INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE

Report No.: ISDSA13322

Date ISDS Prepared/Updated: 11-Nov-2015

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I. BASIC INFORMATION

1. Basic Project Data

Country:	Zimbabwe	Project ID:	P152932
Project Name:	Public Financial Mgmt Enhancement Project (P152932)		
Task Team Leader(s):	Daniel Yaw Domelevo		
Estimated Appraisal Date:	03-Aug-2015	**Estimated Board Date:**	30-Dec-2015
Managing Unit:	GGO13	**Lending Instrument:**	Investment Project Financing
Sector(s):	General finance sector (100%)		
Theme(s):	Other economic management (100%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?	No		
Financing (In USD Million)			
Total Project Cost:	20.80	Total Bank Financing:	0.00
Financing Gap:	0.00		

Financing Source	Amount
Borrower	0.00
Zimbabwe Reconstruction Fund (ZIMREF)	20.80
Total	20.80

Environmental Category:	C - Not Required
Is this a Repeater project?	No

2. Project Development Objective(s)

The Project development objective (PDO) is to improve control, transparency and accountability, and oversight in the use of public resource in Zimbabwe. The Project will contribute to enhancing fiscal discipline, strategic allocation of resources, and service delivery efficiency, through strengthened systems, procedures and targeted capacity-building.

3. Project Description

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Component 1: Financial Management and Accounting (US$6.8 million)

1.   Objectives: The objectives of this component are to improve financial reporting, strengthen fiscal controls, and enhance financial transparency.

2.   Status: Since 2009, the government's efforts to rebuild the systems after the economic recovery have yielded results. In summary: (a) Institutional arrangements for a sound PFM system are in place but not engendered; (b) Banking arrangements for establishing Treasury Single Account structure are largely in place; (c) The PFM Act was enacted in 2009 and complementary regulations drafted but not finalized - both the Act and the draft regulations are not aligned with the Constitution of Zimbabwe (d) Integrated Financial Management Information system (IFMIS) running on SAP ECC 6 EHP 7 has been implemented at all the 26 MDAs at Harare and 10 provinces; IFMIS ensures ex-ante commitment control, produce budget execution and other financial reports, and manage cash; (e) IPSAS cash standard compliant financial statements are being produced from the system with some gaps; (f) Payroll system is a custom developed system, which is not integrated with IFMIS; (f) Interface of IFMIS with the Reserved Bank of Zimbabwe (RBZ) has been operationalized, but other interfaces with revenue management system and debt management systems are not developed yet; (g) budget is being prepared through spreadsheets and is uploaded into IFMIS after approval; budget classification is GFS 2013 compliant with economic category segment; (h) Local Authorities are using a combination of spreadsheets and manual systems to track budget and prepare financial statements; (i) IFMIS has been configured to track and capture donor-funded project expenditures through the Grants Management Module but not fully rolled out; and (j) establishment registers configured in IFMIS/SAP- Human Capital Management – but not integrated with Payroll.

Activities to be financed:

3.   Phase 1: The activities to be financed include: (i) Business Planning and Consolidation (BPC) module- to support budget compilation; (ii) procurement of the hardware for IFMIS; (iii) roll out of IFMIS to urban councils; (iv) implementation of SAP payroll integrated with the establishment registers and migration of data from the legacy system; ; (v) review of regulations and manuals; (vi) service level agreements for system maintenance and (vii) support the Government's initiative to fully align the financial reporting system to international standards (cash basis IPSAS)

4.   Phase 2 will continue with activities of phase 1 and will include: (viii) roll-out of the IFMIS to include donor funded projects; (ix) roll out the IFMIS system to the large statutory funds; (x) roll out of the system to capture expenditures against the retained earnings of the ministries (xi) procurement of the hardware to augment capacity; (xii) training of the technical staff for relevant technical certifications; (xiii) end user training; (xv) implementation of Business Intelligence tool for enhance reporting; (xv) development and operationalization of the interfaces with the revenue systems and debt management system; (xvi) implementation of the electronic records management system and associated procurement of hardware like scanners and servers and (xvii) support the Government in making decision on whether to move to accrual basis accounting.

5.   In both phases the Project will ensure that, as far as possible, equal numbers of women and men benefit from the training and experience provided, and have equal opportunities to progress as a result.

Expected Outcomes:

6. The component will strengthen financial compliance with budget, financial regulations, and procedures and hence improve fiscal discipline and controls. It will also improve the timeliness and comprehensiveness of financial reports for enhanced transparency and accountability. System infrastructure upgrade will enhance availability of the system for carrying out financial management operations across the country. The technical trainings will ensure enhance sustainability of the system support in its operations.

Component 2: Enhance effectiveness of Internal Controls and Internal Audit (US$3.2million)

7. Objectives: The objective of this component is to strengthen internal oversight and controls by enhancing effectiveness of internal audit to ensure compliance with rules and regulations and contribute to effective service delivery outcomes.

8. Status: The PFM Act (2009) prescribes the appointment of internal audit in line Ministries, 'to support' Treasury in performance of prescribed functions. Accordingly, internal audit is placed in the line Ministries to report administratively to the Permanent Secretary of the relevant line ministry and is expected to functionally report to the Audit Committee. The Audit Committees are prescribed by the Act but have been piloted only in the Ministry of Health and Child Care where it is yet to take firm roots. Internal audit across Government is characterized by no central coordination, training and quality assurance. The MoFED (Treasury/Accountant General) presently are not substantially involved in strengthening and coordinating development of internal audit function at a central level. Internal audit functions across the Government remained weak, and the ability of internal audit function to assess, with reasonable credibility, the cost-effectiveness of any projects undertaken by any ministry is limited. In its present structure, depth and coverage, it provides very limited assurance on the government processes and transactions audited.

Activities to be financed

9. Phase 1 will involve: (i) strengthening the capacity of Treasury (MoFED) in playing a nodal role in internal audit function in Government by upgrading the function to that of a central agency / unit (Controller of Internal Audit Director of Internal Audit) with the mandate to coordinate internal audit in Government; (ii) ensuring that audits are performed as per the new Internal Audit Manual; (iii) supporting or conducting training needs analyses in order to identify gaps in general audit and technical skills related to specific ministries' internal audit; (iv) developing competencies of staff through a range of basic, specialist and professional level skills-training in specific types of auditing (including, compliance audits, performance audits, and financial audits), with specific attention to equal opportunities in participation in training and in deployment of staff once trained; (v) enhancing the capabilities of internal auditors to audit by interrogating data from IFMIS systems and other IT systems; (vi) mainstreaming risk based audit process in internal audit function; (vii) leveraging technology in the audit organisation through use of modern tools—including, Computer Assisted Auditing Tools, (viii) enhancing professionalism in Internal Audit function by acquisition of relevant professional certifications by auditors and, (viii) supporting collaboration & knowledge sharing in internal audit.

10. Phase 2 will continue the training and capacity building initiatives of Phase I and in addition also support activities including: (i) establishment of audit charters in all line ministries; (ii)

strengthening the roll-out of Audit Committees as per the PFM Act to all line Ministries (iii) establishing a system of follow-up to build on implementation of audit findings and recommendations; (iv) training in domain specific skills for internal audit of specialise ministries (e. g. transport, public works, agriculture, energy); (v) Advanced IT audit training in auditing the development/ acquisition and rollout of IT systems in Government; (vi) enhancing skills in auditing consolidated revenue fund; (vii) purchase of equipment for internal audit function; (viii) introduction of fraud and forensic audit in internal auditing; (ix) support to bridge training gaps identified in training needs analyses, including any identified gender inequalities, (x) strengthening internal audit at district / local bodies and (xi) any other emerging needs of internal audit function.

Expected outcomes

11.   The component will strengthen internal controls in government by enhancing the effectiveness of internal audit. It will contribute to equal opportunities for women and men. It will support streamlining the existing ad-hoc practices of Internal Audit function in the Government in a more coherent and unified manner in accordance with international and regional best practices. It also facilitates establishment of Audit Committees in clusters of Ministries to guide the internal audit function as well as take into consideration the audit findings from the office of the Auditor General. A robust and integrated internal audit function with necessary skill sets, taking full advantage of the skills of both women and men, is the key overall outcome of the support from this component

Component 3: Enhance Accountability through strengthening External Audit (US$5.million)

Objective

12.   The objective of this component is to strengthen the Office of the Auditor General (OAG) to deliver high quality audit products, on its enhanced mandate (as provided for by the Constitution of Zimbabwe)), which covers all ministries, departments and agencies of Government, public entities and rural and urban local authorities.

Current Status

13.   The Audit Office Act was promulgated in 2010. It is a ground-breaking piece of legislation that enhances the independence of the OAG. It introduced the Audit Office Commission that took over the appointment of staff of the OAG. This functions used to be carried by the then Public Service Commission. The Constitution of Zimbabwe replaced the Audit Office Commission with the Audit Office Board; and staff of OAG became public officers appointed by the Audit Office Board. The OAG was given an additional mandate, to audit all Provincial and Metropolitan Councils and Local Authorities. The Audit Office Act is neither aligned to the Constitution nor engendered. External audit and legislative scrutiny of audit reports show that the checks and balances in the IFMIS need to work better to ensure that expenditures are well controlled and scrutinized. In 2006, the Auditor General issued a 'Disclaimer of opinion' for all public accounts because of the breakdown of the IFMIS.   This has since improved, but the 2013 audit report still shows serious weakness in compliance with internal control systems. The fiduciary reengagement report (2015) identified a trend of improvements in the functioning of the OAG, while flagging the areas where it falls short of expected standards. The OAG is presently unable to fully discharge its responsibilities due to limitations in skill set, auditing methodologies, hardware & software and strength of workforce considering the audit universe. Engaging additional staff with the pre-requisite skills seems not to be an option in the immediate future. This is because of the Government is over-

burdened by the public sector wage bill and the salary levels are not attractive enough to attract the right competencies. The way forward is collaboration with the private sector and the use of modern audit tools, techniques and practices.

Activities to be financed

14.   Phase 1 of this component will involve: (i) supporting improved collaboration of OAG with private sector auditing firms to conduct comprehensive audits for, and on behalf of, the OAG, which focus on service delivery and performance of the audited entity as well as financial and compliance aspects. This will require development of processes and checklists by OAG and workshops to orientate the firms in public sector auditing and retraining of the audit staff in coordinating and supervising audits to be undertaken by private sector auditors; (ii) encouraging use of customised Performance Audit Manual and Financial & Regularity Audit Manual through training and dissemination; (iii) training and implementation of audit work flow automation, through AFROSAI-E developed Audit Flow; (iv) supporting or conducting self-assessment on compliance with use of ISSAIs using iCAT tool of INTOSAI; (v) Training in IFRS, IPSAS and specialised audits of local authorities; (vi) Enhancing skills in auditing IFMIS (SAP based) systems; (vii) helping OAG to audit IFMIS SAP integrity annually, and to contract appropriately for integrity testing of SAP every two years by a suitably expert external party; (viii) piloting new audit practices in missions: (ix) developing and implementing risk management processes in OAG, (x) Training in Procurement Audits, Revenue Audits and audit of extractive industries; (xi) supporting efforts of OAG to enhance audit visibility and citizen partnership; (xii) enabling OAG staff acquire professional skills and certifications; (xiii) supporting improved logistics and hardware acquisition, (xiv) acquiring and rolling out an audit report monitoring system and electronic records management system, (xv) supporting the dev elopment of a strategic plan by OAG; (xvi) facilitating networking and knowledge-transfer with other Supreme Audit Institutions, (xvii) Facilitating stronger dialogue with stakeholders, including the Public Accounts Committee accountancy professional bodies, the public and donors and (xviii) acquiring and using CAATs for data extraction and analysis. In addition the project will provide other technical and logistics support required for OAG in performing its legal mandate.

15.   Phase II of the component will involve continuation of several of the activities that started under Phase 1. In addition, the following activities will be taken up in Phase II: (i) capacitating the OAG to conduct comprehensive audits and produce Comprehensive Governance Audit Reports (CGAR) for each Ministry. These audits will cover not only appropriation but also statutory funds, internally generated funds and donor funds and will have performance audit and service delivery parameters (and, where relevant, gender sensitive indicators); (ii) conducting pilot decentralization of the OAG to one of the ten Provinces (support to develop procedures and reporting relationship between the Provincial and the Head Office, furniture, computers etc); (iii) enhancing partnerships with other SAIs on Performance Audits and IT Audits through study tours, (iv) Advanced SAP training for IFMIS based system audits, (v) establishing eLearning facility, (vi) introducing a quality assurance function in OAG, (vii) refurbishing offices, (viii) introducing environmental auditing, (viii) acquiring / developing and rolling out an Audit Management system; (ix) developing an office library, (x) establishing a standardized system andpilot for audit of Boards, commissions and institutions, (xi) providing logistics support through motor vehicles, (x) training in Public debt, SAIPAC, enhanced forensic audit, training of trainers in development of training curriculum, courseware and delivery of training and (xii) other emerging needs and just in time interventions to support external audit. In addition, the project will continue to provide necessary technical assistance and logistics needed by the OAG to discharge its legal mandate effectively and efficiently

16.   In both Phases the Project will aim, as far as possible, to ensure that equal numbers of women and men benefit from training opportunities, and progress as a result. It will thus aim to ensure that the OAG makes the fullest possible use of the staff available to it.

Expected outcomes

17.   The component will strengthen the OAG to deliver on its enhanced audit mandate under the Constitution of Zimbabwe. It will help the OAG to collaborate with private sector accounting firms in improving the quality of audits in the public sector and enhance the participation of private firms in public sector audit. It will enhance the skills and competences available at the OAG and ensure compliance with international standards and best practices. The development of the OAG into a gender sensitive, competent and professional Supreme Audit Organization following international best practices and delivering effectively on the enhanced mandate is the key overall outcome of the component. The ultimate expected outcome is enhanced audit oversight and improved transparency and accountability in the public sector.

Component 4: Strengthening the Demand Side of Transparency and Accountability (US$3.0 million)

18.   Objective: Objective: The objective of this component is to strengthen the demand side of accountability by enhancing Parliament's role in public financial management, including increased collaboration with other demand-side actors.

19.   Status/Background: The oversight mandate of Zimbabwe's 8th Parliament, elected in 2013, is underpinned by the Constitution, PFM Act, Parliament of Zimbabwe (PoZ)'s Standing Rules and Orders, and PoZ's 2014-2018 Institutional Strategic Plan. The high turnover of Members of Parliament (MPs) in the last election coupled with the sessional status of the Finance and Economic Development Committee (FEDC) and Public Accounts Committee (PAC) creates demand for strengthening not only the technical capacity o f Parliamentarians to engage in the budget process, but committee business processes and access to technical analysis. It also creates challenges in achieving gender parity in the relevant committees. Although there is high retention of the Parliamentary Secretariat year to year, they are often rotated between committees. The PoZ is in the process of establishing a Parliamentary Budget Office (PBO) with the aim to provide independent budget analysis to parliamentarians. The PBO will require a strategic plan to be operationalized within the parameters of Parliament, as well as technical training (including gender mainstreaming) for incoming budget officers. The Parliament enjoys a strong relationship with the OAG. As the capacity of the OAG increases through Component 3 activities, the Parliament will need to be equipped to consider a larger number of and different types of audit reports. With restricted powers to amend the budget and lack of a systematized and harmonized tracking system of audit recommendations, there is also a need to enhance coordination between the FEDC, PAC and Portfolio Committees to harness Parliament's full potential for integrated budget oversight. Finally, Pa rliament is constitutionally mandated to facilitate public participation in the public finance related issues and processes. The PoZ seeks to increase citizen and media engagement in the budget process through public consultations, hearings, and workshops aimed at strengthening collaborative efforts to hold government accountable for effective public financial management.

Activities to be financed:

20.   Phase 1 will focus on strengthening the Parliament's role in PFM through oversight of the

budget at central and local levels of government, in collaboration with other demand-side actors, by: (i) providing training, study visits, attachments, participation in practitioner knowledge-exchange events, and workshops to enhance the technical, procedural, and administrative capacity and coordinating arrangements of the FEDC and PAC; (ii) financing extended sittings and technical support for the FEDC and PAC to enable them to meet their respective Terms of Reference (ToRs) and conduct their committee business and oversight functions; (iii) providing training for Portfolio Committees on oversight of budget implementation/execution; (iv) providing technical assistance to develop and customize toolkits to support committee business; (v) enabling the parliamentary Secretariat to acquire professional certificates and provide train the trainer (ToT) workshops for the secretariat to train new Committee members; (vi) setting up a PBO to provide clerks with support, procedural guidance, and technical analysis to Parliament through strategic support, procurement of hardware, training, and participation in global practitioner network knowledge-exchange events; (vii) financing procurement of hardware and internet connectivity to support the business of Committees, Secretariat training, and Parliamentary Program Coordination Unit; and (viii) supporting collaboration between Parliament, the media and civil society to enhance transparency, accountability and gender responsiveness across the budget process at the Central Government and local levels, including training events, briefings, public consultations and hearings, and procurement of vehicles to facilitate travel. In particular, it will explore the scope for collaboration between Parliament and civil society on gender aspects of public financial management.

21.   Phase II will continue to strengthen Parliament's role in budget oversight, in collaboration with other demand-side actors, aiming to ensure transparency and accountability. This includes: (i) continued support for training, attachments, participation in practitioner knowledge-exchange events, and workshops to enhance the technical, procedural, and administrative capacity and coordinating arrangements of the FEDC and PAC; (ii) finance for extended sittings and technical support for the FEDC and PAC to enable them to meet their respective ToRs and conduct their Committee business and oversight functions; (iii) training for Portfolio Committees on oversight of budget implementation/execution; (iv) ToT to parliamentary Secretariat to utilize toolkits/handbooks to support Committee business processes and induct new Committee members – including the new Parliament to be elected in 2018; (v) support for the parliamentary Secretariat to acquire professional certificates; (vi) help to facilitate the operationalization of the PBO, providing technical and IFMIS training for staff, financing attachments, and enabling participation in global practitioner network knowledge exchange events; (vii) procurement of internet connectivity to support the business of committees, secretariat training, and Parliamentary Program Coordination Unit; (viii) facilitation of collaboration between Parliament, the media and civil society to enhance transparency and accountability across the budget process at the central government and local levels, including trainings, public consultations and hearings, (ix) consultancy support to manage and coordinate project implementation through Parliamentary Program Coordination Unit; and (x) any additional technical and logistical assistance Parliament may require in order to discharge its legal mandate of providing oversight of public funds.

Expected Outcomes:

22.   It is expected that strengthening and engendering the Parliament's capacity to contribute to national budgeting processes, in collaboration with other demand-side accountability actors, will enhance fiscal discipline, ensure public officials are held accountable for the successful implementation of government policies, and that lessons learned from budget implementation will be applied in order to enhance governance systems in the medium-to-long term.

Component 5: PFMEP Management (US$2.0million)

23.   The objective of this component is to provide the administrative and operational structure for the seamless management and coordination of implementation of activities of the Project by the various component managers. This structure will provide technical leadership in articulating, guiding and monitoring the overall PFM reforms across the Government. The component will manage the agreed development program, provide expertise in procurement and financial management support to the implementing departments and will monitor objectives and performance against the indicators (including equal opportunities indicators) The existing PFM Project Management Unit at MoFED, currently comprising consultants and civil servants, will be responsible for the financial management of the overall trust fund program. Capacity building is required, both in terms of staff training and through additional appointments to support the main functions of the Unit. .All the components will ensure that there is gender balance in the training and in the project cycle as a whole. The programme will also work with the M&E project in ZIMREF to identify indicators that may measure gender-related progress in areas where sufficient attribution is realistic. The main activities will include:

(i)   Procurement of a full complement of professional staff required for the Unit either through transfer from other units or through contract appointments;

(ii) Purchase of any office equipment urgently required and other expenses directly relating to the Project;

(iii) Training in project management, procurement and/or financial management, and gender mainstreaming, as required; and,

(iv) Annual auditing of the Project.

Component 6: Project Implementation support by the World Bank (US$ 0.8million).

24.   The PFM Enhancement project is the first recipient executed project under the ZIMREF covering works, goods and services. The use of country FM systems would result in streamlined supervision activities and implementation support will play a key role in ensuring that the use of country system does not bring about use of project funds for unintended pu rposes. Though it is the primary responsibility of the government to supervise the implementation of the project, complimenting it with the Bank's implementation support would be needed in minimizing the risk of using country systems. The World Bank will provide intensive implementation support at the inception and the early stages of the projects until such time that reliance can be established on the systems used by the project. It is expected that the current weaknesses in the internal controls would be mitigated by implementation arrangements detailed in annex 2 of the PAD.

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

5. Environmental and Social Safeguards Specialists

6. Safeguard Policies	Triggered?	Explanation (Optional)

Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/ BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
N/A

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
N/A

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
N/A

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
N/A

B. Disclosure Requirements

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/ Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level

The World Bank Policy on Disclosure of Information			
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ ]	No [ ]	NA [×]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ ]	No [ ]	NA [×]
All Safeguard Policies			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ ]	No [ ]	NA [×]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ ]	No [ ]	NA [×]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ ]	No [ ]	NA [×]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ ]	No [ ]	NA [×]

III. APPROVALS

Task Team Leader(s):	Name: Daniel Yaw Domelevo	
Approved By		
Safeguards Advisor:	Name: Johanna van Tilburg (SA)	Date: 12-Nov-2015
Practice Manager/ Manager:	Name: Guenter Heidenhof (PMGR)	Date: 12-Nov-2015