press conferences and seminars for the press

Concrete manifestations of active involvement to increase the value of output for the customer have not been observed; examples could be customer representation in the development of a new banking system and network. During the interviews it was registered that the commercial banks complain over certain condescending attitudes from the Bank in the area of clearing house procedures.

The Bank of Zambia is now climbing to Stage 3: The organisation is able to deliver expected output with reasonable reliability and quality. It is gradually taking over its own development.

Thus production is generally carried out within installed capacity and with available resources. **Regular production** is not critically dependent on external financial and technical inputs. However, the organisation still lacks capability to fully respond to new and even some of the present demands.

Change is substantial but still dependent on external inputs. For the immediate future the Bank is dependent on external funds for its development, but with the presently ongoing financial development and consolidation of the Bank, it should be possible to gradually decrease external financial input. However, when it comes to technical capacity, the Bank is dependent on external input in the areas of both production and management development, also at a strategic level. Thus donors, specifically Sida, have an important role to play in identifying the most crucial areas of change and also in actively supporting changes.

How is the Bank of Zambia doing compared with other central banks in the region? Being virtually a Stage 3 organisation - with reservations regarding external dependency - its development appears impressive when generally compared with the other young central banks in the region. It also stands out very favourably in comparison with other governmental institutions in Zambia.

Conclusions and Recommendations

As the Bank of Zambia has gone through a substantial restructuring programme, it now enters a new stage in its business development. This phase will include further changes, big and small.

Continued Swedish support is recommended. The Bank is gradually taking over its own development, but still lacks some of the capacity to fully drive change on its own. Swedish/Sida support will promote the change process, through attention to crucial areas. The main strategy for the support should encompass the following:

Business development

The focus of support should be to develop the core business of the Bank, in order for it to meet client demands. A main thrust should be on the production systems.

The production system of a modern bank is its IT systems. The IT system defines the output of the Bank, and no transaction can be done without the system. The design of the systems completely defines the input, output and procedures of a transaction, just as the production facilities in a factory defines the transformation of input to output. Once the IT systems have taken over the production, the division of tasks is determined, and consequently, the control of the quantity and quality is no longer in the hands of the line managers.

As has been pointed out in the Observations section, the production systems of the BoZ are not completely integrated, nor do they cover all areas of the production. In our view, the acquisition of a complete banking application, together with a well integrated accounting and reporting system is a first strategic move that should not be postponed for long. In addition to this, an efficient system for the basic production of information in the Bank Supervision area should be installed, as well as efficient tools for the production in the Currency department.

The current list of priorities in the IT department does not reflect the strategic importance of the production systems. We think it would be in order for the top management of the Bank to address this matter, in order to get the priorities in line with the overall strategic objectives.

Proposed action

The Bank has embarked on a search for a new banking system, and some possible candidates have been identified. We recommend that the Governor gives instructions to resume and finish the evaluation exercise, with the aim of eventually installing a fully integrated system before the end of 1998. We recommend to Sida that as a first step in the continued support to the IT area is to provide finance for an evaluation project. As a second step, Sida would agree to the financing of software and installation of the new system, after considering a detailed proposal from the Bank. The evaluation project should have the following terms of reference:

1. Make a list of all the functions necessary in an integrated system for the BoZ.
2. Describe the basic characteristics of the system - i.e. volumes handled, number of internal and external users, number of branches etc.

3. Describe the user characteristics of the system - on-line functions, access to data, standardised reporting, user interface, required performance in key areas, a few bench mark tests to be performed.
4. Evaluate the Bank's needs for future standard of operating systems, particularly to establish if the Bank, in view of the emergence of Windows NT as a powerful network operating system, should retain Unix or not.
5. Given the outcome of item 5, start a world-wide search for suitable candidates and identify a short list of vendors and systems. It will be found that several vendors of modern systems can supply both Unix and NT versions of their systems.
6. Evaluate the candidates with regard to items 1-3 above.
7. Set up a number of commercial criteria for the vendors, such as number of installations, presence in the region, financial stability, support organisation, access to Internet support, ability to demonstrate installed sites with characteristics similar to the BoZ.
8. Invite offers from the short listed companies, and present to the Governor a recommendation for the most suitable system.

An evaluation team should be formed within the Bank, under the leadership of one of the Bank's senior officers. Representatives from the Bank's operative divisions, from Finance and from the IT department should be members of the team. It is important that this exercise is not seen as an IT exercise, but as an exercise to provide the Bank with new production facilities. The team should be reinforced with an experienced consultant, with a proven track record of having successfully participated in similar system evaluations for banks. The project should present their recommendations not later than Dec. 20, 1997.

To finance this exercise, we propose that Sida agrees to pay for the international consultant for a maximum of three months, and for two four day study tours for five persons, one to South Africa and one to Europe. The costs for the evaluation project can then be estimated as follows:

International consultant			
3 months @ \$ 30000	90000		
Study Tours	No.	Price	Cost
Air tickets, S.A.	6	800	4800
Hotel & accomod	24	150	3600
Air tickets, Europe	6	1800	10800
Hotel & accomod	36	250	9000
Total cost	118200		
SEK (7.6)	898320		

The cost of a new production system for the Bank cannot be estimated with any certainty at this point. However we would like to propose that Sida would commit financing for the new system up to a maximum of 1,0 million US dollars for the fiscal year 1998.

Institutional development

The achievements of institutional development must be safeguarded. Main areas of continued Swedish support should be:

- Individual leadership development

The thrust on leadership should be based on individual programmes for each manager at least to a layer below Assistant Director, in order to secure recruitment of new managers. The exact contents of these programmes have to be decided by the Bank, but probable ingredients are on-the job-training, supported by mentorships and/or local consultants, management training courses and visits/short-term secondments in other financial institutions.

- Monitoring procedures

The procedures for planning, monitoring and follow-up should be strengthened. Support should be directed towards the development of such procedures and tools, and be built on the achievements of the institutional and management development activities so far (The BoZ Way etc.).

- Consolidation of management development activities

Consolidation of the Bank's achievements in the branches of business and in institutional development has to be secured at different levels. Support should be given to complete the present programme of activities for management development. In this process it is important that further institutional development be driven and carried by the Management of the Bank. Such an approach does not in any way exclude deployment of external competence, but it implies a gradual shift of the initiative to the Bank itself.

In this context it should be pointed out that presently only one of the posts of Deputy Governor are filled, by an acting incumbent. In the continued process of institutional development it is of vital importance that both posts be filled.

To finance the exercise, we propose that Sida agrees to provide funds for

- a) international and local consultants to finalise and consolidate the BoZ Way programme, to a maximum amount of USD 400 000;
- b) the items above - development of management and monitoring procedures - to a maximum amount of USD 100 000 per year.

Means and modalities of the support

The recommendations given and the modalities of support proposed presuppose that the Bank of Zambia and its Management takes over responsibility and ownership of the development. In this context it should again be emphasised that the effect of the Swedish support - and the further development of the Bank as a whole - is dependent on the filling of the top management posts.

In terms of the Staircase Model the proposed support should equip the Bank to secure its climb to stage 3, i.e. to fully seize the command over its own development. When the pro-

posed changes in production and monitoring systems are implemented, the Bank will also be able to deliver the quality of services required for stage 4.

The Swedish support should be offered under the following conditions:

Assistance on Account

The main part of the support should be provided as a fund for strategic development of the Bank of Zambia. Technically, an account may be opened in the Bank, in which the fund is deposited. Costs for activities in the support programme are paid by the fund.

Monitoring

Basically, the responsibility of the Fund is with the Bank of Zambia. Monitoring should be conducted by the Bank with the support of Sida.

When commitments for new purchases/costs are being made, they will have to be endorsed by the BoZ and its Financial Department. Copies of each endorsement should be submitted to Sida.

Sida will carry out regular monitoring, through review visits two to three times a year, in combination with ad-hoc contacts with the Bank. Sida may wish to engage consultants to reinforce Sida monitoring.

Lessons learned

The reasons for a largely successful transition of the Bank of Zambia, can be summarised in a few key conditions: Autonomy, Ownership, Continuity, Acceptance and Personnel. These key conditions link into each other and to some extent they have to be fulfilled simultaneously.

1. *Autonomy*. The BoZ had a legal autonomy as a Central Bank already in the 1985 Bank of Zambia Act. With the removal of the foreign exchange control, and later with the introduction of treasury bills instead of a government controlled overdraft to finance the budget deficit, the Government had neither the need nor the mechanism to exercise a detailed control of the Bank. The Bank management then took upon itself to make the necessary changes in the internal organisation. They did not need Government permission.
2. *Ownership*. The change process was owned by the Bank of Zambia. There was substantial support and encouragement from the outside - mainly the donors - but the driving forces were employees in the Bank. This case strongly supports the idea that internal ownership is essential for the success of all co-operation that involves public institutions.
3. *Continuity*. All the major donors involved in the support to the BoZ have participated for a long time. In the case of Sida, a trustful relationship had been built over the years. The continuity within the Bank matched that of the external parties.
4. *Acceptance* from the donors that the BoZ took charge of the change process. This acceptance is related to the issue of ownership, but it is worth a separate point. It has happened in many cases that donors have been reluctant to hand over the control of a change process to the co-operating partner. There is a contradiction between the call for ownership and the holding back on the control of a project. In this case, it seems that the mutual trust between the competent team in the BoZ and the donors had a positive effect.
5. *Personnel*. No change process is successful without the right people. A well motivated group of people made up the "critical mass" necessary to make an impact.

The most important lesson learnt in the evaluation exercise itself was the reinforcement of the idea that availability of baseline information and model frameworks facilitate and improve the quality of analysis. Of particular value were

- a) The LFA sheets from the Project proposals of 1994, providing means of verification of achievements;
- b) The Staircase as a model as reference, providing basic dimensions for description of institutional progress;
- c) pre-understanding from previous missions to the Bank of Zambia.

1997-06-02

Diarienummer:
DESO-1995-0171**TERMS OF REFERENCE FOR THE EVALUATION OF THE IMPACT OF
THE SWEDISH SUPPORT TO THE STRENGTHENING OF THE BANK
OF ZAMBIA AND PROJECT IDENTIFICATION OF FUTURE SUPPORT****1 BACKGROUND**

The Swedish cooperation with the Bank of Zambia started in 1987 aiming at strengthening the Bank in its capacity as a central bank. The support has been concentrated to three different areas; information systems and data processing, bank supervision and management training. The Swedish support in the field of bank supervision ended in 1993 and the following year a new cooperation in the field of accounting started. The implementing organisations have been; Statistics Sweden, the Swedish Bank Inspection Board and the Mike Robson Group.

The cooperation with the Bank has, up until it ended on 31 December 1996, mainly been handled and administered by Sida's Division for Democratic Governance, Desa. The Swedish Embassy in Lusaka has received a request for continued support to the Bank of Zambia. If it is decided that a continued support to the Bank will be granted, it may be handled and administered by the Swedish Embassy in Lusaka. In "Agreement of understanding on support to modernisation and restructuring of the Bank of Zambia 1994-1996", Sweden has allocated a sum of SEK 285.000 for an evaluation of the management training component at the Bank. The Swedish Embassy and Desa have agreed to, instead of looking into one component of the Swedish support, conduct an evaluation encompassing the whole Swedish support to the Bank of Zambia as well as a project identification of a possible future support.

**2 PURPOSE AND SCOPE OF THE EVALUATION/PROJECT
IDENTIFICATION**

It was agreed with the Bank that an evaluation of the development of the management training component be carried out towards the end of the support period. During discussions held between Sida and the Swedish Embassy it was agreed that an evaluation be carried out encompassing the whole Swedish support to the Bank of Zambia. The Swedish support to the Bank ended in December 1996 why it is now possible to carry out an evaluation of the total support. In addition it was agreed that projects for future support would be identified, based on an existing request from the Bank of Zambia. The findings of the mission will give answers to

questions like; Has the Swedish support been, in terms of outcomes which are measureable today, effective - Has Zambia got a good central bank?, Is the Bank able to fulfil its task in a manner that is required of and consistent with the current policy framework paper?, Are the objectives of the Project Identification Mission of 1993 fulfilled?, Has the Swedish support been cost effective - Has the money been well spent? Is the central bank Zambia has got today worth the funds that were expended upon getting it there? This will require the team to look into what Zambia has spent on strengthening the Bank of Zambia. How is the Bank of Zambia doing compared to other central banks in the region?, Is the development experienced so far by the Bank sustainable?, Will the Bank be able to keep going at the present level of competence or better? In addition, a solid basis for possibly continuing with a full fledged project identification mission will exist.

In 1995 an evaluation of the Swedish support to the Bank of Namibia was carried out and it is hoped that the evaluation/project identification of the Bank of Zambia will, amongst other things, serve as a comparison to that evaluation. At a seminar in Stockholm in October 1997 the two evaluations will be presented and, where relevant, compared.

3 THE ASSIGNMENT (ISSUES TO BE COVERED IN THE EVALUATION/PROJECT IDENTIFICATION)

Within the overall objective of the evaluation/project identification, the following activities should be carried out:

1. Study of available written material in Sweden concerning support to the Bank of Zambia and discussions with relevant personnel at Sida's Division for Democratic Governance and Statistics Sweden. Discussions should also be held with relevant representatives of the Mike Robson Group.
2. Discussions on the evaluation/project identification with relevant personnel at the Swedish Embassy in Lusaka.
3. Interviews with personnel at the Bank of Zambia.
4. Interviews with different users of the Bank of Zambia.
5. Look into the request from the Bank of Zambia regarding continued Swedish support to the Bank.
6. Look into what a possible future Swedish support to the Bank of Zambia could consist of - regard taken to other donors.
7. Look into how a possible future Swedish support could be focused - a 3-5 year perspective.

8. Look into the possibility of involving local consultants/local expertise/local dialogue partner/local administrator - depending on how many components the support would consist of.
9. In the event of a future Swedish support - What are the costs and the possibilities of cost sharing between Sweden and the Bank of Zambia?
10. Look into the effect of the limited administrative resources at the Swedish Embassy in Lusaka.
11. Presentation and discussions of preliminary findings and conclusions of the evaluation/project identification with the management at the Bank of Zambia and personnel at the Swedish Embassy in Lusaka.
12. Delivery of a draft report to Sida and the Swedish Embassy in Lusaka and a final report after receipt of comments from Sida, the Swedish Embassy and the Bank of Zambia.
13. The consultants and the Sida official shall participate and present the final report at a seminar, arranged by Sida, during October 1997.

4 METHODOLOGY, EVALUATION TEAM AND TIME SCHEDULE

A team of two people will carry out the evaluation/project identification. The team will study relevant written material in Sweden before leaving for Zambia as well as meet with relevant people at both Sida and Statistics Sweden. The team shall further make relevant/necessary contacts with the Mike Robson Group in England.

The following team shall conduct the evaluation/project identification:

- one Swedish Management Consultant - Team Leader of the mission
- one Swedish expert in data systems and systems accounting

The evaluation/project identification shall take place in Lusaka, Zambia during 7-19 June, 1997, excluding preparation work and report writing.

5 REPORTING

A presentation of the main findings and conclusions shall be delivered, by the consultants, to the Bank of Zambia and the Swedish Embassy in Lusaka before leaving Zambia.

A draft report containing the main findings and conclusions of the team shall, not later than two weeks after leaving Zambia, be presented to Sida, the Swedish Embassy in Lusaka and the Bank of Zambia for comments by the Team Leader.

A final report in six (6) copies shall be delivered to Sida not later than two weeks after receipt of comments on the draft report. The report shall follow the evaluation format attached to these Terms of Reference. It must be introduced by an Executive Summary.

The final report will be presented at a seminar in Stockholm during the month of October 1997. At the same time, comparison with the analysis made at the evaluation of the Bank of Namibia (ref. Sida Evaluation 95/4 "Evaluation of the Establishing of the Bank of Namibia 1990-1995") will be made.

The staircase model in brief

The need for a diagnostic tool for organisational development has grown as the demands on the aid agencies to show results have become stronger. In the field of institutional and organisational development the difficulties to describe achievements are particularly great.

The staircase model

- is a tool intended to facilitate and improve planning, monitoring and evaluation of institutional development co-operation;
- provides an approach and technique for diagnosing the state of affairs in an organisation;
- consists of four stages of development;
- builds on the assumption that it is necessary for an organisation to reach one stage before the next;
- identifies two main dimensions of measurement: Output and Change.

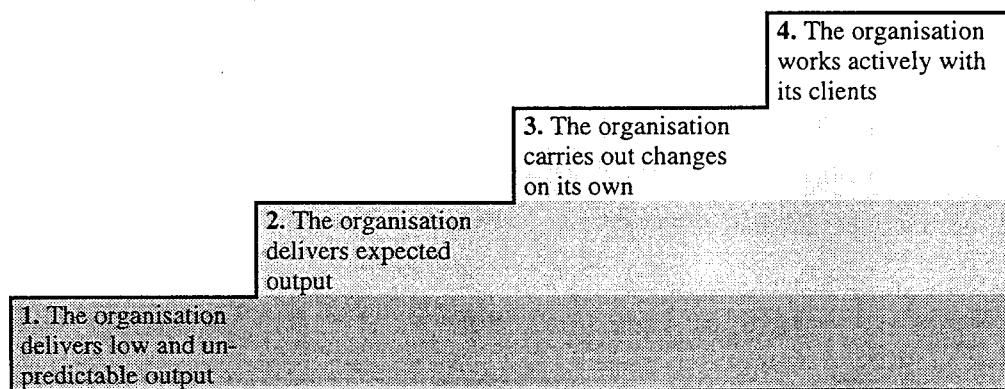


Figure 1. The staircase model for organisational diagnosis

The four development stages are:

- **Stage 1: There is an organisation, but with low and unpredictable output**

At stage 1, an organisation has been established. But output is unpredictable and of low quality. Output is defined as the products or services produced by the organisation for use outside its borders. Output is measured in quantitative and qualitative terms.

- **Stage 2: The organisation is able to deliver expected output with reasonable reliability and quality**

Production is carried out within installed capacity and with available resources. However, the organisation lacks capability to respond to new demands, e.g. if external conditions are changed or if key staff leave the organisation.

- **Stage 3: The organisation carries out changes on its own**

When the organisation has reached stage 3, it meets performance standards in output delivery. It is also capable of making changes of its own, and actually executes such changes: in terms of output types, production methods and management systems. Thus the model is based on the assumption that the ability to develop is manifested in implemented changes and on-going development activities.

- **Stage 4: The organisation works actively with its clients or customers**

The organisation which has climbed to stage 4, works actively to increase the value of its products or services in the client system. Such an organisation knows its clients, keeps an on-going dialogue with them and allocates resources to facilitate utilisation of its output.

When can the staircase model be used?

Target groups are

- Staff of donor agencies;
- Representatives of the recipient country;
- The organisation subject to the support;
- Consultants

The model can be applied in situations of

- *Planning*, e.g. when starting assistance to re-structure or improve efficiency in an already established organisation, or when continued assistance is being considered to an organisation. Then the model can be used to establish baseline information or diagnose the stage of development.
- *Monitoring*, if a baseline study has been carried out with the model. New observations can be compared with earlier ones. The model observations can help focusing on specific items, e.g. the planning machinery.
- *Review*, e.g. annual project reviews. Naturally, regular and repeated systematic observations in terms of the model will increase precision of diagnosis. The model can also be utilised when a holistic review is being made of the entire output from an organisation.
- *Evaluations* of development co-operation projects. Evaluations are usually ex post analyses. Organisational development projects are often confined to a certain aspect of an organisation. The model may be used in evaluations to describe the state of affairs of the organisation as a basis for assessment of project impact.

The model can be applied on organisations of different kinds

Typical cases are governmental agencies and departments, as well as other organisations which are grant financed and/or controlled by government. The model helps to focus whether the organisation fulfils its societal mission to produce an output with value.

A basic pre-requisite is that there is an organisation, at least at an embryonic stage.

The model can also be applied in cases of increasing complexity i.e.

- when there is a straight-forward relationship with one distinct client, to whom a simple output is delivered;
- when the organisation produces a mix of different outputs, e.g. clear-cut "hard-ware" products, and diffuse "soft-ware" services;
- when the organisation produces an output for other organisations and not for the ultimate clients. departmental head offices.

In these more complicated cases, attention has to be given to the study design.

How to measure?

In order to establish which stage the organisation has reached, the values of the main dimensions have to be measured. These are basic questions which should be asked in order to receive relevant data:

Output

- Which are the services produced?
- Are performance standards set/defined?
 - Quantity, Quality, Costs, Profitability targets etc.
- Are the performance standards that are set
 - a) defined according to international norms and
 - b) adjusted to local conditions?
- Are performance standards monitored?
- Are performance standards met?

Change and development of

a) output and production methods

b) administration and management

- Type of changes?
 - new services, techniques/methods, structure, leadership, management systems and procedures, organisational values and culture etc.
- When? How? Have the changes been initiated, implemented?
- By whom have changes been initiated? To what extent is change initiated and driven by internal and local staff members?

Input of resources

- Relations expressing e.g. personnel and financial input;
- Financial key figures and standards defined by the company;
- Personnel key figures and standards defined by the company;
- Composition of staff.

Customer value of output

- Does the organisation
 - know who its customers are?
 - know if and how its output is consumed/utilised?
 - have personnel allocated for marketing, marketing research and customer support?
- Are there concrete manifestations of dialogue with customers?
- Are there concrete manifestations of active involvement to increase value of output in the customer system?
- How is customer benefit of the services provided increased?
- Are there concrete manifestations of customer impact on services provided?

An organisation may very well meet the requirements of production and change of the different stages of the model but not the requirements of self-reliance. It is thus possible to state that an organisation is operating at stage 2 or 3, but that production and change are critically dependent on external financial and technical inputs. Thus attention must be given the degree of dependency both when measuring and when establishing a diagnosis.

This leaflet gives the basics of the Staircase Model. For a comprehensive description of the model, please refer to the report: "Diagnosis of Organisations in Development Co-operation. Guidelines Application of the Staircase Model", Sida 1997.

List of persons interviewed

Mwanza, Jacob, Governor, Bank of Zambia

Musokotwane, S, Acting Deputy Governor

Mbalashi, C, Bank Secretary

Chisaka, Max, Director, Computer Services Department

Mwalye, Lawrence M, Director, Corporate Services Department

Kani, Felix C, Director, Economics Department

Hamuwele, Avert, Director Finance Department

Deperalto, F A, Advisor, Finance Department

Mwenda, Abraham, Director, Financial Markets Department

Muke, Jonathan, Director, Financial Systems Supervision Department

Kashoka, Ignatius, Director, Personnel Department

Njovu, Justina T, Asst.Director, Projects, Personnel Department

Simmuchoba, Tembi, Asst Director, Mps & Trg, Personnel Department

Mwanza, Cosmas, Asst.Director, Currency

Sakala, Moses, Asst. Director, Banking

Chishimba, Williem, Banking Back Office

McGuffog, John, Executive Director, Barclays Bank of Zambia Ltd

Mupunda, Mr, Former Bank Secretary, Bank of Zambia

Munshi, Abdul A, Director, Corporate and Merchant Banking, Barklays

Musonda, Samuel B, Zambia National Commercial Bank Ltd

Siame, F M, Auditor General

Chilinda, Agness, Principal Auditor, Office of the Auditor General

Robson, Mike, MRA International, U.K.

Kasange, John, Independent Management Consultants, Zambia

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