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Report No: PAD1191

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US$20 MILLION

TO THE

REPUBLIC OF ZIMBABWE

FOR AN

PUBLIC FINANCIAL MANAGEMENT ENHANCEMENT PROJECT

March 21, 2016

Governance Global Practice

Africa Region.

CURRENCY EQUIVALENTS
(Exchange Rate Effective January 31, 2016)
Currency Unit = US$

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFROSAI-E	African Organization of Supreme Audit Institutions-Anglophone Countries
AG	Auditor General
AGD	Accountant General's Department
AMDTF	Analytical Multi-Donor Trust Fund
AO	Accounting Officer
AOA	Audit Office Act
AWP&B	Annual Work Plan and Budget
BI	Business Intelligence
CFRA	Country Fiduciary Re-engagement Assessment
CIFA	Country Integrated Fiduciary Assessment
CRF	Consolidated Revenue Fund
DfID	U.K. Department for International Development
EU	European Union
EPFM-TRG	Economic and Public Financial Management Technical Review Group
FEDC	Finance and Economic Development Committee
FM	Financial Management
GDP	Gross Domestic Product
GGODR	Governance Global Practice - World Bank
GM	Grant Management
GoZ	Government of Zimbabwe
HCM	Human Capital Management
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IGF	Internally Generated Fund
IMF	International Monetary Fund
ISN	Interim Strategic Note
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MDAs	Ministries, Departments, and Agencies
M&E	Monitoring and Evaluation
MoFED	Ministry of Finance and Economic Development
MPs	Members of Parliament
NDF	National Development Fund
OAG	Office of the Auditor General
OPC	Office of the President and Cabinet

PAAB	Public Accountants and Auditors Board
PAC	Public Accounts Committee
PAD	Project Appraisal Document
PBB	Program Based Budgeting
PBO	Parliamentary Budget Office
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Financial Management Act
PFMS	Public Financial Management System
PFMSC	Public Financial Management Steering Committee
POM	Project Operational Manual
PMU	Programme Management Unit
PoZ	Parliament of Zimbabwe
RBZ	Reserve Bank of Zimbabwe
SMP	Staff Monitoring Program
SPB	State Procurement Board
TA	Technical Assistance
ToT	Training of Trainers
ToR	Terms of Reference
TSA	Treasury Single Account
UNDP	United Nations Development Programme
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMREF	Zimbabwe Reconstruction Fund

Regional Vice President:	Makhtar Diop
Country Director:	Guang Zhe Chen
Senior Global Practice Director:	James Brumby/Samia Msadek
Practice Manager:	Guenter Heidenhof
Task Team Leader:	Daniel Yaw Domelevo

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PROJECT APPRAISAL DOCUMENT

AFRICA

GGO13

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Basic Information			
Project ID P152932	EA Category C - Not Required	Team Leader(s) Daniel Yaw Domelevo	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X] - Fragile States		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 21 March 2016	Project Implementation End Date 30-June-2019		
Expected Effectiveness Date 5 April 2016	Expected Closing Date 30-June-2019		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Guenter Heidenhof	James Brumby/ Samia Msadek	Guang Zhe Chen	Makhtar Diop

Approval Authority
Approval Authority
RVP Approval
The Project will be financed by the Zimbabwe Reconstruction Fund (ZIMREF), approved by the World Bank Board of Governors on May 9, 2014. The request is in accordance with BP 14.40 - Trust Funds, paragraph 4, footnote 7, which requires that the Executive Directors approve any proposal for a Bank-administered trust fund where it would provide assistance to a member not in good standing with the Bank. However, the Board delegated the approval authority to the Africa Regional Vice President (AFRVP). Paragraph 52 of the ZIMREF Board paper indicates that "After consideration of the Umbrella Trust Fund by the Board, grant proposals and programs will be approved at the Africa Region Vice President level after a Decision Meeting chaired by the Country Director.

Borrower: Republic of Zimbabwe			
Responsible Agency: Ministry of Finance			
Contact:	Mr. Willard L. Manungo	Title:	Permanent Secretary
Telephone No.:	263-4-250967	Email:	wlmanungo@yahoo.com

Safeguards Deferral (from Decision Review Decision Note)
Will the review of Safeguards be deferred? [ ] Yes [X] No

Project Financing Data(in US$, millions)					
[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[X]	Grant	[ ]	Other

Total Project Cost:	20.00	Total Bank Financing:	0.00
Financing Gap:			

Financing Source	**Amount**
Borrower	0.0
ZIMREF	20.0
Total	20.00

Expected Disbursements (in US$, millions)

Fiscal Year	2016	2017	2018	2019	2020
Annual	1.4	8.6	5.0	5.0	0.0
Cumulative	1.40	10.0	15.0	20.0	20.0

Institutional Data

Practice Area (Lead)

Governance

Contributing Practice Areas

Cross Cutting Topics

[ ] Climate Change

[X] Fragile, Conflict & Violence

[ ] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change				
Sector (Maximum 5 and total percent must equal 100)				
Major Sector	Sector	percent	Adaptation Co-benefits percent	Mitigation Co-benefits percent
Finance	General finance sector	100		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes		
Theme (Maximum 5 and total percent must equal 100)		
Major theme	Theme	Percent
Public Sector Governance	Public Expenditure and Financial management	100
Total		100

Proposed Development Objective(s)

The project development objective (PDO) is to improve control, transparency and accountability, and oversight in the use of public resources in the Recipient's territory.

Components

Component Name	Cost (US$, millions)
Financial Management and Accounting	6.8
Enhance Effectiveness of Internal Controls and Internal Audit	3.2
Enhance Accountability through Strengthening of External Audit	5.0
Strengthening the Demand Side of Transparency and Accountability	3.0
PFMEP Management	2.0

Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Low

8. Stakeholders	Moderate
9. Other	
OVERALL	Substantial

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

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

Legal Covenants

Name	Recurrent	Due Date	Frequency
Appointment of external auditors to audit the project	**Yes**	June 30	Annual

Description of Covenant

The recipient shall, no later than June 30, 2016, recruit the external auditor referred to in Section 2.07 (b) of the Standard Conditions in accordance with Section III of this schedule and pursuant to terms of reference acceptable to the Bank.

Conditions		
Source of Fund	**Name**	**Type**
	Withdrawal Condition	Effectiveness
Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $ 2,000,000 equivalent may be made for payments made prior to this date but on or after December 1, 2015 for Eligible Expenditures under Category (1).		
Source of Fund	**Name**	**Type**
	Authorization of Agreement	Effectiveness
Description of Condition The execution and delivery of this agreement on behalf of the recipient have been duly authorized or ratified by all necessary Governmental actions.		
Source of Fund	**Name**	**Type**
	Adoption of Project Operational Manual	**Effectiveness**
Description of Condition		
The recipient has adopted the Project Operational Manual in form and substance satisfactory to the Bank.		
Source of Fund	**Name**	**Type**
	Establishment of PFM Steering Committee	**Effectiveness**
Description of Condition		
The recipient has established the PFM Steering Committee under terms of reference satisfactory to the Bank		
Source of Fund	**Name**	**Type**
	Staffing of Programme Management Unit	**Effectiveness**
Description of Condition		
The recipient has recruited the necessary staff of the Programme Management Unit, with qualifications and experience acceptable to the Bank, including, among others, procurement officers, a financial management specialist, a gender specialist, a monitoring and evaluation specialist, and the project director in accordance with provisions of Section III of Schedule 2 to the Grant Agreement.		

Team Composition				
Bank Staff				
Name	**Role**	**Title**	**Specialization**	**Unit**
Daniel Yaw Domelevo	Team Leader	Senior Financial Specialist	Team Leader	GGODR
Srinivas Gurazada	Financial Management	Snr Financial Mgt Specialist	Internal and External Auditing	GGODR
Chitambala John Sikazwe	Procurement Specialist	Senior Procurement Specialist	Procurement	GGODR
Zoe Kolovou	Counsel	Lead Counsel	Legal	LEGAM
Marie Roger Augustin	Legal	Legal Analyst	Legal	LEGAM
Christiaan Johannes Nieuwoudt	Finance Officer	Finance Officer	Finance Officer	WFALA
Yoko Kagawa	Team Member	Senior Operations Officer	Operations	GGODR
Trust Chamukuwa Chimaliro	Financial Management Specialist	Financial Management Specialist	Financial Management	GGODR
Johanna van Tilburg	Safeguards Advisor	Senior Social Development Specialist	Safeguards	OPSOR
Miriam Bensky	Governance Specialist	Governance Specialist	Demand side of Governance	GGODR
Janet Chido Bvumbe	Team Member	Program Assistant	Administrative	AFMZW
Khuram Farooq	Team Member	Sr Financial Management Specialist	IFMIS	GGODR
MacDonald Nyazvigo	Team Member	Senior Finance Assistant	Finance	AFMZW
Marie J. Bolou	Team Member	Senior Operations Assistant	Operations	GGODR

Locations					
Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**
Zimbabwe	Harare	Harare Province	X		

Consultants (Will be disclosed in the Monthly Operational Summary)	
Consultants Required?	Consulting services to be determined

I. STRATEGIC CONTEXT

A. Country Context

1. **Zimbabwe is a low-income country with a gross domestic product (GDP) of US$12.8 billion, gross national income per capita of US$820, and a population of 14.1 million (2013 estimates).** The country is landlocked and borders South Africa, Mozambique, Botswana, and Zambia. Zimbabwe has, over the past 5 years, emerged from nearly a decade of economic decline. Between 1999 and 2008, the economy contracted by an estimated 45 percent and experienced hyperinflation. The country's economy rebounded in 2009 as GDP grew by 25.2 percent between 2009 and 2011—at an average annual growth rate of 7.8 percent. The GDP growth slowed to 4.6 percent in 2012, 2.9 percent in 2013, and slowed to 2.147 percent in 2014. The country remains vulnerable to shocks and adverse weather conditions. The 2013 Poverty Report covering the period 2011–2012 revealed that 72.3 percent of Zimbabweans are poor.[1] The report further reveals that rural areas are poorer, with 84.3 percent of rural dwellers who are mainly women and 62.6 percent of rural households considered poor (and 16.2 percent of them living in extreme poverty). The social sectors (especially health and education) are constrained by declining public financing, the introduction of user fees and levies, an acute shortage of relevant personnel, and difficult logistics.

2. **In March 2013, Zimbabwe adopted a new Constitution which was** published in the gazette on May 22, 2013, and came into effect on August 22, 2013. This was followed by general elections in July 2013, which saw the reelection of the incumbent president, whose party, ZANU-PF, also won a parliamentary majority. The Government of Zimbabwe (GoZ) has prepared a 5-year recovery program, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET),[2] which focuses on four strategic clusters: (a) food security and nutrition; (b) social services and poverty eradication; (c) infrastructure and utilities; and (d) value addition and beneficiation. In June 2013, Zimbabwe signed a program monitored by International Monetary Fund (IMF) staff. This followed the lifting of International Monitory Fund (IMF) Board technical assistance (TA) restrictions in October 2012. Further, the first staff monitoring program (SMP) was successfully concluded in late 2014 and a new 15-month SMP was approved by IMF management in October 2014, and closed on December 31, 2015.

3. **During this period, the World Bank's main source of support to Zimbabwe was an Analytical Multi-Donor Trust Fund (AMDTF), which ran from 2009 to 2014, in view of the country's arrears status in relation to IDA.** A new umbrella trust fund called the Zimbabwe Reconstruction Fund (ZIMREF) was approved by the Bank's Board of Executive Directors in May 2014 and has since become operational. This new trust fund will be funding public finance management (PFM) and other technical assistance activities. It is currently being financed by the State and Peace Fund, Denmark, the European Union (EU), Norway, Sweden, and Switzerland and the UK (DfID).

[1] Zimbabwe National Statistics Agency.
[2] See paragraph 17 for the link between the ZIMASSET and the project.

4. **Zimbabwe exhibits the characteristics of both a middle-income country and those of a fragile state. On the one hand, the country has high levels of backbone infrastructure and human capacity, but it has lost institutional capacity, especially in core government functions**. Because of the degradation of institutions, the country has difficulty in managing political, economic, and external stresses that reignite political conflict and economic vulnerability. The Bank and development partners have been supporting analytical work in public and private sectors of the economy while also providing TA in the public sector. This has provided a foundation for direct engagement with the public and private sectors as Zimbabwe continues to move toward full re-engagement with the World Bank Group.

B. Sectoral and Institutional Context

5. **Before the onset of economic decline, the GoZ was in the process of strengthening the building blocks of the PFM system (PFMS), which was largely through the implementation of an Integrated Financial Management Information System (IFMIS), with effect from 1999.** The IFMIS supports the basic financial management (FM) functions for the Consolidated Revenue Fund (CRF). It operates on a central database against a standard chart of accounts, with centralized oversight and control by the Accountant General and decentralized data input by line ministries. The IFMIS brought about a fair level of systemic budget control, accounting, and reporting. It enabled the production of budget reports in real time, allowing timely dissemination of budget reports and annual financial statements of all line ministries. Commitments and payments were controlled against budgets captured in the IFMIS. The Reserve Bank of Zimbabwe (RBZ) provided banking services to the Government, with bank accounts controlled by the Accountant General's Department (AGD). This was a traditional system that used a main exchequer account, main paymaster general account, and subaccounts for line ministries that were managed on a treasury single account (TSA) basis. Bank reconciliations were done manually, mainly for technical reasons at the RBZ. Procurements above a certain threshold are being administered through the State Procurement Board (SPB), since the enactment of the Procurement Act of 1999, which was later supported by the Procurement Regulations of 2002. Payroll control was centrally handled by the Salary Service Bureau. Data on domestic and external debt are recorded on the Debt Management and Financial Analysis System database, which was not integrated with the IFMIS.

6. **Following the achievement of relative economic stability, the GoZ focused on rebuilding its PFMS in 2009**. The management of the PFMS is mainly concentrated within the Ministry of Finance and Economic Development (MoFED), with the exception of public procurement management, which is vested in the State Procurement Board (SPB). Within the MoFED, the Permanent Secretary has the overall responsibility for PFM while a Principal Director has the responsibility for budget planning and execution. The Accountant General has responsibility for the IFMIS, treasury duties, internal controls, production of timely and appropriate management, and financial accounts. Within ministries, departments, and agencies (MDAs), the accounting officers (AOs) have overall responsibility for effective PFM and are assisted by the finance directors. While this has yielded significant improvements in the legal framework, Information Technology systems, and budget procedures, the full benefits of these reforms have not yet been felt with regard to aggregate fiscal discipline, strategic allocation of resources, and effective service delivery outcomes. The Government authorities and

development partners recognize the need to move to a new phase of the reforms that are focused on the alignment of PFM legal framework with the Constitution of Zimbabwe, implementation of the new rules and regulations, tighter internal controls, and greater attention to the benefits of PFM reforms for MDAs and sectors.

7. **The key challenges of PFM in Zimbabwe were identified** in a Rapid PFM Assessment (2009); the Country Integrated Fiduciary Assessment (CIFA) (2012); and the Country Fiduciary Re-engagement Assessment (CFRA)[3] conducted in early 2015. The key findings of the three assessments are similar and are summarized in table 1.

Table 1. Key Challenges Identified in the Rapid PFM Assessment (2009), the CIFA (2012), and the Country Fiduciary Re-engagement Assessment (2015)

(a) **Credibility of the budget and fiscal discipline.** The budget is not an effective instrument for ensuring fiscal aggregate and allocative efficiency. With respect to risks for aggregate fiscal discipline, expenditure variances in 2009 and 2010 were above 50 percent. This decreased to 13 percent in 2012, 6.7 percent in 2013, and a favorable variance of 5 percent in 2014. The increases in public sector salaries over and above budget limits over 2011–2014, as well as loan repayments,[4] have further undermined budget credibility.

(b) **Budget transparency and comprehensiveness.** The budgets did not show all resources or funds available to the Government, especially internally generated funds (IGFs) of the MDA and donor-funded projects. The budget was not effective in allocating resources to priority functions and did not provide feedback on results achieved. The budget classification was not consistent with the Government Finance Statistics (GFS) and Classifications of the Functions of Government standards.

(c) **Policy-based budgeting and service delivery.** There is insufficient linkage between the multiyear budget framework and the results-based budgeting system. There is a need for linkage and effective monitoring and evaluation (M&E)—through to the budget execution phase—to ensure service delivery goals are met, including the full implementation of the results-based budget-reporting processes.

(d) **Predictability and control in budget execution to achieve intended strategic allocations of resources.** Notwithstanding the cash management arrangements that were in place, both predictability and control in budget execution were very low, and this is due to the limited fiscal space.

(e) **Accounting, recording, and reporting to achieve fiscal discipline and service delivery.** The SAP accounting system is a significant resource in servicing financial management information needs. It collapsed during the hyperinflationary era but has since been restored, and there is now a need to improve the integrity of the system through high-quality internal and external auditing. The annual financial statements and reports need to be compliant with the cash basis International Public Sector Accounting Standards (IPSAS) and should provide the parliament and the public with a credible and meaningful summary picture of the Government's revenues and spending.

(f) **Internal controls were found to be weak.** The Auditor General's (AG's) Report (2013) flagged serious governance challenges and weak control systems in ministries—leading to unsupported payments, losses, and fraudulent activities. Record keeping in a number of ministries is poor, some MDAs did not reconcile differences between the Sub-Paymaster General Accounts and the PFMS,

[3] *Assessment of the Zimbabwe Public Finance Management Systems for Investment Lending Projects*, Report No. 102796-ZW (May 2015)

[4] See Paragraph 281 of the 2015 National Budget Statement

and a number of ministries had unauthorized expenditures.

(g) **Ineffective internal audit with regard to its independence, competence, quality control, and ability to provide assurance through its audit products.** In other words, the ability of internal audit within the Government to assess, with reasonable credibility, the cost-effectiveness of FM systems and internal controls is limited.

(h) **Procurement.** The procurement assessment done as part of the CIFA adopted the OECD-DAC methodology as its benchmarking tool of 4 pillars and 12 key indicators. The overall Zimbabwe procurement system was rated 44 percent, reflecting the fact that the system had more weaknesses than strengths when compared to internationally accepted systems. The Legislative and Regulatory Framework needs to be expanded to cover all types of procurement and agencies. Additionally, it needs to be supported with detailed implementing regulations and standard bidding. Currently, there is no effective procurement planning and no integration with the budgeting cycle. The regulatory agency, the SPB, concentrates largely on the transactional side of procurement and does not actively perform other critical functions—such as building agency capacity, monitoring procurement performance, and setting standards.

(i) **External scrutiny and audit.** External audit and legislative scrutiny of audit reports show that the checks and balances in the PFMS need to work better to ensure that expenditures are well controlled and scrutinized. Though much has improved since the AG issued a 'disclaimer of opinion' for all public accounts in 2006 because of the breakdown of the IFMIS,[5] the 2013 audit report still shows serious weakness in compliance with internal control systems.

(j) **Donor practices.** The report shows that projections and reporting by donors on project expenditures were not done through the budget system. The budget estimate (blue book) for 2015 shows a few of the donor projects. Donors need, among other things, to develop confidence that internal controls over expenditure programs are fully reliable and public expenditure through the budget is publicly reported and audited on time. Much more efficient and effective procurement systems and payroll controls are also needed to move toward donor acceptance to use country systems.

C. Higher Level Objectives to Which the Project Contributes

8. **The proposed project is consistent with the Bank's Interim Strategic Note 3 (ISN3), approved for Zimbabwe by the Board in 2013 and is fully aligned with the Africa Regional Strategy**. The ISN3 covers FY2013–FY2015 and was developed in broad consultation with the Government, development partners, the private sector, and civil society. The objectives of ISN3 are to ensure the Bank's readiness for eventual re-engagement—providing TA and piloting initiatives that could be scaled up, conditions permitting. One of the three priorities of the ISN is "strengthening public sector core management systems." Under the ISN, the Bank will continue to assist the Government in strengthening the IFMIS to improve fiduciary control and inform expenditure policy. The ISN aims at providing enhanced support to increase the efficiency of public sector core systems, including capacity in procurement units, to increase their efficiency and transparency, recognizing that the Government's procurement capacity has weakened, both centrally and in line departments.

9. The proposed project is also consistent with ZIMASSET 2013–2018, which has, among the fiscal reform measures, the direction to "boost the efficient use of Government resources

[5] Because of the hyperinflation during 2002–2008, the economic meltdown, and the resultant 'brain drain', the system was abandoned leading to a complete breakdown in 2006.

through timely reporting and strengthening of the IFMIS - Fiscal Reform Measures,"[6] and, as part of the key results areas, to "encourage efficient use of public resources, financial discipline, and accountability at all levels of public-resource mobilization and allocation."[7] The preparation of the project and the selection of the components were informed by the Public Financial Management Reform Strategic Plan.[8]

10. **The proposed project is equally aligned to the foundational and cross-cutting pillar of the Bank's Strategy for Africa**: 'governance and public sector'. It will support the Government in responding to the current macro-fiscal crisis by building its capacity to avoid future crises, thus contributing to enhanced budget credibility, financial control and accountability, and oversight in PFM.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

11. **The project development objective (PDO) is to improve control, transparency and accountability, and oversight in the use of public resources in the Recipient's territory.** The project will contribute to enhancing fiscal discipline, strategic allocation of resources, and service delivery efficiency, through strengthened systems, procedures, and targeted capacity building.

Project Beneficiaries

12. **The key beneficiaries of the project will include** the MoFED (the AGD, Budget Division, and the Internal Audit Unit); the Office of the Auditor General (OAG); FM units in Ministries, Departments and Agencies (MDAs); and provincial and district authorities. In addition, the legislature will benefit from the project in strengthening their oversight responsibilities in the area of PFM.

B. Project Context

13. **The project is designed to provide TA to respond to key challenges identified during the CFRA assessment**. At the request of the Government, and based on an internal analysis of the key impediments in PFM that have contributed to the current macro-fiscal situation, a select number of areas requiring reforms in the short, medium, and long terms have been identified. These areas constitute the focus for Bank interventions to build confidence in the government's FM systems.

14. **Donors have been channeling most of their aid flows outside Government systems for over a decade. The project aims not only to further PFM reforms in Zimbabwe but also to facilitate reengagement with, and rechanneling of, aid flows through public sector institutions.** The success of the project could also accelerate progress on other aspects of Zimbabwe's re-engagement with the international community. Nevertheless, given Zimbabwe's

[6] See page 116 of ZIMASSET.
[7] See page 121 of ZIMASSET.
[8] The IMF supported the GoZ to develop a PFM Reform Strategic Plan which was approved in August 2015

long history of disengagement, the limitations and challenges of implementing a new project through government systems will be significant. Considering the country context and the institutional challenges, the components were carefully selected to keep these risks minimal.

15. **The GoZ, in close collaboration with the Bank and other development partners, wishes to advance the pace of PFM reforms in Zimbabwe**. The Bank's PFM engagement in Zimbabwe has been focused on strengthening the institutional capacities for PFM and re-enforcing accountability and fiscal management for better aggregate fiscal discipline and improved service delivery. Strengthening institutional capacity and systems are necessary prerequisites for effectively implementing the Government's macro-fiscal and socioeconomic policies.

16. **The proposed project will be funded by the ZIMREF and seeks to consolidate the reforms started under the AMDTF**. It focuses on addressing the residual weaknesses in the PFMS after the interventions over the past five years. The reform activities envisaged under the project are consistent with the Constitution, strategic direction of the Government's ZIMASSET, and the Bank's ISN3.

17. **The CIFA (2012) and the CFRA (2015) show that many aspects of the system need addressing before attaining acceptable levels of transparency and accountability for public resources.** However, the limited resource envelope and implementation capacity make it necessary to prioritize and remain pragmatic with regard to what can be delivered within the time available. The focus of this project therefore is on: (a) accounting; (b) financial reporting; (c) auditing; and (d) oversight. This project will complement others on results-based budgeting, M&E, procurement, wage bill, and state-owned enterprise FM reforms being funded under another project. Better accounting and greater transparency could pave the way for both the CFRA and ultimately budget-support financing from development partners.

18. **The proposed project will be designed to (a) address the prerequisites for sustained reform across the PFMS; (b) ensure that the momentum gained through TA during the last five years is maintained and the next phase of development of the broader PFMS is undertaken effectively; and (c) broaden the reform process beyond the areas addressed in the past (for example, by the inclusion of internal auditing).** The project is envisioned to be conducted in two phases in line with expected financing under the ZIMREF. Phase I will focus on PFM at the national level – while piloting PFM at the subnational level- and Phase II will focus on subnational PFM. The two phases are broadly composed of the same components as described in the following paragraphs.

19. **Gender equality issues are mainstreamed throughout the project cycle with a specific focus** on gender parity in participation by women and men in capacity building activities and training.

20. **The project is closely linked with another ZIMREF program, on public investment management.** At present there is little public funding for investment and poor linkages between the OAG and the IFMIS, on the one hand, and the Public Sector Investment Program on the other. The ZIMREF Capital Budgets TA Program will develop guidelines and manuals for public investment management and will include specific provisions for bringing into the budget process

and integrating with IFMIS, the projections of investment capital costs and subsequent recurrent cost obligations in operations and maintenance expenditure.

21. **There will be other complementary interventions by other partners (donors and the Government itself), either through direct or indirect project support or development policy support (budget support operations)**. The identification of complementary support operations provided, or planned to be provided, by development partners—including the AfDB, Global Fund, African Capacity-Building Foundation, European Union, Sweden and other bilateral donors—will avoid overlaps and duplications. The implementation of this project and the others will be supervised by the Government's recently established Public Financial Management Steering Committee (PFMSC) which oversees all PFM support, and reviewed by the Bank's ZIMREF Economic and Public Financial Management Technical Working Group (EPFM TRG) which provides a donor coordination function to Government. Information on ongoing or new interventions will be provided in a manner that ensures that new project spending is directed to unfunded outcome areas.

22. **The design of the project takes into account the political economy of PFM reform in the country, including the overarching reasons for failures—capacity challenges, inability of the legal framework to prevent or deter misapplication of funds, and so on.** Therefore, aligning interventions within this context is critical to the success of the project. The public sector in Zimbabwe is hierarchical, and progress is governed by multilayered sign-offs. In this environment, it is critically important to have a well-developed governance framework that includes key decision makers; enables progress on initiatives; and provides sufficient mitigation measures against waste and mismanagement. Strict accountability measures are to be applied and reinforced through review missions. The design also takes account of the new Constitution and principles of gender balance and gender equality, and it will focus initially on equal opportunities between women and men in its implementation, cognizant of engendered internal practices and procedures.

III. PROJECT DESCRIPTION

A. Project Components

23. **The main objective of the project is improve control, transparency and accountability, and oversight in the use of public resources in the Recipient's territory.** It has five components and related subcomponents, as summarized in the following paragraphs (more details are in annex 6).

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

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

25. **Status.** Since 2009, the following efforts by the Government to rebuild the systems after the economic recovery have yielded results: (a) **Institutional arrangements** for a sound PFMS are in place but not engendered. (b) **Banking arrangements for establishing TSA structure** are largely in place. (c) **The PFM Act (PFMA)** was enacted in 2009 and complementary regulations

drafted but not finalized. Both the Public Finance Management Act Amendment and a General Laws' Amendment Bills are before Parliament. It is expected that these amendments will align the PFMA to the new Constitution. (d) The **IFMIS** running on SAP Enterprise Central Component 6 Enhancement Program 7 (ECC 6 EHP 7) has been implemented at all the 26 MDAs at Harare and 10 provinces; the **IFMIS** ensures ex ante commitment control, produces budget execution and other financial reports, and manages cash. (e) **Financial statements** compliant with the cash basis IPSAS are being produced from the system, with some gaps. (f) The **payroll** system is a custom developed system, which is not integrated with the IFMIS. (g) Interface of the IFMIS with the Reserved Bank of Zimbabwe (RBZ) has been operationalized, but other interfaces with the revenue management system and debt management systems are not developed yet. (h) The Budget is being prepared through spreadsheets and is uploaded into the IFMIS after approval; budget classification is GFS 2013 compliant with economic category segment. (i) Local authorities are using a combination of spreadsheets and manual systems to track the budget and prepare financial statements. (j) The IFMIS has been configured to track and capture donor-funded project expenditures through the grants management (GM) module but not fully rolled out. (k) Establishment registers have been configured in the IFMIS/SAP—Human Capital Management (HCM)—but not integrated with Payroll.

Activities to Be Financed

26. **Phase 1 (US$3.4 million).** The activities to be financed include (a) rollout of the Business Planning and Consolidation module, to support budget compilation; (b) procurement of the hardware for the PFMS; (c) pilot rollout of the PFMS to urban councils; (d) implementation of SAP payroll integrated with the establishment registers and migration of data from the legacy system; (e) review of regulations and manuals; (f) service-level agreements for system maintenance; (g) support for the renovation of the IFMIS server room, data entry centers, and the IFMIS disaster recovery center; and (h) support for the Government's initiative to fully align the financial reporting system to international standards (cash basis IPSAS).

27. **Phase 2 (US$3.4 million).** The activities include (a) rollout of the PFMS to the donor-funded projects; (b) rollout of the PFMS system to the large statutory funds; (c) rollout of the system to capture expenditures against the retained earnings of the ministries (d) procurement of the hardware to augment capacity; (e) training of the technical staff for relevant technical certifications; (f) end user training; (g) implementation of the business intelligence (BI) tool for enhanced reporting; (h) development and operationalization of the interfaces with the revenue systems and the debt management system; (i) implementation of the electronic records management system and associated procurement of hardware such as scanners and servers; and (j) support for the Government in developing a road map to accrual basis accounting.

Expected Outcomes

28. The component will strengthen financial compliance with the 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 FM operations across the country. The technical trainings will ensure enhanced sustainability of the system support in its operations.

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

29. **Objective.** 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.

30. **Status.** The PFMA (2009) prescribes the appointment of internal audit in line ministries, 'to support' the treasury in performance of prescribed functions. Accordingly, internal audit is placed in the line ministries to administratively report to the Permanent Secretary 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 lack of central coordination, training, and quality assurance. The MoFED (treasury or Accountant General) is presently not substantially involved in strengthening and coordinating development of the internal audit function at a central level. Internal audit functions across the Government remain weak, and the ability of the 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

31. **Phase 1 (US$ 1.4 million) will involve** (a) strengthening the capacity of the treasury (MoFED) in playing a nodal role in internal audit function in the Government by upgrading the function to that of a central agency or unit (controller or director of internal audit) with the mandate to coordinate internal audit in the Government; (b) putting systems in place to ensure that audits are performed according to the new Internal Audit Manual; (c) supporting or conducting training needs analyses to identify gaps in general audit and technical skills related to specific ministries' internal audit; (d) developing competencies of staff through trainings in basic-, specialist-, and professional-level skills 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; (e) enhancing the capabilities of internal auditors to audit by interrogating data from the IFMIS and other IT systems; (f) mainstreaming risk-based audit process in internal audit function; (g) leveraging technology in the audit organization through use of modern tools—including computer-assisted auditing tools; (h) enhancing professionalism in the internal audit function by acquisition of relevant professional certifications by auditors; and (i) supporting collaboration and knowledge sharing in internal audit.

32. **Phase 2 (US$1.8 million) will continue the training and capacity-building initiatives of Phase I and in addition will support activities such as** (a) establishing audit charters in all line ministries; (b) strengthening the rollout of Audit Committees according to the PFMA to all line ministries (c) establishing a system of follow-up to build on implementation of audit findings and recommendations; (d) training in domain-specific skills for internal audit of specialized ministries (for example, transport, public works, agriculture, energy); (e) providing advanced IT audit training in auditing the development or acquisition and rollout of IT systems

in the Government; (f) enhancing skills in auditing the CRF; (g) purchase of equipment for the internal audit function; (h) introducing fraud and forensic audit in internal auditing; (i) providing support to bridge training gaps identified in training needs analyses, including any identified gender inequalities; (j) strengthening internal audit at district or local bodies; and (k) any other emerging needs of the internal audit function.

Expected Outcomes

33. The component will strengthen internal controls in the Government by enhancing the effectiveness of internal audit. It will support streamlining the existing ad hoc practices of the 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 OAG. A robust and integrated internal audit function with necessary skill sets is the key overall outcome of the support from this component.

Component 3: Enhance Accountability through Strengthening of External Audit (US$5.0 million)

34. **Objective.** The objective of this component is to strengthen the OAG to deliver high-quality audit products, on its enhanced mandate (as provided for by the Constitution), which covers all MDAs of Government, public entities, and rural and urban local authorities.

35. **Status.** The Audit Office Act (AOA) was promulgated in 2010. It is a groundbreaking 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 function used to be carried by the then Public Service Commission. The Constitution of Zimbabwe then replaced the Audit Office Commission with the Audit Office Board, and staff of the 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. 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 2009, the AG 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 Country Fiduciary Re-engagement Assessment (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 and software, and strength of workforce considering the audit universe. Engaging additional staff with the prerequisite skills does not seem to be an option in the immediate future. This is because the Government is overburdened 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

36. **Phase 1 (US$2.2 million) of this component will involve** (a) supporting improved

collaboration of the 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 the 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; (b) encouraging use of customized Performance Audit Manual and Financial and Regularity Audit Manual through training and dissemination; (c) training and implementation of audit work flow automation, through the audit flow developed by the African Organization of Supreme Audit Institutions-Anglophone Countries (AFROSAI-E); (d) supporting or conducting self-assessment on compliance with the use of International Standards for Supreme Audit Institutes (ISSAIs) using the iCAT tool of the International Organization of Supreme Audit Institutions (INTOSAI); (e) training in International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), and specialized audits of local authorities; (f) enhancing skills in auditing the IFMIS (SAP-based) systems; (g) helping the OAG audit the IFMIS SAP integrity annually and contract appropriately for integrity testing of SAP every two years by a suitably expert external party; (h) piloting new audit practices in foreign missions; (i) developing and implementing risk management processes in the OAG; (j) training in procurement audits, revenue audits, and the audit of extractive industries; (k) supporting efforts of the OAG to enhance audit visibility and citizen partnership; (l) enabling the OAG staff to acquire professional skills and certifications; (m) supporting improved logistics and hardware acquisition; (n) acquiring and rolling out an audit report monitoring system and electronic records management system; (o) supporting the development of a strategic plan by the OAG; (p) facilitating networking and knowledge transfer with other supreme audit institutions (SAIs); (q) facilitating stronger dialogue with stakeholders, including the Public Accounts Committee (PAC) accountancy professional bodies, the public, and donors; and (r) acquiring and using Computer Assisted Auditing Techniques (CAATs) for data extraction and analysis. In addition, the project will provide other technical and logistics support required for the OAG in performing its legal mandate.

37. **Phase II (US$ 2.8 million) 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: (a) enabling the OAG to conduct comprehensive audits and produce Comprehensive Governance Audit Reports 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); (b) 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, and so on); (c) enhancing partnerships with other SAIs on performance audits and IT audits through study tours; (d) advanced SAP training for IFMIS-based system audits; (e) establishing an e-learning facility; (f) introducing a quality assurance function in the OAG; (g) refurbishing offices; (h) introducing environmental auditing; (i) acquiring or developing and rolling out an audit management system; (j) developing an office library; (k) establishing a standardized system and pilot for audit of boards, commissions, and institutions; (l) providing logistics support through motor vehicles; (m) training in public debt, participating in Supreme Audit Institutes and Public Account Committee (SAIPAC) conferences, and enhanced forensic audits and training of trainers (ToT) in development of training curriculum, courseware, and

delivery of training; and (n) other emerging needs and just-in-time interventions to support external audits. 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.

38. In both phases, the project will aim, as far as possible, to ensure that equal coverage 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

39. The component will strengthen the OAG to deliver on its enhanced audit mandate under the Constitution of Zimbabwe. It will help the OAG 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)

40. **Objective.** The objective of this component is to strengthen the demand side of transparency and accountability by enhancing the parliament's role in PFM, including increased collaboration with other demand-side actors.

41. **Status or background.** The oversight mandate of the Parliament of Zimbabwe (PoZ) is underpinned by the Constitution, the PFMA, the PoZ's standing rules and orders, and the 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 the PAC creates demand for strengthening not only the technical capacity of parliamentarians to engage in the budget process but also 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 in the Parliamentary Secretariat year to year, staff are often rotated between committees. The PoZ is 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 the 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 the parliament's full potential for integrated budget oversight. Finally, the parliament is constitutionally mandated to facilitate public participation in 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 PFM.

Activities to Be Financed

42. **Phase 1 (US$1.4 million). This component will focus on strengthening the parliament's role in PFM through oversight of the budget at the central and local levels of Government, in collaboration with other demand-side actors, by** (a) providing training, study visits, attachments, participation to practitioner knowledge exchange events, and workshops to enhance the technical, procedural, and administrative capacity and coordinating arrangements of the FEDC and PAC; (b) financing extended sittings and technical support for the FEDC and PAC to enable them to meet their respective terms of reference (ToR) and conduct their committee business and oversight functions; (c) providing training for portfolio committees on oversight of budget implementation or execution; (d) providing TA to develop and customize toolkits to support committee business; (e) enabling the parliamentary secretariat to acquire professional certificates and provide ToT workshops for the secretariat to train new committee members; (f) setting up a PBO to provide clerks with support, procedural guidance, and technical analysis to the parliament through strategic support, procurement of hardware, training, and participation in global practitioner network knowledge exchange events; (g) financing procurement of hardware and Internet connectivity to support the business of committees, secretariat training, and the Parliamentary Program Coordination Unit; and (h) supporting collaboration between the 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 the parliament and civil society on gender aspects of PFM.

43. **Phase II (US$1.6 million).** This phase will continue to strengthen the parliament's role in budget oversight, in collaboration with other demand-side actors, aiming to ensure transparency and accountability. This includes (a) 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; (b) 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; (c) training for portfolio committees on oversight of budget implementation or execution; (d) ToT to the parliamentary secretariat to use toolkits or handbooks to support committee business processes and induct new committee members—including the new parliament to be elected in 2018; (e) support for the parliamentary secretariat to acquire professional certificates; (f) 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; (g) procurement of internet connectivity to support committee business, secretariat training, and the Parliamentary Program Coordination Unit; (h) facilitation of collaboration between the 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; (i) consultancy support to manage and coordinate project implementation through the Parliamentary Program Coordination Unit; and (j) any additional technical and logistical assistance the parliament may require to discharge its legal mandate of providing oversight of public funds.

Expected Outcomes

44. 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 and ensure that public officials are held accountable for the successful implementation of Government policies, and that lessons learned from budget implementation will be applied to enhance governance systems in the medium to long term.

Component 5: PFMEP Management (US$2.0 Million)

45. The objective of this component is to provide the administrative and operational structure for the seamless management and coordination of implementation of project activities 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 monitor objectives and performance against the indicators (including equal opportunities indicators). The existing Project Management Unit at the 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 through staff training and through additional appointments, to support the main functions of the unit. Additional work to ensure that that there is gender balance in the training and in the project cycle as a whole will be financed from this component. The program will also work with the Support to Poverty Analysis and ZIMASSET M&E TA also ZIMREF-financed, to identify public finance indicators that are critical for gender-issues. In addition to the results framework, a Public Expenditure and Financial Accountability (PEFA) assessment will be conducted at the start of the project (early 2016) to set the baseline and the PEFA assessment will be repeated just before the closing date of the project to measure progress. The main activities will include the following:

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

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

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

(d) Two PEFA assessments, a baseline assessment at the start and another before the closing date to measure progress; and

(e) Annual auditing of the project.

B. Project Financing

46. **Lending instrument. The project will be financed through the ZIMREF** and will complement other donor projects that focus on instilling policy and institutional changes

germane to improved PFM. The choice of the financing instrument is premised on the recognition by the Bank and the Government that it will most appropriately respond to the specific PFM reform implementation needs of the Government, especially during the current non-accrual state of the country.

47. **The project is designed to (a) address the prerequisites for sustained reform across the PFMS; (b) ensure that the momentum gained through TA during the last five years is maintained and the next phase of development of the broader PFMS is undertaken effectively; and (c) broaden the reform process beyond the areas addressed in the past, for example, inclusion of internal auditing and gender mainstreaming of the PFMS.** The project is envisioned to be conducted in two phases in line with expected financing under the ZIMREF. Phase I will focus on the national level - while piloting PFM at the subnational level - and Phase II will focus on the subnational PFM. The two phases are broadly composed of the same components as illustrated in the below table:

Project Cost and Financing for the PFM Enhancement Project

Component Name	**Cost (US$, millions)**		
	Phase I	**Phase II**	**Total**
1. Financial Management and Accounting	3.4	3.4	6.8
2. Enhance Effectiveness of Internal Controls and Internal Audit	1.4	1.8	3.2
3. Enhance Accountability through Strengthening External Audit	2.2	2.8	5.0
4. Strengthening the Demand Side of Transparency and Accountability	1.4	1.6	3.0
5. PFMEP Management	1.1	0.9	2.0
Total Cost of Project	**9.5**	**10.5**	**20.0**

48. **The project will be implemented over a period of three years and three months and has five components, with an estimated total cost of US$20.0 million- including supervision**. Since each of the components of the project is key in the accountability chain and affects each other, there will be interdependencies between components (for instance, a strengthened IFMIS will contribute to accounting and reporting and internal and external auditing). These linkages will be taken into account in project management and the M&E framework for the project. The financial design of the project will recognize existing and planned interventions of various development partners, and the Government itself, across the spectrum of PFM, will seek to avoid duplications and complement these efforts. At this stage, only US$10 million is available from ZIMREF; therefore, the Grant Agreement has been prepared for US$10 million. This will be amended when the remaining US$10 million becomes available, which is expected to be in the next few months. Additional financing to scale up the project will be possible when the ongoing re-engagement process is completed – this is expected by June 2017.

C. Lessons Learned and Reflected in the Project Implementation

49. **The need to understand the political economy, including the formal and informal working relationships, and aligning interventions within this context is critical to project**

success. The public sector is hierarchical with progress governed by often multilayered sign-offs. In this environment, it is critically important to have a well-developed governance framework that includes key decision makers, enables progress on initiatives, is cognizant of internal practices and procedures, and provides sufficient protection against waste and mismanagement.

50. **Simpler project designs are less risky to implement, especially when they take into account the absorptive capacity of the country and the prevailing political context**. Given the large needs still facing Zimbabwe's PFMS, the project will be designed as a client-driven product to ensure ownership and commitment as the key factors for selectivity or inclusivity. The project design will also include a substantial training program and opportunities aimed at improving implementation capacities of relevant counterpart staff to help in sustaining the reform initiative.

51. **Lessons from supporting PFM in countries around the world point to the limitations of simply providing hardware, software, and training.** Development of ethics, organizational culture, and, more importantly, managerial accountability in enforcing compliance with rules and regulations are even more critical than the more tangible inputs. The project will therefore enhance the demand side of accountability by ensuring that the legislature and the civil society play their oversight role over public finances in the country. Any design and investment in IT infrastructure should anticipate expansion needs.

52. **Capacity building across Government entities works better when it is centrally managed**. The project design should take into account grant financing from donors, which requires more flexible design of capacity-building activities. This will minimize duplication of efforts and encourage cost-effectiveness. The project is funded through the ZIMREF with a Policy Oversight Committee that will approve and monitor expenditures based on agency requests. This approach will provide both flexibility and control.

53. **Changes in political economy are not predictable but could be better adapted to if project designs allowed greater flexibility in implementation**. It is pertinent, therefore, to constantly evaluate and adapt to change in circumstances to better maneuver the public management reform program. The Programme Management Unit will adapt the project to such developments.

54. **Recruiting specialists for the implementing agency at the beginning of the project is very important to ensure that these skills are available**. In this case, it is programmed to recruit IT, financial management, procurement, gender mainstreaming, and M&E specialists. The project design will allow for early contracting of these additional skills (full-time or part-time, as appropriate).

D. Collaboration with other PFM Partners

55. **The PFM interventions during the past five years could not have happened without good collaboration with development partners**. Initially, funding of the PFM TA provided in Zimbabwe came from the AMDTF, to which the development partners contributed.[9] A PFMSC

[9] The development partners who contributed to the AMDTF are AusAID; CIDA; DANIDA; DfID; IS; EU;

was chaired by the MoFED and included the Office of the President and Cabinet (OPC), the OAG, the PoZ, the SPB, and the PFM Donor Group. The committee oversaw PFM interventions from the Bank, the AfDB, the DfID, the UNDP, the EU, and other bilateral donors. To ensure a synergistic approach among development partners, a PFM Donor Group met regularly to provide oversight from a donor perspective, discuss funding opportunities available to the AMDTF or as bilateral support, share a program of action, and agree on key issues that should be brought to the attention of the PSC. In addition to these governance arrangements, the AMDTF also had a Policy Committee that approved funding for projects from the trust fund and technical working groups for various sectors. The PFM activities were under the Economic Management Technical Working Group that reviewed proposals and made recommendations, as well as providing status updates to the Policy Committee. As a result of the good coordination and collaboration between development partners and the Government, there was minimal or no duplication of efforts. For example, while the Bank provided technical assistance in training end users on the IFMIS, the AfDB supplied over 2,000 computers, the DfID provided networking equipment, and the UNDP trained targeted end users in basic budgeting, accounting, and reporting.

56. **Governance arrangements are already in place to co-ordinate all the PFM initiatives in order to eliminate or reduce overlaps and gaps.** The AfDB and UNDP may continue to support PFM activities directly or outside of the ZIMREF framework. The Policy Oversight Committee and its technical committees (in this case, the Economic and Public Finance Management –Technical Review Group which include participation from a wide range of donors and Government MDAs) are responsible for ensuring that the projects funded by ZIMREF are in line with the strategic directions of the Government and the projects do not duplicated each other. Within Government, the Public Financial Management Steering Committee will provide oversight for all PFM projects and initiatives in Government irrespective of their sources of funding and ensure that each of them brings additional value to the system.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

57. **This project responds to the needs of the Government's objective of promoting efficiency and minimizing the administrative bottlenecks in the implementation of the PFM reforms**. To this end, the institutional arrangements for the implementation of this project are being simplified and streamlined, based on lessons learned over the past five years during which the Bank provided technical assistance using the AMDTF to provide for orderly coordination in the implementation of project activities and completion of deliverables. The specific details for the institutional and implementation arrangements to support the project are summarized in the following paragraphs.

Public Financial Management Steering Committee (PFMSC)

58. **A PFMSC will be established to provide strategic guidance and oversight to the project implementation process**. The Accountant General of Zimbabwe will chair the Committee, and membership of the committee will include the head of Internal Audit, the AG,

FINNIDA; GIZ; NORAD; SIDA; the U.S. Agency for International Development; and the Bank.

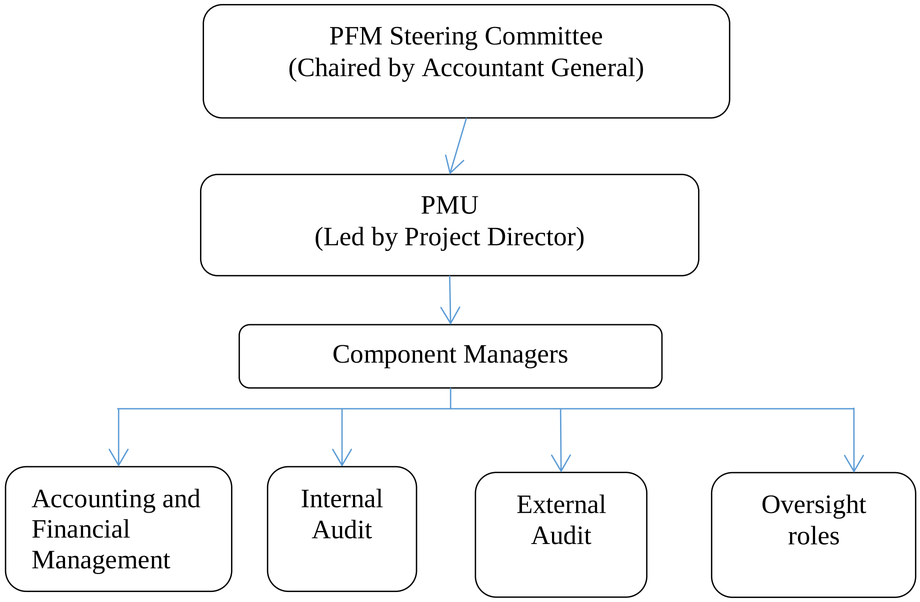
the Clerk of the Parliament, the OPC, the PSC, and the Ministries responsible for the local government (including city, urban, and rural councils). Other stakeholders may be invited to the Steering Committee meetings. The Steering Committee may also meet on a need basis but should meet at least once in each quarter of the year. The steering committee will help in addressing inter-ministerial issues pertaining to the entire project and related PFM reform projects of the Government. It will also ensure the full engagement of all major organs of the Government for effective control and management of public finances. It will be responsible for the overall policy coordination and policy guidelines for this project in particular and for PFM reform in general. The PFMSC will review, approve, and oversee the publication of annual progress reports on PFM reform at least two months after the end of every year.

59. **Programme Management Unit.** The existing Programme Management Unit (PMU) will be capacitated to coordinate and consolidate key activities under the various components of the project. There will be a Project Director, appointed and responsible for overall project coordination, who will lead the Programme Management Unit. In this regard, the day-to-day management of the project will be the responsibility of the Project Director who will report directly to the Accountant General. The Project Director will lead a Programme Management Unit comprising, among others, procurement officers, a FM specialist, a gender specialist, and an M&E specialist (full-time or part-time, as appropriate). The functions of the Programme Management Unit will be to coordinate the preparation of Annual Work Plans and Budgets (AWP&Bs); progress reports for the consideration of the PFMSC; and annual procurement plans (PPs), quarterly interim financial statements, and annual project accounts. The Programme Management Unit will be responsible for the timely conduct of annual audits of the project accounts and timely submission of the audits to the Bank and the PFMSC. The project director will be the principal point of contact with the Bank's task team leader (TTL) for the resolution of project issues on a day-to-day basis (including requests for no objections).

60. **Component managers have been appointed to oversee the implementation of project activities in each component of the project**. The components are as follows: (i) Financial Management and Accounting under the Accountant General, (ii) Enhance Effectiveness of Internal Controls and Internal Audit (iii) Enhance Accountability Through Strengthening External Audit under the OAG; (iv) Enhance the Oversight provided by Parliament, and (v) PFMEP Management. Each component manager will be responsible for the implementation of activities under him or her and will be reporting to the project director.

61. **Financial management and disbursement arrangements.** Financial reporting under the project will follow the current chart of accounts and other reporting templates and formats used by the Government as well as formats to be agreed with the Bank. The financial statements and audit report will be submitted to the Bank within 6 months of the end of the fiscal year.

Figure 1. Organizational Chart of the Project



B. Results Monitoring and Evaluation

62. **Progress toward the PDO will be monitored through reporting on the PDO-level and intermediate-level results indicators given in annex 1**. The M&E function of the project, under the leadership of the project director, will be primarily responsible for integrating indicators in M&E with work planning and deriving and maintaining the primary data and information to report on these indicators. The program will also work with the Support to Poverty Analysis and ZIMASSET M&E TA, also ZIMREF-financed, to identify public finance indicators that are critical for gender-issues. The annex provides the baselines, annual targets, frequency of data collections, data source and methodology, and the institutions responsible for data collection for all indicators. The project's results framework uses PEFA indicators as primary measures. Progress against the PDO and the intermediate indicators is geared to assist with regular PEFA assessments (annual self-assessments and independent assessments after three years of implementation) and the project is expected to contribute to significant improvements in these indicators. The M&E for the implementation of the overall PFM Reform Strategic Plan will be anchored under the PFMSC.

63. **The M&E specialist will establish a monitoring and evaluation framework for the project with clearly defined milestones against timelines which will provide the basis for M&E reporting on the activities of the project**. It is also important that similar arrangements become embedded in future arrangements with development partners as part of the Government's PFM Reform Strategic plan approved in August 2015. Accordingly, the project includes support for capacity building in M&E and communications (Component 4).

64. **Reviews of implementation progress will be undertaken biannually[10] to identify and discuss issues and bottlenecks that may arise and impede achievement of targeted outcomes**. The issues raised will be discussed by project management and Bank implementation support missions and resulting recommendations will become action points for implementation follow-up and subsequent implementation support. The PFMSC will also receive and review strategic information on implementation progress from the project directorate and provide strategic guidance to ensure that the project achieve its development objectives.

C. Sustainability

65. **The PFMS being put in place and capacities built will continue after the closure of this project**. Sustaining the implementation of the new systems and procedures and reinforcing policy measures will remain critical to entrench the outcomes delivered under the project. The experience from the five years of PFM interventions in Zimbabwe shows that risks, with regard to loss of momentum and reversal of overall nominal gains, are inherent in such long-term projects. However, the authorities in Zimbabwe have a clear and strong commitment to ensure that reforms will be sustained to help open up fiscal space and implement successful fiscal consolidation that stabilize the economy and budget. Abandoning key foundational systems to be established by this project is not a realistic prospect, so there is a very powerful incentive that the implementation outcomes of the proposed project will be sustained.

66. **The design of the project is particularly aimed at ensuring continuing sustainability in light of the Constitutional framework, ZIMASSET, external commitments, and political-economy considerations**. The proposed project plans to further develop and nurture basic capacity in financial management through more rigorous implementation and strategic deployment of resources in priority areas that help reinforce the foundation, with a view to avoid rollbacks in the core PFM reform arena supported under the project. Systematic training of staff responsible for implementing the core financial management functions within the Government, while ensuring the introduction of more robust and modern systems and tools, will provide a sound basis for ensuring that adequate capacity is retained after project closure. Beyond training, engagement of key stakeholders in a deliberate process of change management will be critical to the success of the reform effort. These factors will be key to ensuring that policy changes are in place to allow the improved new tools to be deployed. Altogether, these measures will help secure policy and institutional changes, particularly creating an environment of greatly strengthened fiscal discipline.

67. **In addition to local expertise within the civil service to deliver the activities of the project**, **the project envisages recruitment of a number of resident TA or consultancy personnel.** Their role will include advisory and direct capacity building of counterparts on the job to ensure that competence in managing PFM activities remains and strengthens. Complementary institutional capacity-building activities, supported by a number of development partners, will also help enhance capacity across most of the PFM frontiers in the Government and will also help ensure sustainability.

[10] Implementation support missions

68. **Continuity in the functioning and maintenance of the tools and systems to be delivered under the project will depend on the sustained availability of an appropriate technical organization**. To this end, the proposed project makes provision for the establishment of a coherent maintenance and support organization that caters to both the technical and functional aspects of systems maintenance and support during project implementation and after project closure. The project will therefore support the building of capacities within the Government and training trainers who will be available to replicate the knowledge acquired long after the project has ended.

69. **Regarding the recurrent cost of keeping the systems running post project closure, the Government has confirmed its commitment to provide budgetary funds to PFM, introducing a budget line and appropriating internally generated government funds to it.** These funds will pay for hardware maintenance and replacements and continuous staff training in all areas covered under the project. The total estimated annual recurrent costs for these provisions will be about US$2.0 million, and the Government has appropriated US$2.1 million for 2016, and US$2.2 million for 2017—these figures being commensurate with the average applicable figures in similar countries. With improved effectiveness and efficiency in financial management, there will be improved fiscal space and the Government will be able to develop capacity to provide for these expenditures after the four-year implementation of the project.

V. KEY RISK

A. Overall Risk Rating and Explanation of Key Risks

Risk Category		**Rating**
1	Political and Governance	High
2	Macroeconomic	Substantial
3	Sector Strategy and Policy	Moderate
4	Technical Design of Project or Program	Moderate
5	Institutional Capacity for Implementation and Sustainability	Substantial
6	Fiduciary	Substantial
7	Environment and Social	Low
8	Stakeholders	Moderate
9	Others	
OVERALL		Substantial

70. **The enactment of the new Constitution, and the relatively peaceful general elections in 2013 are positive developments, but the country still faces challenges in terms of political stability, corruption and governance.** While the current economic slowdown combined with an increase in fiscal constraints, unemployment, and poor harvests have created a complex environment in which to improve public expenditure management, it has also increased the urgency of better control of government spending. The GoZ has now established a track record in its efforts to strengthen expenditure controls, accounting and accountability and these appear to be well received by the general public.

71. **Resistance to reform is highly likely.** Current systems have created interests, which may be threatened by change. If the project is highly successful, some of those interests might be sufficiently threatened to resist, actively or through passive inaction on important areas of

reform. Major governance indicators show that the country has not achieved significant progress in governance, transparency of the regulatory framework, and control of corruption compared to many other African countries. According to the Global Corruption Perception Index released by Transparency International in December 2014, Zimbabwe is ranked 156 out of 175.

72. **Mitigation measures.** The Bank and other partners will work with the GoZ to encourage whistle-blowing. The media will continue to be a key player in vigorously reporting on corruption. The OAG will continue issuing reports that address the subject through regularity, value for money, and performance audits. The project will keep a designated account, which will be monitored closely by the Bank, and the implementation support normally provided to projects will be intensive for this project. The project will also provide regular updates to the top management of the MoFED, including through the ZIMREF Policy Oversight Committee, and will seek to mobilize that high-level political support to overcome the resistance of any groups who feel their interests threatened by the project.

73. **Macroeconomic risk was assessed as Substantial.** This is because Zimbabwe continues to have very limited fiscal space, compounded by macroeconomic instability. After the decline starting in 2006, the economy stabilized by the end of 2009 and experienced high growth through 2013. Economic growth tapered in 2014 and has remained low on account of changing external conditions, as well as domestic policies. The depressed inflows and the rise in recurrent expenditures will continue to constrain fiscal space, while continued use of the multicurrency regime. State-owned enterprises remain the biggest and most challenging part of the public sector reform program as they have a significant impact on the fiscal space. Zimbabwe's debt situation remains an impediment to both external sustainability and economic development. The country is in debt distress with large external payment arrears against a context of limited fiscal space. The depreciation of the South African rand continues to affect current accounts negatively. There are perceived uncertainties about the Government's ability to deal with the deterioration of public finances and the current accounts balance, which have led to significant capital outflows.

74. **Mitigation measures.** Control measures, particularly with a view to reducing public sector expenditures, are being put in place. In response to these challenges, the Government has maintained a tight fiscal stance in recent years, and is undertaking measures to address the large wage bill and unsustainable financing in the parastatal sector. It is also accelerating improvements in the business climate to attract more private investment, and moving toward re-engagement with international financial institutions. This operation will contribute to the success of the fiscal aspects of the Government's recovery program.

75. **Sector strategies and policies.** There is a moderate risk of adverse impact on the PDO stemming from sector strategies and policies. One of the key result areas of the ZIMASSET is fiscal reform which involves efficient use of public resources, financial discipline and accountability at all levels of public administration. But the legal framework for financial management needs to be improved, in particular on the provisions that would ensure that funds will be used only for intended purposes and disciplinary measures to deter public officers from wrongful application of funds. Recommendations were made in the CFRA report to expedite proposed amendments to the PFMA regarding, procedures for budget transfer or virement,

enhanced supervision and financial reporting arrangements of entities outside central budgetary government; and promulgation of supporting financial regulations. Recommendations were also made to provide system specific training to managers, professional, and technical staff necessary to support the operations of the PFM system. These recommendations have been incorporated into the PFM Strategic Plan for the GoZ and this project will be addressing some of the capacity challenges.

76. **Technical design of project.** There is a moderate likelihood that factors related to the technical design of the program or project may adversely impact the achievement of the PDO. The project is technically focused on PFM subjects for which the key interlocutor is the MoFED, which will use, basically, the same institutions that have implemented previous projects except for a few additional elements. With the focus on rigorous implementation, usage of competent consultants in key procurement aspects, and support from the task team, this risk is envisaged as moderate. The project's activities are structured around four core components, with a fifth component for project coordination, financial management, and audit. The client has good technical capacity, which would be further enhanced by the Bank's experience in similar projects designed and successfully implemented in other jurisdictions.

77. **Institutional capacity for implementation and sustainability.** This risk to the PDO has been assessed as Substantial. This is the third recipient-executed project under ZIMREF which is not exclusively for technical assistance, and the risk lies in the fact that the implementing units will be effecting procurements using Bank rules. There will be training for the PMU and the implementing units on Bank procurement procedures. This should not pose any serious challenges because most entities implementing the various components of the project have competent staff who have previously implemented donor-funded projects, including those financed by the Bank. They have accumulated enough capacity to implement the current project and they understand Bank procedures fairly well. It is very likely that the project will be sustained without significant reliance on the donors.

78. **Fiduciary risks to Bank funds have a substantial probability of affecting the PDO in an adverse way.** Key contracts that entail large fund outlays could be abused. Weaknesses in controls and lapses in rigorous follow-up on implementation of internal and external audit findings and recommendations could weaken the fiduciary environment.

79. **Mitigation measures.** A Project Operational Manual (POM) will be used to help in understanding systems and controls. A project launch workshop will be undertaken to kick-start proper understanding of roles and responsibilities, and the workshop will be supplemented by continuous training on topical areas to help build capacity. The POM will include specific fiduciary arrangements for the project's implementation. The implementation team will include at least one procurement and one FM specialist, with experience in Bank projects, who have been adequately retrained to maximize the effectiveness they have gained as a result of working on the previous project(s).

80. **Environment and social.** There is a low likelihood that the achievement of the PDO could be affected by exogenous environmental and social risk factors (including those related to climate change and natural disasters) because such factors are not present or are not relevant to the project. In addition, the project is not expected to have any impact on the environment and

the society, other than the benefit of good governance, transparency, and accountability.

81. **Stakeholders.** Opposition from stakeholders could have a negative impact on the achievement of the PDO, but the likelihood and/or impact of this opposition is Moderate. The project and objectives have already been widely discussed and well understood by all project stakeholders. Most key stakeholders have indicated active support for the project, and donor interventions have been well coordinated. Of course, there will be resistance to many of the behavioral changes required by some reforms—a natural human behavior response when people are uprooted from positions of comfort.

82. **The overall risk is rated as Substantial** because of the substantial residual risk in three of the risk categories above as well as the one category that is High risk. The likelihood of these risks manifesting is relatively low but if they occur, their impact will substantially affect the PDO.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

83. **Although it is not straightforward to comprehensively identify and quantify the direct and indirect economic and financial benefits of reform interventions designed** under the proposed PFM operation, it is clear that the economic and financial benefits that will accrue from implementation of the project will be significantly higher than the envisaged investment of US$20.9 million even over a four-year period. For example, an improvement of a quarter of one percent (0.25 percent) in the value obtained from public spending, sustained over only five years, will fully amortize the project costs; both the gains in value and the sustainability of the gains are expected to be markedly higher.

84. While the costs, are identifiable, the benefits are largely indirect and are ultimately seen in improved public financial governance, service delivery, and better performance of the PFM institutions. The economic and financial justification of the proposed operation is its contribution to a better functioning of economic governance through improved PFMSs and practices across Government. Benefits of the project will flow from improved budget credibility, strengthened budget execution and predictability in resource flows, better internal controls, and enhanced and engendered oversight in the management of public resources. Experience suggests that the proposed intervention could lead to (a) efficient, transparent, and accountable budget management; (b) better program implementation and service delivery as a result of improved credibility and predictability of budget; and (c) improved budget credibility—which will also improve resource allocation and budget execution more in line with the Constitutional framework and ZIMASSET priorities. Capacity-building programs embedded in the project and aimed at sustaining the reforms will also ensure the availability of the right type of human resources to pursue evolving reform actions needed to stabilize the macro-fiscal position of the country.

85. The added value arises mainly from the Bank's technical input based on international experience, particularly on the IFMIS implementation and capacity building for public financial management systems. The World Bank's task team's advice on the Terms of Reference, bidding

documents, hands-on advice on project implementation issues during project implementation support missions will provide potential cost and time savings to the project.

B. Technical Evaluation

86. **The technical foundation and the approach adopted in the design of the proposed project is strong.** It builds on the achievements and experiences of PFM interventions over the past five years in Zimbabwe and reinforces the necessity for increased legitimacy in embracing reforms as well as the functionality of reform actions introduced. The human and technical resources needed to actualize reforms toward achieving the desired objectives have been factored into the design. The political economy of PFM reforms in Zimbabwe have been taken into account in defining the adopted framework for successful reforms. In addition, the priority focal areas of the project are well delineated and sequenced, based on the Government's own priority reform areas, which were identified during the CFRA conducted in early 2015 and the related outcomes of consultations during the stakeholders' workshop that informed the project design.

87. **The required technical infrastructure and reform platform have already been established**. This project will complementarily scale up interventions aimed at effective utilization and further development of the PFM tools and systems with policy reforms facilitated by the Bank and other development partners.

88. **The institutional and governance arrangements designed under the project, taking a cue from the PFM Reform Strategic Plan itself, reaffirm that the proposed project will be implemented under a more structured arrangement that brings in all relevant stakeholders**. Enhancement of the technical efficiency and effectiveness of reform implementation across components and subcomponents and maintaining a strong relationship with development partners to reinforce complementarity—instead of intervention overlaps—will be key pursuits under the project.

C. Financial Management

89. In line with the guidelines stated in the Financial Management Manual issued by the Financial Management Sector Board, a financial management assessment has been conducted on the existing PMU of the MoFED**.** The unit was established and functional under the previous interventions and used by other development partners such as the AfDB and the African Capacity Building Foundation. Assessment of the FM arrangements concluded that there are adequate FM systems in place that together with the recommended mitigation measures satisfy the Bank's minimum requirements under OP/BP 10.00 (Investment Project Financing), and the FM risk rating is assessed as Moderate**.**

90. **It is expected that this project will consolidate the effective use of Government systems, including accounting (using the IFMIS platform), internal controls, financial reporting, and external audits**. The MoFED will be the primary executing agency for the project, ensuring that the PDO is achieved. However within the MoFED, the PMU, headed by a project director, will be tasked with the overall responsibility for day-to-day operational implementation, collaborating closely with other beneficiary agencies. In the same vein, the overall FM responsibility will be handled by the project accountant of the PMU.

D. Procurement

91. **Procurement under the project will be conducted by the PMU of the MoFED**. Specifically a procurement specialist who will be part of the PMU shall be responsible for conducting procurement in collaboration with the technical departments in the ministry, OAG, and PoZ. Procurement will follow the Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 (revised July 2014) and 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 (revised July 2014). The Guidelines on Preventing and Combating Fraud and Corruption in projects financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011, will apply to this project.

92. **Following the procurement assessment, the national system for procurement shall not apply under the project due to several inadequacies that render it inconsistent with international practice.** The Government is reforming, strengthening, and engendering its legislative and institutional framework to address these weaknesses. Beyond the national system the key risks to procurement are (a) lack of established procurement planning leading to delays and inappropriate procurement, (b) lack of an established procurement unit with staff conversant with international project procurement, (c) lack of clarity on the detailed applicable procedures in the absence of the national system, and (d) delays in preparing procurement documents and in completing evaluation of bids and technical proposals. These shall be mitigated by (a) the system of procurement planning and monitoring for the project with the PP which was finalized at appraisal, (b) hiring of a procurement specialist to conduct procurement, and (c) specifying the detailed procedures for procurement in the POM before effectiveness. The detailed procurement arrangements are indicated in annex 2.

E. Social and Environmental Impact

93. The project is intended to have a positive social impact by improving the people's confidence in PFM by means of projects in transparency and accountability that the Government will undertake. The institutional arrangements and implementation of all the components will also enhance gender equity on both the demand and supply sides of accountability by working within the Parliament and civil society to ensure that these voices are capacitated in the PFM debates. Moreover, as an Investment Project Financing Category C, it does not incorporate any issues related to environmental management. Consequently, the Bank's policies in this area are not applicable.

F. Bank Grievance Redress

94. Communities and individuals who believe that they are adversely affected by specific country policies supported under this Bank Investment Project Financing Operation may submit complaints to the responsible country authorities, appropriate local or national grievance redress mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns.

95. Affected communities and individuals may submit their complaints to the Bank's independent Inspection Panel that determines whether harm occurred, or could occur, as a result of Bank noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention and Bank management has been given an opportunity to respond.

96. For information on how to submit complaints to the Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

ZIMBABWE: Public Financial Management Enhancement Project (P152932)

Results Framework						
Project Development Objectives						
PDO Statement **The PDO is to improve control, transparency and accountability, and oversight in the use of public resources in the Recipient territory.**						
These results are at	Project Level					
Project Development Objective Indicators						
		Cumulative Target Values				
Indicator Name	Baseline	2016	2017	2018	2019
Effectiveness of commitment controls aggregate excess of spending over releases, as a percentage of central Government spending (core Sector Indicator)	n.a.	15	10	5	5
Timely preparation and reporting of annual consolidated financial statements after end of financial year (months) (Core Sector Indicator)	6	4	3	3	3
Effectiveness of internal audit (number of MDAs covered by internal audit reports)	10	10	20	25	30
Timely completion and submission of audited annual consolidated financial statements to the parliament (months) (Core Sector Indicator)	10	8	7	6	6
Satisfaction of Financial reporting available to citizen (with inputs from citizen at workshops (percentage satisfied)	n.a	5	10	25	50

Intermediate Results Indicators					
		Target Values			
Indicator Name	Baseline	2016	2017	2018	2019
Component 1					
Number of district councils utilizing local government IFMIS for management and reporting (ZIMREF Indicator 2.3.2)	0	2	10	20	30
Proportion of IGFs and relevant donor funding reported in annual financial statements	15%	20%	30%	50%	75
Component 2					
Coverage of internal audit (% of ministries or agencies)	10	20	40	60	80
Number of staff trained, disaggregated by gender (cumulative)	n.a.	40)	100	120	150
Component 3					
Number of audited public financial statements by private sector	20	20	30	40	50
Timeliness of submission of audit reports on consolidated financial statements (months)	12.	10	8	6	6
Component 4					
Audit reports debated in the parliament (ZIMREF 2.4.2)	32	35	40	40	40
Citizen engagement: Number of workshops conducted (cumulative)	0	4	10	15	20

Note: This results framework will support PEFA assessments to be conducted in 2016 to set the baseline and also in 2019 to measure progress in strengthening the PFMS**.**

Annex 2: Financial Management, Disbursement, and Procurement Arrangements

ZIMBABWE: Public Financial Management Enhancement Project

Financial Management Arrangement

1. The financial management assessment of the PMU of the MoFED, which will manage the project, was done with the aim of determining whether (a) the funds will be used efficiently and economically for the purposes intended and the entity will be capable of correctly and completely recording all transactions and balances related to the project; (b) the project's financial reports will be prepared accurately and reliably and on time; (c) the assets acquired under the project will be safely guarded; and (d) the project will be subjected to auditing arrangements acceptable to the Bank. The assessment complied with the FM Manual for Bank-financed Investment Operations and the Africa Technical Financial Management's Financial Management Assessment and Risk Rating Principles.

Executive Summary

2. **Systems for planning, budgeting, funds flow, accounting, internal controls, auditing and reporting are in place, ensuring proper FM arrangements for effective implementation of the project**. There are qualified and experienced FM staff to ensure timely, accurate, and complete transaction processing and reporting. However, to ensure good and uninterrupted FM performance for the project, it is recommended that the MoFED procures the services of an FM specialist to be exclusively attached to the project. The ministry has a computerized GM module interfaced with the IFMIS. The module is already being used to manage other donor-funded programs. The activities handled by the module include planning and budgeting, transaction processing, and reporting. The ministry is familiar with activity-based budgeting and will be able to prepare detailed budgets to enable meaningful monitoring of expenditure versus physical progress of implementation. Accounting and internal control procedures are available to guide staff on compliance with established controls and procedures. The internal audit function will provide further assurance on adherence to procedures. Management reports, including financial reporting, are produced monthly and discussed by the management. The entity's financial statements are regularly audited in accordance with the legislation.

3. For the project, the format and content of the interim financial reports (IFRs) to be produced quarterly should be acceptable to the Bank. The external audit of the annual financial statement of the project shall be done by auditors acceptable to the Bank using the ToR agreed with the Bank.

4. The FM assessment concluded that the FM arrangements meet the Bank's minimum requirements under OP/BP 10.00 (Investment Project Financing). The residual risk rating for the MoFED is Moderate.

Table 2.1. Financial Management Risk Assessment and Mitigation

Description of risk	Rating	Risk Mitigation Measures to Be Incorporated into the Project Implementation	Rating
Country Level There is a strong IFMIS for managing appropriated funds at the central ministries and up to the provincial level. The financial reporting for donor resources is almost nonexistent. The IFMIS has been configured to include donor accounting and reporting using the GM module of SAP. Weak internal audit framework.	S	The MoFED will use the GM module of SAP, which is being piloted for selected projects funded by Global Funds. The internal audit function of the MoFED will cover project transactions. The capacity is inadequate at the moment, but the project has a component aimed at strengthening the internal audit function.	**M**
Entity Level Inadequate financial resources for the MoFED may pose a risk on project financial resources.	S	The project funds will not be co-mingled with other funds from the Government. The project will have a designated account for eligible small procurements and operating expenses. Big procurements will be paid directly by the Bank.	M
Project Level The project will be implemented in several beneficiary ministries and departments, and this may bring about coordination problems.	S	The project will be managed by the PMU at the MoFED, which has experience in managing similar projects. Lessons learned from previous implementation is the mutual accountability that results from implementation of PFM solutions across various entities as they hold each other accountable.	M
Budgeting Budget may lack enough details and budget monitoring systems not robust	M	The PMU is familiar with budgeting and should be able to use the same experience in budgeting for the project's activities. The budget performance monitoring system is in place.	M
Accounting Weak accounting systems not able to process and report on transactions properly Staff not experienced in project accounting	S	The GM module of SAP has been configured to process project transactions and also produce reports in various formats. The PMU has experience in managing donor projects but the FM and procurement staff of the Bank will be training them in Bank procedures.	M

Internal Control Inadequate internal control procedures or weak control environment may result in poor enforcement of existing regulations, weak management oversight, and inadequate internal audit function.	S	Internal control procedures are in place and documented in a manual. One of the components of this project is aimed at addressing the internal control challenges that will intend benefit the project.	S
Funds Flow Delays may occur in flow of funds to finance planned activities and possibility of misappropriation of funds or use for unintended purpose.	M	The MoFED will open an exclusive U.S. dollar account for project operations. Only activities agreed in the annual work plan and budget will get financing from the account. Large procurements will be paid directly and small procurements from the designated account. There will be intensive implementation support to ensure funds are used for only intended purposes.	L
Financial Reporting Delays in submission of reports	M	The reporting format was agreed on with the Bank during the appraisal mission. The PMU staff will be trained in FM and reporting in line with formats acceptable to the Bank.	L
Auditing Audit reports on the project may not fully use international standards, thus creating a risk that the audit approach may not be thorough enough to enable making of a reliable audit opinion. Unacceptable audit and untimely submission of the audit reports and lack of follow-up on audit findings.	S	The audit will be based on agreed ToR that will specify the approach, scope, and timing—including use of international standards on auditing. Follow-up of audit findings will be done by the internal audit of the ministry as well as Bank FM staff during supervision missions.	M
Overall FM risk rating	S	The overall FM risk is considered Moderate.	M

Note: H = High; S = Substantial; M = Moderate; L = Low.

5. **Budgeting arrangements.** Individual units or departments will prepare their respective budgets based on agreed work plans, and these will be consolidated to form the project's annual budget. The budgets will be activity based and will be used to monitor performance during implementation of activities. The project's annual work plan and budget will be informed by the Project Appraisal Document.

6. **Accounting arrangements.** The accounting function will be done using the GM module which is interfaced with the IFMIS. International accounting standards will be used for accounting and reporting. There are enough qualified and experienced staff within the ministry to carry out the required FM work. The MoFED will assign or recruit an FM specialist exclusively for the project to ensure continued and smooth FM operations of the project. All routine accounting and related administrative activities are guided by written policies and procedures.

7. **Internal auditing.** The internal audit function is in place within the respective implementing entities and will be strengthen during the project. The internal auditing activities for each of the implementing entities will cover the activities and transactions of the project.

8. **Internal control systems.** The POM will provide guidance on adherence to controls and procedure.

9. **Banking arrangements.** The MoFED will open a designated account in U.S. dollars at a commercial bank acceptable to the Bank.

10. **Funds flow arrangements.** The arrangements (through the bank accounts above) are as follows:

- The designated account will have a ceiling, which is the maximum that will be allowed in the account, and the first withdrawal application will be for this amount.

- The Bank will process the withdrawal application and disburse funds to the designated account in U.S. dollars, but for large procurements, the disbursement will be made using the direct payment method. Direct payment is where payments are made by the Bank directly to vendors or service providers.

- On a monthly basis, the PMU of the MoFED will document in the Bank system expenditure incurred and also prepare withdrawal application amounting to the expenditure incurred to be used for replenishment of funds expended. This arrangement is known as the statement of expenditure method of documentation of expenditure and replenishment of funds in a designated account.

IDA Disbursement Methods

11. **The project will benefit from the following disbursement methods:**

- **Direct payment.** Such payments may be made for large procurements of works, goods, and services.

- **Advances.** Funds may be requested and deposited into a designated account for small procurements and operating expenses.

- **Reimbursements.** Project activities can be pre-financed and reimbursement claimed later.

12. As stated in the fund flow arrangements, disbursements or payments for large procurements will be made using the direct payment method. For small procurements and operating expenses, the advances method will be used.

13. The Disbursement Letter provides details about each of the above disbursement arrangements.

Financial Reporting Arrangements

14. The PMU of the MoFED will produce quarterly unaudited IFRs for the funds received and used under the project. The IFRs are to be submitted to the Bank within 45 days after the end of each calendar quarter. The MoFED will agree with the Bank on the format and content of the IFR. The reporting requirements will be incorporated into the GM module to enable automatic generation of the IFRs.

15. The IFRs submitted to the Bank will have a section on Financial Reporting and Disbursement containing the following:

(a) The Reporting section includes the following:

- Statement of Sources and Uses of Funds by disbursement category
- Statement of Uses of Funds by Project Activity or Component

(b) The Disbursement section includes the following:

- Designated account (DA) activity statement
- Bank statements for both the designated and operating accounts (if any)
- Summary Statement of DA Expenditures for Contracts subject to Prior Review
- Summary Statement of DA Expenditures not subject to Prior Review

16. The MoFED will also prepare annual audited accounts or financial statements, which shall be submitted to the Bank within six months after the end of each accounting year, that is, not later than June 30. The accounts will be prepared in accordance with International Public Sector Accounting Standards and audited using International Standards for Auditing.

17. The accounts or financial statements will comprise the following:

(a) **A Statement of Sources and Uses of Funds or Cash Receipts and Payments,** which recognizes all cash receipts, cash payments, and cash balances controlled by the entity and separately identifies payments by third parties on behalf of the entity.

(b) **The Accounting Policies Adopted and Explanatory Notes.** The explanatory notes should be presented in a systematic manner with items on the Statement of Cash Receipts and Payments being cross-referenced to any related information in the notes. Examples of this information include a summary of fixed assets by category of assets and a summary of IFR Withdrawal Schedule, listing individual withdrawal applications.

(c) **A Management Assertion** that Bank funds have been expended in accordance with the intended purposes as specified in the relevant Bank Legal Agreement.

Auditing Arrangements

18. External auditors appointed by the AG will audit the project's annual financial statements using the International Standards on Auditing. The audited financial statements will be submitted to the Bank within six months after the end of the fiscal year along with the management letter. ToR for the audit will be agreed with the Bank.

Financial Management Action Plan

19. The following actions need to be taken to enhance the FM arrangements for the project:

Table 2.2. Financial Management Action Plan

	Action	Due Date	Responsible
1	Agree on the format of IFRs with the Bank	Was agreed on with the Bank	MoFED/World Bank
2	Agree on audit ToR	Before effectiveness	MoFED/World Bank
3	Open designated account	Before effectiveness	MoFED
4	Recruit the FM specialist and M&E specialists for the project	Disbursement	MoFED

20. **Financial covenants.** The covenants are the standard ones as stated in the Financing Agreement Schedule 2, Section II (B) on Financial Management, Financial Reports and Audits, and Section 4.09 of the General Conditions.

Implementation Support Plan

21. Based on the outcome of the FM risk assessment, the following implementation support plan is proposed. The objective of the implementation support plan is to ensure the project maintains a satisfactory FM system throughout the project's life.

Table 2.3. Implementation Support Plan

FM Activity	Frequency
Desk reviews	
Interim financial reports review	Quarterly
Audit report review of the program	Annually
Review of other relevant information such as interim internal control systems reports.	Continuous as they become available
On-site visits	
Review of overall operation of the FM system	Semiannual or (implementation support mission) as informed by identified risks
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit, and other reports	As needed
Transaction reviews (if needed)	As needed
Capacity-building support	
FM training sessions	Before effectiveness and during implementation and as and when needed

22. **Conclusion of the assessment.** The conclusion is that the FM arrangements meet the Bank's minimum requirements under OP/BP 10.00. The overall residual risk rating for the ministry is Moderate.

Procurement Arrangements

23. Procurement under the project will be conducted by the following agencies for the different components:

Table 2.4. Procurement Arrangements

Component	Agency Responsible for Procurement	Summary of Major Procurements Expected
Component 1. Financial Management and Accounting	MoFED	1. Additional IFMIS modules and system integration 2. Additional IFMIS licenses 3. Computer hardware and software to support IFMIS rollout
Component 2. Enhance Effectiveness of Internal Controls and Internal Audit	MoFED	1. TA to support revision of the legal framework 2. Development of quality assurance system 3. Training
Component 3. Enhance Accountability through Strengthening of External Audit	MoFED with participation of the AG	1. Hire of private audit firms to audit Government accounts 2. TA to support development of audit manuals 3. Audit automation systems
Component 4. Strengthening the Demand Side of Transparency and Accountability	MoFED with participation of the parliament	4. Training and study visits
Component 5. PFMEP Management		5. Individual consultants to support project implementation 6. Office equipment and furniture

Applicable Guidelines

24. Procurement under the project will follow Procurement will follow the Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 (revised July 2014) and 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 (revised July 2014).

Use of National Procurement System

25. Procurement in Zimbabwe is covered by the Procurement Act of 1998 (amended in 1999 and 2002) and its Regulations of 2002 (amended in 2003). The act establishes the SPB as a regulatory agency, which also conducts procurement above a given threshold on behalf of procuring entities. The legal framework in the act and regulations is based on competitive factors such as price and quality. This act mainly establishes the composition and functions of the SPB, outlines general and financial provisions, provides guidance in the conduct of procurement proceedings, and sets out a procedure for appeals. The national procurement procedures and

Standard Bidding Documents for procurement of goods and small works are not acceptable for use under Bank-financed projects. The legal framework in the act and regulations is based on competitive factors such as price and quality, but National Competitive Bidding procedures in the act and regulations need to be revised substantially to be compliant with international practice. The act and regulations leave a lot to interpretation in areas where it is not clear or specific in laying out the procedures. Additionally, there are no Standard Bidding Documents. Therefore, the national procurement system shall not apply under the project and procurement shall follow the bank's guidelines. National Competitive Bidding, therefore, will not be used in the context of this project. To complement the guidelines, the following will be established as shall be elaborated in the POM:

(a) The AO shall be the Accountant General in the MoFED.

(b) A procurement specialist shall be hired under the project to conduct procurement.

(c) A Procurement Committee shall be established in the ministry to consider and approve (i) the PP, (ii) solicitation documents before their issuance, and (iii) evaluation reports and award of contract. The committee shall be composed of five senior staff and the functions shall be specified in the manual.

(d) Evaluation Committees shall be established on an ad hoc basis to evaluate bids.

(e) Procurement complaints shall in the first instance be submitted to the AO. Where the complainant is dissatisfied with the response, they may appeal to the SPB.

(f) The SPB shall not be involved in conducting procurement under the project but may play its monitoring and capacity-building function.

26. **Procedure for shopping**. Shopping shall follow the Request for Quotation procedures with quotations sought from at least 3 bidders. A Request for Quotations Document shall be developed for use and included in the POM.

27. Advance contracting and retroactive financing shall apply to this project. To be eligible for financing, the procurements shall follow the financing agreement and the PP.

Table 2.5. Procurement Thresholds to Be Applied in the PP

Expenditure Category	Contract Value Threshold	Procurement Method	Contracts Subject to Prior Review (US$)
1. Works	• US$100,000 and above • Above US$20,000 and below US$100,000 • Up to US$20,000	• ICB • Shopping • Shopping	• All contracts • All contracts • None
2. Goods and Non-Consulting Services	• US$50,000 and above • Below US$50,000 and above US20,000 • Up to US$20,000	• ICB • Shopping • Shopping	• All contracts • All contracts • None

Expenditure Category	Contract Value Threshold	Procurement Method	Contracts Subject to Prior Review (US$)
3. Consulting Services[11] and Training	• With firms above US$300,000 • With individuals above US$100,000 • With firms up to US$ 300,000 • With individuals up to US$100,000 • With firms and individuals up to US$20,000	• Quality- and Cost-Based Selection • Individual • Qualifications/Other • Individual • Shopping	• All contracts • All contracts • All contracts • All contracts • None
4. All types of contracts	All contracts	Sole source or direct contracting and ToR	As specified in the PP

Procurement Arrangements, Risks, and Mitigation Measures

28. **The IFMIS rollout and additional modules.** The main procurement shall be the procurement of additional IFMIS modules and licenses for further rollout of the IFMIS. The Government currently uses SAP, and therefore, the same system is to be adopted for the BI and Workflow modules and the rollout to other agencies. The licenses and additional modules shall, therefore, be procurement by direct contracting from SAP.

29. **Responsibility for procurement.** The ministry shall hire a procurement specialist as part of the Project Implementation Unit to be responsible for day-to-day processing of procurement. The procurement specialist shall also train the ministry's administration staff who currently conduct some procurement to expose them to project procurement. The procurement specialist shall conduct procurement for all the components.

Procurement Plan

30. The MoFED has prepared a PP, which was finalized and submitted to the Bank for review before the end of appraisal. The contracts subject to international competition are specified in the PP.

Procurement Risks and Mitigation Measures

31. An assessment of the procurement capacity of the MoFED was conducted in June 2015. The assessment reviewed the legal framework, the institutional arrangements, the staffing for procurement, the quality of record keeping, and the actual procurement practice. The risk to procurement was rated as High. The key risks and mitigation measures are given in table 2.6.

[11] A short list of consultants for services estimated to cost less than US$300,000 equivalent per contract may consist entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Table 2.6. Key Risks and Mitigation Measures

Risk	Action	Timeframe	Responsibility
Lack of procurement planning leading to inappropriate procurement strategies and delayed deliveries and implementation	• Conduct training for the MoFED in procurement planning • PP to be prepared and agreed by the end of project appraisal	Before negotiations (completed)	MoFED, Bank
Lack of procurement staff with experience in project procurement and Bank guidelines	• Procurement specialist with qualifications acceptable to IDA to be hired to conduct procurement and mentor and train MoFED staff	Before effectiveness	MoFED
Lengthy approval procedures for procurement leading to delays in procurement	• Procurement Committee to be established for approval of evaluation and award of contract after which the contract is presented for communication of award and signing by the AO	Throughout implementation	MoFED
Inadequate technical staff to support procurement	• Additional technical staff to be hired under the PMU to support procurement and implementation as required	Before effectiveness	MoFED
Lack of clarity on the applicable procurement procedures	• The MoFED to prepare the procurement manual to be included in the POM	Before project effectiveness	MoFED
Inadequate record keeping making retrieval of procurement documents difficult	• Establish proper records management system with sufficient storage equipment	Throughout implementation	MoFED

Frequency of Procurement Supervision

32. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the implementing agency recommends six monthly supervision missions to visit the field, including at least one mission to carry out a post review of procurement actions.

Annex 3: Implementation Support Plan

ZIMBABWE: Public Financial Management Enhancement Project

Background

1. **Implementation support to the various programs being financed by the ZIMREF is a function of the GoZ**. Owing to mutual benefits that derive from the support, the Bank has some responsibility through its task teams to provide adequate implementation support to the project. Such support will aim at achieving the following objective:

   - Help the GoZ to increase the developmental impact of the project through (a) improved results; (b) better implementation and risk management; and (c) increased institutional development while ensuring compliance with the Financing Agreements of the operation.

2. As such, implementation support will revolve around two main dimensions:

   - Providing high-quality technical advice by which the Bank brings added value to Government through technical assistance and policy advice on capacity-building activities, which could lead to improved results at the project level or in the sector being supported by the project.

   - Compliance oversight by which the Bank will monitor compliance and provide advice, as necessary, to the Government, implementing the project with due diligence to achieve its intended development objectives in conformity with its Financing Agreement.

Strategy and Approach for Implementation Support

3. **An implementation support strategy has been developed as part of the design of the project; this will enable the Bank task team members and other participating donors play a crucial facilitation role in the GoZ's implementation of the project**. On a semiannual basis, the Bank task team will conduct a thorough implementation review or a support mission and the ToR will include guidance and technical advisory support to the various implementing entities under the project. In between the formal semiannual implementation reviews, specialist support missions will also be conducted to provide additional support to the MoFED and the various implementation teams. Task team members will respond to any challenges the implementation teams may face and provide ample guidance accordingly. Task team members will also follow up on the status of implementation of agreed actions, geared to delivery of results, which will constitute a cardinal focus of all implementation support missions.

4. The implementation support team members will focus on critical risks to achieving project results and manage such risks—either through monitoring or addressing such risks during implementation. Specific risks they will address will revolve around the following factors:

   - Stakeholder risk factors

   - Operating environment factors such as risks posed by a country's politics, governance, societal, security, economic or fiscal issues; also focus on ownership, commitment aspects, and governance issues at the sectoral level

- Implementing agency factors such as project management capacity and adequacy of arrangements to monitor and evaluate progress

- Project design factors such as the nature and size of project activities; the project's technical, policy, and institutional complexity; the degree of innovation; and the degree of project decentralization

5. Apart from the Bank's semiannual review missions in the field and the regular implementation support visits by the TTL and other specialist members of the task team, the following will serve as the basis of the arrangement and approach for supporting the implementation of the project:

- The task team will provide continuous support and guidance to the project's implementing agencies and will strengthen the Bank's oversight of compliance with the implementation covenants. The TTL will serve as the 'one-stop-shop' for, and coordination interface with, GoZ counterparts on project-related issues, representing the Bank at coordination meetings between the donor partners as part of the donor PFM working group.

- Regular technical meetings arranged when necessary, by audio and videoconferencing in between formal missions, between the GoZ counterparts and the task team will be put in place, to discuss matters affecting implementation risks and bottlenecks and will be enhanced by continuous communications between the Bank and Government counterparts.

- Regular one-to-one interactions between in-country task team members and the implementing agencies to cater to ad hoc support requirements will be put in place.

- Prior reviews of procurement actions falling within the threshold as determined in the PP, as well as recurring reviews of procurements subject to post review, will be enacted.

- Regular reviews of M&E reports and milestones achieved will also be enacted.

- Interim financial and progress reports and annual audited financial statements of the project will be used to discern progress and risks and will help determine where remedial action may be required.

6. All of the above arrangements will be further strengthened through the Bank's 'enhanced implementation' support of the project by a team of well-qualified and experienced professionals, including consultants, in the area of PFM, working on the Bank team.

7. **The need to exercise reasonable flexibility in project implementation and by means of fine-tuning the scope, pace, and substance of the reforms in response to changing circumstances will be agreed between the Bank team and GoZ counterparts in support of achieving sustainable outcomes**. The Bank will, therefore, where necessary, enter into dialogue

with its GoZ counterparts to restructure the project, as long as that process will better redirect the implementation actions toward achieving the PDOs.

8. **As part of the implementation, governance, and coordination arrangement designed under this project, a POM will be prepared, which will facilitate the implementation coordination**. The manual will articulate and assist in understanding of the rules and guidelines, responsibilities, and roles required for effective implementation of the project. The MoFED will, before each formal Bank task team implementation support mission, provide a comprehensive progress report on the project's activities, results attained, and an updated AWP&B and PP consistent with the project work plan and related costs as agreed at the outset. Lessons learned from the previous PFM reform project implementation call for more intensive implementation support and client handholding during, at least, the first 24 months of the project's implementation. This will be preceded by a launch workshop where the expectations and final articulation of the approved project design, rules, and guidelines will be disseminated to implementers.

Specific Responsibilities

9. On the Government side, arrangements will be put in place to kick-start management of risks and assist with implementation by

- establishing organizational arrangements, including adequate FM systems; and
- appointing key staff and consultants.

10. On the Bank side, the task team will also make attempts to

- closely monitor performance of actions implemented by the GoZ to strengthen the FM system and provide technical advice based on relevant international experiences on effectuating needed improvements;
- organize training events on relevant topics for key staff working on the project; and
- support analytical work that could lead to better institutional performance in the long run.

11. To maximize resources providing implementation support, the Bank task team will take advantage of its strategic alliances in Zimbabwe to leverage opportunities for its implementation support efforts by doing the following:

- Involving project beneficiaries in verifying project outputs where necessary
- Establishing transparent and accessible complaint and dispute resolution mechanisms
- Involving other development partners to organize more site visits, collaborate on project reporting, or share the provision of TA where necessary

12. **Coordination among the development partners will also be key to achieving results**

on the ground because their individually (separately) financed projects may complement what is being implemented through this project. The partners have already formed a coalition through the E-PFM Technical Review Group (and Policy Oversight Committee of the ZIMREF) whose role has been, among other things, to harmonize and align reform interventions so as to avoid duplications; sequence support within the overall framework, as defined in the holistic PFM Reform Strategic Plan; and share information on all facets of their respective country programs affecting PFM as a whole, to optimize results and bring about change.

13. **Sustaining high-quality implementation support throughout project life will be critical to assure delivery of outcomes (not merely outputs) within the project's four-year implementation period**. The task team will be led by an experienced and seasoned professional in PFM reforms and will have a skills set that is advanced and draws on a rich tapestry of world-class knowledge on various subjects needed to effect the thorough implementation and support of this technical assistance project. The team will include economic policy and public sector specialists; IFMIS implementation specialists (technical and functional); a gender specialist; M&E specialists; budget reform specialists (covering expenditures and revenue management); experienced public sector accounting, auditing, and reporting specialists; and FM and procurement specialists, all with experience in supporting PFM reform projects in environments similar (and dissimilar) to Zimbabwe. The ZIMREF donors and AfDB, technical staff will form part of the review missions.

Annex 4: Strengthening the Accountability Framework for the Project

ZIMBABWE: Public Financial Management Enhancement Project

1. **The growing focus on development results has made managing for results central to effective project implementation**. That focus emphasizes the importance of reviewing progress toward results, learning what does and does not work, and altering the overall plan, if necessary, by bringing all stakeholders on board.

2. **To achieve the aforementioned, the implementation arrangements of the project have been streamlined for greater effectiveness**. A strengthened accountability framework has been put in place to ensure orderly management of project funds and to ensure that clarity of roles and responsibilities of key stakeholders is well understood. Detailed responsibilities and clarity of roles will ensure smooth and timely project implementation. Subcomponents or programs will be managed through the respective project managers under the auspices of the project director.

3. The objectives of a strengthened accountability framework are to

- develop and implement robust improvement in preparatory activities, implementation, and accountability for the project and all stakeholders that will improve outcomes for the various programs being financed;
- develop clear accountabilities and processes leading to robust quality assurance, improved programing and target setting and, where necessary, bring about systemic, focused intervention before it is too late;
- provide clarity on the subject of payment of allowances and per diems; and
- provide training on gender mainstreaming of the project cycle.

Annual Work Plans and Budget Preparation

4. The AWP&B with the related PP will be developed in a participatory manner by each component manager. Preparation will follow key steps which will include the following:

- Provision of guidelines and timetables, developed by the project director within the MoFED, to all the implementing ministries.
- The implementing ministries will ensure that their key departments and units, such as Procurement, Finance, and others (as necessary), are involved in managing their components, including participation in the development of the work plans.
- The component work plans will be discussed by a joint work plan preparation team, involving all program managers and key staff as necessary, in a meeting chaired by the project director. This will ensure overlap issues are considered, omissions addressed, and any duplications eliminated.

- The PMU will then work with the various teams to prepare the related PPs for review and subsequent approval before sharing with the Bank task team.

- The agreed AWP&B and PP will then be discussed with the Bank for its initial review ensuring that activities are eligible for funding under the project.

- The AWP&B and PP will then be forwarded to the PFMSC for final approval.

- The project director will then submit the package of cleared AWP&B and PP for a 'no objection' from the TTL.

- It will be important that all activities and approvals are obtained for the AWP&B by the end of the year preceding the year to which the AWPB&B applies.

Specific Accountability Framework for Per Diems and Allowances

5. **Weaknesses in policy design and control of spending on per diem, as a way to reimburse out-of-pocket expenses for travel and/or training aimed at encouraging staff to attend relevant professional development activities, has become a problem on most projects financed by the Bank in a number of jurisdictions**. This project will adopt and implement a fair, transparent, and efficient policy, which provides adequate compensation for work-related travel without creating incentives for personal gain or abuse. To mitigate the risk of unretired travel advances and provision of inappropriate or fraudulent documentation to acquit the travel advances and unjustifiable claims for travel not undertaken, the project will undertake steps, which are aimed at arresting any such incidents. Suggested steps are as follows:

- The MoFED will establish a standard rate for use in all Bank-assisted projects with respect to local travel. All these rates will also be applicable to this project. The rate determined will not be higher than the applicable Bank meals, tips, and valet rate.

- With respect to overseas or foreign travel, this category of expenditure will be minimized. In addition, the applicable allowances will be the UNDP rate (which normally involves a lump sum payment for hotel and per diem). Local and overseas or foreign travel allowances paid to project staff will not require vouching under the proposed policy framework; nevertheless, where actual travel days fall short of the travel days for which the advances were paid, the official will be required to reimburse the difference.

- Air tickets will continue to be reimbursed or paid according to actual use; used air tickets and boarding passes will need to be submitted as evidence of travel.

6. To further strengthen the above guidelines, an enhanced accountability framework should be considered for implementation in this project and in all other Bank-assisted projects related to expenditures in the areas of training, workshops, study tours, and so on, as follows:

- At the beginning of each fiscal year, a separate training summary plan will be developed and shared with the TTL for review as part of the annual work plan.

- All training, that is, local and international, will require prior clearance from the Bank's TTL before being undertaken. Requests for clearance should, at a minimum, include the following:

    - Demonstrated linkage between the rationale for the workshop, training, or other related program and the development objective of the project

    - Identification of the part of the Annual Work Program in which the activity falls

    - Identification of the number of trainees, their function, and mode of selection, including the number of times during the past 18 months that listed trainees had benefitted from training

    - The number of years before retirement from service of each of the trainees

    - The process used for selection of the training provider and, if foreign training, the rationale for not proposing local training

    - The training prospectus and reference to the beneficial outcome of the training

    - Detailed costs of the event; if local training or workshop or sensitization, the following additional information will need to be provided: the venue for the event; how the venue was or is proposed to be selected; venue rental costs; refreshments or lunches per diem; transport costs (air or land travel cost per trainee)

7. **Only based on the above submissions and the TTLs' prior clearance will expenses be committed and become eligible for financing under the project.**

- The coordinating unit of the project will ensure that a formal process of accountability is instituted for training expenditures. The process will include

    - submission of training reports by the trainees;

    - submission of certificates of attendance from the training institution;

    - submission of relevant travel certifications such as air tickets, boarding passes for air travel and so on;

    - direct acquisition of information from the travel agent, of the lowest-cost economy class tickets, through electronic payments or checks (no cash payments will be allowed); and

    - direct payment of tuition fees or accommodation and subsistence costs (where applicable) to training providers as well as direct payments to vendors' accounts for approved services.

- Independent impact evaluation on project-funded programs through work surveys will be done to determine the effect of training and workshops as well as the application of the learning with regard to better decision making, better understanding of new systems, and improved service delivery.

- Rigorous control systems will be put in place regarding fuel usage; monthly reports for fuel usage will be produced stating distances covered, purpose, and how much fuel has been consumed per vehicle.

- A requirement to audit aspects pertaining to fuel per diems, allowances, and travel expenditures will also be included in the project's audit ToR. The key objective will be to establish and strengthen the integrity of the project's FM system for tracking abuses. Auditors will especially focus on

  - the project awarding opportunities to earn per diems to favored employees, friends, and kin;
  - influencing plans and budgets to increase the use of per diem-friendly strategies;
  - planning meetings or activities in locations that require travel and per diem;
  - seeking ways to attend trainings which are not directly relevant to one's work;
  - attending multiple workshops in one day without staying for all of the sessions;
  - overestimating days needed for tasks which earn per diem;
  - splitting trips or creating extra trips for the same task;
  - claiming per diem days that were budgeted, even if work is postponed or takes less time than planned; and
  - accepting payment from two or more sources for the same activity or travel.

- Follow up on weaknesses in audit reports pertaining to per diems, allowances, and any other issues of the project will be exercised.

- As for per diems and allowances, discretion will not be allowed where managers or supervisors sign for their employees or vice versa.

Implementation and Approval Responsibilities

8. **Implementation.** After approval of the AWP&B, the day-to-day implementation responsibility for the approved activities in the AWP&B will lie with the individual program managers, in close collaboration with the project director, on those activities falling within their domain. The project director will ensure that the component heads receive all the technical support provided by the procurement, FM, M&E and gender specialists for the implementation of their component activities. The implementation framework places overall responsibility for project implementation and coordination on the project director, working with the program managers. The component managers will also be held accountable for the smooth implementation of their respective components being financed by the project. To ensure

synergies and effective coordination, there will be monthly meetings of all component managers, chaired by the project director, to review implementation progress and resolve all outstanding issues encountered by the programs.

9. **Approvals.** Day-to-day approval of project activities will be vested in the project director who will ensure that those activities are part of the approved AWP&B. The project director will

- provide this approval or provide reasons why approval cannot be given within one business day of receipt of such requests, for activities that do not need the Bank's prior reviews or clearance;

- seek the required Bank clearances and 'no objections'" for activities that require them within 5 business days after receipt of the request from a component manager; and

- communicate within one business day after receiving response from the Bank to the component manager responsible.

10. For activities not included in the AWP&B and PP, there will be clear guidelines to be followed to seek approval.

11. **Reporting relationships and responsibilities.** The Project Director will be the main interlocutor between the GoZ and the Bank on this project. He or she will be responsible for submitting project progress reports, quarterly financial reports, annual project audit reports, and other reports to the Bank, in line with provisions specified in the Financing Agreement. He or she will be the principal spokesperson for communicating decisions of the PFMSC and, similarly, communicating Bank responses, correspondence, and information to the relevant oversight committees of the project. The Project Director will ensure that relevant reports, including financial reports, are available for discussion at the steering committee and implementation management committee meetings.

Annex 5: Governance and Anticorruption Action Plan

1. **While the country's budget process is supported by a relatively sound legal framework, coupled with implementation of reforms to improve budget comprehensiveness and management, budget deviations and arrears still characterize the fiscal cycle**. This is also a result of inadequate fiscal discipline, resulting in budget deficits—which arise largely from unplanned commitments and expenditures—occurring on the back of limited political accountability and structural constraints in the country's public expenditures and FM system. The provisions in the PFMA regarding fiscal responsibility are very limited and ineffectively enforced. Fiscal policy management problems are also manifested in large information gaps on public expenditures outcomes and incomprehensive reports on outturns, thus making aggregation of expenditures by program a cumbersome process. According to the Global Corruption Perception Index release by Transparency International in December 2014, Zimbabwe is ranked 156 out of 175 countries.

2. **Based on the country's political economy and project-level governance assessment, the following governance and anticorruption risks have been identified**:

- **Sector governance, policies, and institutions.** The institutional governance in policymaking is still constrained by lack of trust and poor coordination among (and within) agencies, which is often magnified by information asymmetries and weak capacity. Capacity building in all aspects of the value chain in PFM—including external audit—will be supported by this project to improve the policy coordination environment. Significant resources from this project will be used to strengthen existing PFM areas such as accounting and reporting; the IFMIS; internal and external audit; legislative oversight; and other issues. This will be complemented by an ongoing IMF monitoring program and other donor supports currently activated.

- **Systemic corruption, state capture, and patronage.** In 2009, the country revived the IFMIS which is a PFM information system based on information and communication technology (ICT). Thus, corruption issues that are technical in nature can partly be mitigated through the successful establishment and use of internal controls embedded in the IFMIS to reduce human interface factors. To mitigate corruption at the political level, the project will strengthen the demand side of accountability through transparency and social accountability. This will help detect higher-level corruption, apply appropriate remedies, and deter their recurrence.

- **Weak demand for good governance (accountability).** The political economy of Zimbabwe suggests a less than vibrant civil society and other non-state actors in the country. Information on the budget and public expenditures, even though uploaded on the MoFED websites, is not comprehensive and available on time. For instance, the monthly and quarterly financial statements published in the Government gazette are not available on the website. Audit reports approved by the Parliament are also not on the website. Subsequently, demand for good governance is hampered. Cognizant of this, the project will demand timely publication of budget and public expenditures information, as prescribed by the PFMA. At the same time, support will be provided to strengthen the capacity of the Legislature (the FEDC and PAC) to provide statutory oversight of public revenue and expenditures.

3. **The project will address all the issues noted above using both demand- and supply-side measures not only in project management but also in general PFM issues**. It will strengthen the OAG to consolidate recent gains and expand the scope of audits. The capacity of the OAG will be enhanced to undertake systems audit and use of CAAT at the national level. To deliver on its mandate, the OAG will be outsourcing audits to the accounting firms and staff of the OAG will be trained in monitoring and coordinating such audits. This public-private partnership in auditing will be built to focus on completing audits of ministries and subnational governments within the statutory six-month requirement.

4. **On the demand side, a policy of disclosure of PFM information to the public will be vigorously pursued.** This will include, but not be limited to, revenue data, expenditures data, external audit reports, information on procurement, and contract awards. In addition, proactive disclosure of project documents will also be pursued. In this regard, work plans, periodic progress reports, external implementation status and results reports, aide memoires, and so on will be made public. All of this would be geared toward providing accurate, comprehensive, and timely data to non-state actors to enhance their advocacy activities.

Annex 6: Detailed Project Description

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

Objective

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

Status

2. **Background.** Zimbabwe's public expenditures are carried out through the central government and local authorities. The central government departments carry out their functions in 10 provinces, which are divided into 62 districts. The local government functions are carried out primarily through local authorities, comprising urban councils (32) and rural development councils (62). The local governments, including rural development councils, can raise revenues and implement their annual development plans. About 45 percent of the public funds are carried out through the local governments.

3. **Status.** The Government's efforts to rebuild the systems after the economic recovery since 2009 have yielded results. The status of key PFM arrangements and reforms is as follows:

- (a) **Institutional arrangements** for a sound PFMS are in place. The Permanent Secretary, MoFED, has the overall responsibility for PFM; the Principal Director, MoFED, has responsibility for budget planning; the Accountant General has responsibility for budget execution, reporting, internal controls, production of timely and appropriate management, and financial accounts. Within MDA, AOs have overall responsibility for effective PFM, assisted by the finance directors. The Accountant General is the custodian of the IFMIS, which is the key enabling tool for controlling the budget execution and reporting.

- (b) **Banking arrangements for establishing TSA structure** that enables strengthened control of the treasury over public funds are largely in place. The treasury controls the CRF account and one or more of its subaccounts. These accounts are being maintained at the RBZ. The sector ministries and key budget institutions hold their separate bank accounts in the RBZ and the Commercial Bank of Zimbabwe. These accounts are linked subaccounts of the main CRF account.

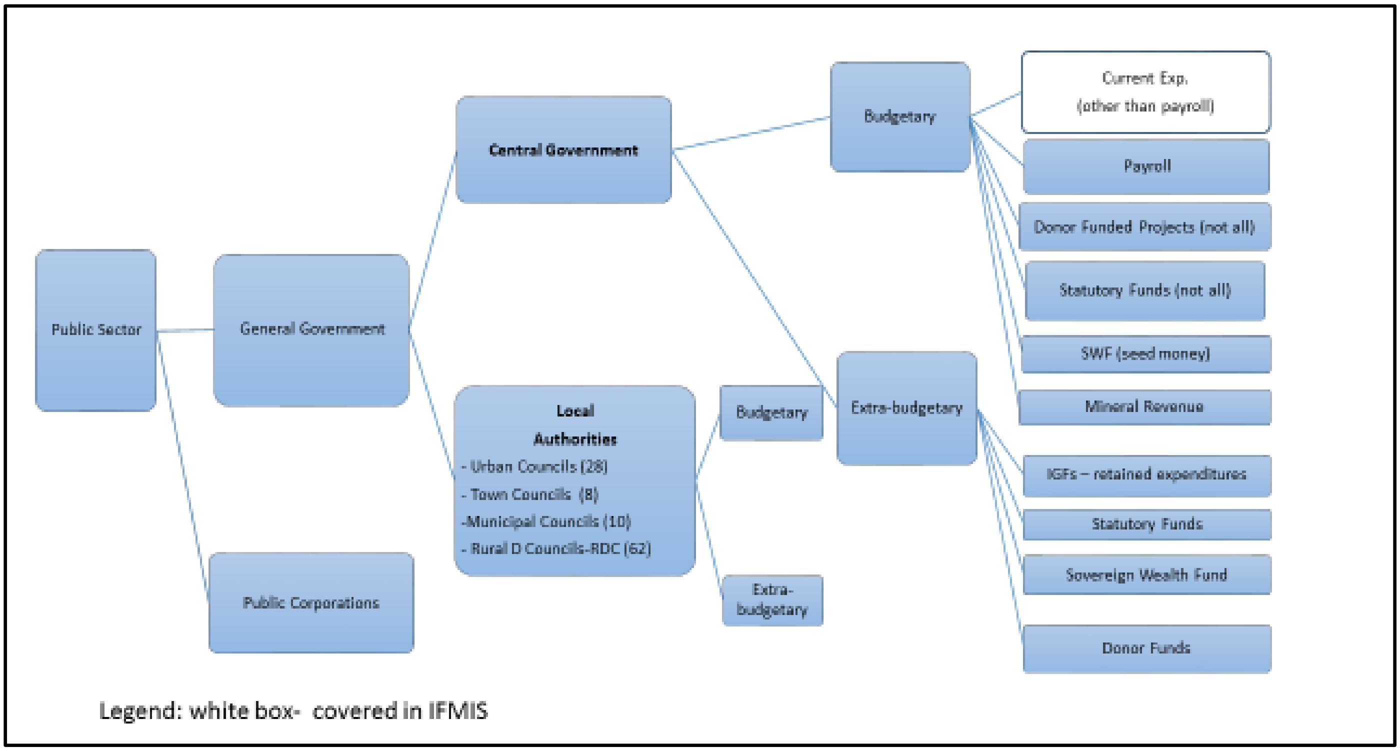
- (c) **The PFMA** was enacted in 2009 and complementary regulations finalized thereafter. However, the Government has identified several areas of improvements, both in the act and the regulations, with the support of IMF AFRITAC South. These draft amendments and regulations have not been finalized yet.

- (d) **The IFMIS (SAP ECC 6 EHP 7) has been implemented** to ensure ex ante commitment control, produce budget execution and other financial reports, and manage cash. However, the budget is not prepared through the IFMIS. Instead, budget spreadsheets are uploaded into the IFMIS. The IFMIS covers recording of the non-salary recurrent expenditures of the central government—around 14 percent of the budget. The rollout has been completed at 320 units, including all the 26 ministries at Harare, central government spending units at Harare, and 10 provincial headquarters. At these units, the nontax receipts of the ministries are also being captured in the system, at about 150 receipt-recording points. The district expenditures of the central government are processed through the IFMIS in an off-site mode—the district departments bring their expenditure vouchers to the nearest provincial headquarter for payment processing through the IFMIS. The local authorities primarily use three accounting packages—BIQ being used at the 10 city councils; PROMAN, at 17 urban councils, and Pastal at the remaining councils. The councils prepare their budget through spreadsheets though a new system, Quintrix, is currently being implemented by the local authorities to support their budgeting.

(e) The Government has decided to roll out the IFMIS at the local authorities to have a uniform technology platform. There is a unanimity of views between the MoFED and the Ministry of Local Authorities, Rural Development, and Housing on this issue. It was informed that around 1,000 licenses from the existing 3,500 purchased SAP licenses could be used for additional rollouts. The Government is already paying the maintenance fee of these licenses.

(f) **The AGD plans to expand the coverage of the IFMIS for better controls and timely reporting.** The expanded coverage will remove the existing gaps. The gaps with regard to functionality include budget compilation, integrated payroll, and multi-year commitment control for large contracts, expenditures against retained earnings of the ministries for nontax revenue or IGFs, donor-funded projects, and the statutory funds. The gaps in entity coverage include local Governments, central spending units in the districts, and central noncommercial extra-budgetary units. Figure 6.1 shows the IFMIS coverage.

Figure 6.1. IFMIS Coverage



(g) **The IFMIS is being currently used for cash management.** The budget units of the MDA submit monthly cash forecasts through the IFMIS. The Cash Budget Committee of the MoFED approves the budget releases manually after confirmation of the available cash balance in the banks and prioritizing the expenditures. Based on these approved releases, the AGD instructs the central banks to transfer funds, electronically through the IFMIS interface with the Bank, from the TSA to the accounts of the ministries. The AGD also issues warrants in the IFMIS against the respective budgets of the ministries. The ministries process their payments and commitments online against these warrants. After processing payments, the ministries then instruct the RBZ to do direct transfers—from the ministry bank accounts to the vendor bank accounts. These transfers are typically done electronically but are also supported by paper-based instructions from the ministries.

(h) **Chart of Accounts** has been implemented to track funds at the organization and economic classification. The program and functional classification is being designed under budget reforms through a separate project for program-based budgeting (PBB).

(i) **Financial statements compliant with the cash basis IPSAS** are being produced from the system with some gaps. A gap analysis has been carried out with the support of the IMF AFRITAC South. Besides, BI, the reporting module of SAP for enhanced reporting requirements, has not been deployed.

(j) **Payroll system is a custom developed system**, which is not integrated with the IFMIS. The payroll system does not have establishment registers though an aggregate establishment control is exercised. To capture the payroll expenditures and deductions in the IFMIS, the payroll system generates a ministry-wise aggregate payroll payment voucher, which is processed through the IFMIS for reporting and bank transfer of funds. The MDA approves the voucher, based on which the AGD transfers the funds from the TSA to the ministry bank account. After this transfer, the Salaries Service Bureau sends the payroll payment scroll to the RBZ for transferring funds from the ministry bank account to the individual employee bank accounts. Payroll is not integrated with the IFMIS. However, the AGD has configured the establishment registers in the HCM module of SAP. This module is not operational yet. In addition, payroll is not linked to the budget preparation module. This will become important as the Budget Department rolls out PBB, in which the payroll costs will be linked to programs. The Government plans to migrate payroll from the legacy system to the HCM module of the IFMIS for running payroll integrated with the establishment registers and budget module.

(k) **The modules operationalized** to support the above processes include Financials (FI), Fund Management (FM), Materials Management (MM), Cash Management, Grants Management (GM) and Fixed Assets (FA). The GM module has been operationalized recently to process donor-funded project expenditures. However, it has not been rolled out at all the projects.

(l) **Interface of the IFMIS with the RBZ has been operationalized.** The MDA send the payment instructions to the RBZ through this interface after approving the payments. The banks send back electronic bank statements for bank reconciliation. The interfaces with the revenue management system and aid and debt management system have not been developed. The IFMIS architecture and interfaces are depicted in the figure 6.1 above.

(m) **IFMIS infrastructure.** Due to lack of funds, rented servers are used to run the IFMIS infrastructure (Sun Microsystems servers; Oracle 11 G Enterprise Edition RDBMS; 3,500 user licenses). A dedicated team of 15 technical staff, including functional SAP experts from the AGD and IT experts of the ICT ministry, is responsible for maintaining this infrastructure. The IFMIS/SAP is deployed through a centralized architecture—users access the central servers at the AG Data Center through online connectivity. These users' locations are connected primarily through fiber optics. However, a handful of sites, around 17, are connected through microwaves and satellite-based solutions. The disaster recovery center has been identified but not operationalized. The project will support the renovation of the IFMIS server room, data entry centers, and the IFMIS disaster recovery center and make it operational.

4. **Complementarity with other donors.** This project will ensure that there are complementarities with other reforms initiatives where possible. The following key initiatives will be complemented through this project:

(a) The AfDB is procuring servers for the primary data center and the disaster recovery center. The project will only procure the mail and archiving servers, which are not covered under the AfDB procurement.

(b) The UNDP, through the Global Fund, is supporting the network connectivity of the IFMIS data center to the hospitals in the districts for supporting the implementation of the Hospital Management System. This system is installed on the IFMIS servers, using a separate installation of SAP ECC 6. The Government plans to use this network for the district rollout of the IFMIS. However, the last mile connectivity from the hospitals or the nearest fiber optics point in the district to the IFMIS site will be financed through the project.

(c) The PFM support being provided by other development partners- inter alia: the European Union is supporting capacity building in Parliament; IMF is providing technical assistance on a range of accounting and government financial statistics areas; and the Swedish Audit Office is providing skills transfer to the Office of the Auditor General.

(d) The Bank, through another initiative, is supporting the MoFED in designing and preparing the budget on Programme Based Budgeting (PBB) principles. The plan is to support 3 ministries as pilots in preparing the PBB during FY2016, additional 9 ministries during FY2017, and all the ministries during 2018. While that project will support the design and preparation of the PBB and associated budget classification structure, the implementation of PBB through the budget module of SAP will be supported through this proposed project.

(e) The OPC is focused on strengthening results-based management through an e-Government initiative. Among other areas, the M&E system is planned to be developed for tracking physical progress on the plans. The linkages between PBB and associated outputs of the programs will be established with these initiatives to support an integrated framework of planning, budgeting, execution, and monitoring.

Activities to Be Financed

5. **Phase 1 (US$3.4 million).** The activities to be financed include (a) rollout of the Business Planning and Consolidation module, to support budget compilation; (b) procurement of the hardware for the PFMS; (c) rollout of the PFMS to urban councils; (d) implementation of SAP payroll integrated with the establishment registers and migration of data from the legacy system; (e) review of regulations and manuals; (f) service-level agreements for system maintenance; and (g) support for the Government’s initiative to fully align the financial reporting system to international standards (cash basis IPSAS).

6. **Phase 2 (US$3.4 million).** The activities include (a) rollout of the PFMS to the donor-funded projects; (b) rollout of the PFMS to the large statutory funds; (c) rollout of the system to capture expenditures against the retained earnings of the ministries (d) procurement of the hardware to augment capacity; (e) training of the technical staff for relevant technical certifications; (f) end user training; (g) implementation of the BI tool for enhance reporting; (h) development and operationalization of the interfaces with the revenue systems and the debt management system; (i) implementation of the electronic records management system and

associated procurement of hardware such as scanners and servers; and (j) support for the Government in making decisions on whether to move to accrual basis accounting.

Expected Outcomes

7. The component will strengthen compliance with the 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 FM operations across the country. The technical training will ensure enhanced sustainability of the system support in its operations. The financial reporting system will be fully aligned to the cash basis IPSAS initially and will enable the Government to take informed decisions on progressing toward accrual basis accounting.

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

8. **Objective.** The objective of this component is to strengthen internal oversight and controls by enhancing effectiveness of internal audit to ensure compliances with rules and regulations and contribute to effective service delivery.

9. **Background.** The PFMA (2009) prescribes the appointment of internal audit in line ministries, 'to support' the treasury in performance of prescribed functions. The act also prescribes the establishment of Audit Committees for every ministry, statutory fund, Constitutional entity, and public entity in line with good corporate governance practices, but they are not informed by the principles of gender balance and gender equality.

10. **Status.** Internal audit has developed a standard practice across the ministries. The following are the key arrangements relating to internal audit function in the Government:

(a) **Institutional arrangements.** Internal audit function exists in all the 28 ministries of the GoZ (with the exception of the Judicial Services Commission). Internal audit in the line ministries reports administratively to the Permanent Secretary of the line ministry and is also expected to functionally report to the Audit Committee. The internal audit functions are performed by auditors. The total establishment is 405, of which 50 positions are vacant.

(b) **Audit Committees.** These committees have been piloted only in the Ministry of Health and Child Care and are still at a nascent stage. The overriding duties of the committee include oversight of internal control and internal audit in line ministries. In the absence of the Audit Committee, heads of line ministries play the key role of oversight over the internal audit function.

(c) **Coordination and quality assurance over internal audit.** Internal audit units across the Government are uncoordinated. There is no centralized coordination, training, and quality assurance. Currently, the MoFED (treasury or Accountant General) is not substantially involved in the strengthening and coordinating development of internal audit function at the national level. The treasury plays a minor role of receiving the audit plans and the audit report from line ministries but lacks the staff strength and technical skills to provide guidance and support internal audit function in the line ministries. There is no system of rotation of auditors across ministries. This limits the auditor's ability to work and learn from broader understanding of Government systems. The absence of rotation of auditors also raises the question of independence of individual auditors, who continue with the same ministry and possibly perform audit procedures on the same entities for extended periods.

(d) **Technical capacity of the internal audit function.** Though there were improvements in the past few years with initiatives from the Government and support from cooperating partners, internal audit functions across the Government have remained weak, and the ability of the internal audit function to assess, with reasonable credibility, the cost-effectiveness of any projects undertaken by the ministry is limited. In its present structure, depth, and coverage, it provides very limited assurance on the Government processes and transactions audited. The audit manual based on which internal audit has to be conducted has been developed and is yet to be mainstreamed into the audit processes of all line ministries. The Country Fiduciary Re-engagement Assessment (2015) specifically noticed the limitations of internal audit in its independence, competence, quality control, and ability to provide assurance through its audit products. In other words, the ability of internal audit within the Government to assess, with reasonable credibility, the cost-effectiveness of FM systems and internal controls is limited.

11. **Possible improvements in internal audit function are follows:**

(a) **Improving the structural arrangements.** The structural arrangements can be improved through strengthening the existing role of the treasury (MoFED) in coordinating development of the internal audit function in the Government and establishing a quality assurance mechanism and central training function. This can be achieved by upgrading the current role of internal audit in the treasury to that of a central agency or unit (controller or director of internal audit) with the mandate to oversee internal auditing in the Government, provide guidance, organize training programs, develop the internal audit function, perform quality assurance, support Audit Committees, and follow up on audit findings. The controller or the Director of internal audit will report to the Permanent Secretary in the MoFED. The Head of Internal Audit in a line ministry will report to the Permanent Secretary of the line ministry and will also have reporting relationship with the controller or director of internal audit for quality assurance, training, and coordination. A model appropriate to Zimbabwe can be developed within the existing legal framework by learning from regional and international best practices.

(b) **Upgrading audit techniques and competencies of staff.** The weaknesses and risks can be mitigated through an immediate capacity-building effort in regularity audits, performance audits, risk-based audits, and systems audits. The current focus of internal audit is on the transaction audit and the methodology is a manual audit using input and output as the basis for testing computerized systems. To achieve such control outcomes will require strengthening of the capacity of the internal auditors, changing their orientation more toward systems or risk-based audits, review of business processes, and elimination of redundant processes while strengthening the controls around them. Given the extent to which the IFMIS has been deployed to ministries and provinces, it is also necessary to strengthen internal audit's ability to interrogate databases and work on digital data.

(c) **Strengthening the system of Audit Committees in ministries.** The legal requirement under the PFMA for establishment of Audit Committees has not been met in any of the ministries except the Ministry of Health and Child Care. Audit regulations, which were expected to provide detailed guidance on internal audit function, have not yet been finalized. Establishment of audit committees is essential to revitalize the internal audit function and ensure that effective actions are taken on recommendations of the external audit. An appropriate model of a cluster of ministries being covered by an Audit Committee may be suitable considering the variations in size of different ministries and the costs involved in setting up audit committees separately for each ministry.

(d) **Complementing with other donors.** The project will ensure that there are complementarities with other reforms initiatives where possible. At present the AfDB is supporting internal audit by funding specific training programs organized by the AFROSAI-E and provision of laptops.

Activities to Be Financed

12. **Phase 1 (US$1.4 million) will involve** (a) strengthening the capacity of the treasury (MoFED) in playing a nodal role in the internal audit function in Government by upgrading the function to that of a central agency or unit (controller or director of internal audit) with the mandate to coordinate internal audit in the Government; (b) putting in place systems to ensure that audits are performed in line with the new Internal Audit Manual; (c) supporting training needs analyses to identify general audit skill gaps and technical skill gaps related to specific ministries' internal audit; (d) 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); (e) enhancing the capabilities of internal auditors to audit by interrogating data from the IFMIS and other IT systems; (f) mainstreaming risk-based audit process in the internal audit function; (g) leveraging technology in the audit organization through use of modern tools—including, computer-assisted auditing tools; (h) enhancing professionalism in the internal audit function by acquisition of relevant professional certifications by auditors; and (i) supporting collaboration and knowledge sharing in internal audit.

13. **Phase 2 (US$1.8 million) will continue the training and capacity-building initiatives of Phase I and in addition will support activities such as** (a) establishing audit charters in all line ministries; (b) strengthening and rollout of Audit Committees according to the PFMA to all line ministries; (c) establishing a system of follow-up to build on implementation of audit findings and recommendations; (d) training in domain-specific skills for internal audit of specialized ministries (for example, transport, public works, agriculture, energy); (e) providing advanced IT audit training in auditing the development or acquisition and rollout of IT systems in the Government; (f) enhancing skills in auditing Consolidated Revenue Fund (CRF); (g) purchase of equipment (printers and so on) for the internal audit function; (h) introducing fraud and forensic audit in internal audit; (i) providing support to bridge training gaps identified in

training needs analyses, (j) strengthening internal audit at district or local bodies; and (k) any other emerging needs of the internal audit function.

Expected Outcomes

14. The component will strengthen internal controls in the Government by enhancing the effectiveness of internal audit. It contributes to streamlining the existing ad hoc practices of the internal audit function in the Government in a more coherent and unified manner following global best practices. It also facilitates the establishment of Audit Committees in clusters of ministries to guide the internal audit function as well as consider the audit findings from the office of the AG. A robust and integrated internal audit function with necessary skill sets is the key overall outcome of the support from this component.

Component 3: Enhance Accountability through Strengthening of External Audit (US$5.0 million)

Objective

15. The objective of this component is to strengthen the OAG to deliver high-quality audit products, on its enhanced mandate (under the new Constitution promulgated in 2013), which covers all MDA of the Government, as well as all public entities, including district and local authorities.

Status

16. The OAG grew from strength to strength over its long history.

17. **Background.** The OAG traces its roots to the Southern Rhodesia Order in Council 1898 and grew from strength to strength with regard to independence and effectiveness. In 1979, for the first time, the appointment, functions, and powers of the auditor general were incorporated into the Zimbabwe-Rhodesia Constitution and remain in the Zimbabwe Constitution today. The independence of the auditor general is specifically provided for by Section 106(6) of the Constitution which states: "In the exercise of his functions under subsections (1), (2), (3) and (4), the Auditor-General shall not be subject to the direction or control of any person or authority other than the Parliament of Zimbabwe." In 1989, the Audit and Exchequer Act was amended to include Value for Money Audit (Performance Audit). The AOA promulgated in 2010 is a major landmark to enhance the independence of the auditor general and the introduction of the Audit Office Commission to take over the functions that used to be done by the Public Service Commission. The Constitution of Zimbabwe Amendment (No. 20) Act 2013 brought about change to replace the Audit Office Commission by the Audit Office Board, and staff of the AG became public officers appointed by the Audit Office Board. It also added to the mandate of the auditor general the audit of all provincial and metropolitan councils and local authorities. The AOA needs to be harmonized to be consistent with the amended Constitution, and work is in progress on this.

(a) **Significance of role of the OAG in the present environment.** The role of external audit gains significance in view of the weaknesses of the internal control environment. 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 AG 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 Country Fiduciary Re-engagement Assessment (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's strategic plan 2013–2015 will be replaced with the new strategic plan that builds on the gains from the previous one. Audit regulations to effectively implement the Audit Act are in the pipeline. The OAG is a member of INTOSAI and also collaborates with AFROSAI-E initiatives to improve its effectiveness. The OAG is at the apex of the accountability chain that should ensure that the Government is accountable to people through an effective system of external oversight.

(b) **Challenges faced by the OAG.** The OAG is presently unable to fully discharge its mandate due to limitations in skill set, auditing methodologies, hardware and software, and strength of workforce considering the audit universe. The current staff strength of 250, of which only 9 are professionally qualified, is grossly inadequate for auditing all 26 ministries at the national, provincial, and district levels as well as the local authorities and parastatals that are covered under the audit mandate of the OAG. This situation is aggravated by limited logistics and funding for the activities of the OAG and hence most of their audit activities are carried out within Harare, leaving the auditee entities or offices outside the national capital with little or no external oversight. The OAG makes use of private sector audit firms to audit many of the 92 parastatals, a practice which limits the focus of audit to financial attest audit, with minimal or no focus of performance and service delivery by the parastatals. The OAG team's skill sets are also limited due to suboptimal use of modern tools and techniques of performance audits, regularity audits, procurement audits, revenue audits, and information systems audits.

Possible Improvements in External Audit Function

18. The OAG is organizationally at a mature stage to take the benefit of support in rapidly accelerating its progress to evolve into an effective supreme auditing institution following global best practices and delivering on the Constitutional and legal mandate. The recent accomplishment in timely submission of the audited annual financial statements is a pointer to the commitment in the PFM cycle for accelerated reforms. Specifically, improved collaboration with the private auditing firms, upgraded performance auditing practices, introduction of comprehensive audits, use of CAATs, external oversight over the IFMIS, citizen partnership and enhanced audit visibility, equipping audit staff with high-end professional skills, management and follow-up of audit recommendations, and introduction of modern techniques of auditing are the key areas where the OAG could make optimal use of support in enhancing audit effectiveness.

19. **Complementarity with other donors.** This project will ensure that there are complementarities with other reforms initiatives where possible. At present the Government of Norway, through its supreme auditing institution, is providing support to the OAG. The AfDB is also supporting by funding specific aspects of the strategic plan and procuring equipment (laptops, printers and related items). Plans are advanced for the Swedish Audit Office to also support capacity building at the OAG through knowledge exchange programmes such as attachment of technical staff from the former to the latter (or the vice versa) to gain practical experience.

Activities to Be Financed

20. **Phase 1 (US$2.2 million) of this component will involve** (a) supporting improved collaboration of the OAG with private sector auditing firms to conduct audits for, and on behalf of, the OAG, with focus on service delivery and performance of auditee entity. This will require development of processes and checklists in the OAG and training of the firms in public sector auditing and retraining of the audit staff in coordinating and supervising audits to be undertaken by private sector auditors; (b) encouraging use of the customized Performance Audit Manual and the Financial and Regularity Audit Manual through training and dissemination; (c) training and implementing of audit work flow automation, through the audit flow developed by AFROSAI-E; (d) supporting or conducting self-assessment on compliance with use of ISSAIs using iCAT tool of the INTOSAI; (e) training in the IFRS, IPSAS, and specialized audits of local authorities; (f) enhancing skills in auditing IFMISs (SAP based); (g) piloting new audit practices in missions; (h) developing and implementing risk management processes in the OAG; (i) training in procurement audits, revenue audits, and audit of extractive industries; (j) supporting efforts of the OAG to enhance audit visibility and citizen partnership; (k) enabling OAG staff acquire professional skills and certifications; (l) supporting improved logistics and hardware acquisition; (m) acquiring and rolling out the audit report monitoring system and the electronic records management system; (n) supporting the development and sensitization of the strategic plan of the OAG; (o) facilitating networking and knowledge transfer with other SAIs; (p) facilitating stronger dialogue with stakeholders, including the PAC and donors; and (q) acquiring and using CAATs for data extraction and analysis. In addition, the project will provide other technical and logistics support required for the OAG in performing its legal mandate.

21. **Phase II (US$ 2.8 million) 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: (a) capacitating the OAG to conduct audits and produce Comprehensive Governance Audit Reports for each ministry (this audit will cover not only appropriation but statutory funds or IGFs and donor funds and will have performance audit and service delivery parameters); (b) conducting pilot decentralization of the OAG to one of the ten provinces (support to develop processes and furniture, computers, and so on); (c) enhancing partnerships with other SAIs on performance audits and IT audits through study tours; (d) providing advanced SAP training for the IFMIS-based system audits; (e) establishing an e-learning facility; (f) introducing the quality assurance function in the OAG; (g) refurbishing offices; (h) introducing environmental auditing; (i) acquiring or developing and rolling out the audit management system; (j) developing an office library; (k) establishing the standardized system and piloting for the audit of boards, commissions, and institutions; (l) providing logistics support through motor vehicles; (m) training in public debt, SAIPAC, and enhanced forensic audits and training of trainers in development of training curriculum, courseware, and delivery of training; and (n) 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.

Expected Outcomes

22. The component will strengthen the OAG to deliver on its enhanced audit mandate under the new Constitution. It will help the OAG collaborate with private sector accounting firms in improving the quality and scope for private firms tasked with public sector audit. It supports the teams in the OAG through various trainings and professional certifications enhancing the skills

of the work force and aligning with the international best practices. It strengthens the capacity of the OAG in managing audits through use of computer-assisted audit tools and automating its audit work flow using the audit management system. Development of the OAG into a 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.

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

23. **Objective.** This component aims to enhance and engender the parliament's role in PFM, including increased collaboration with other demand-side actors. The anticipated development impact is greater participation, transparency, and accountability in budget formulation, execution, and audit.

24. **Status or background.** The PoZ is bicameral and members serve five-year terms. The most recent elections were in 2013 and the parliament has set ambitious goals to achieve by the 2018 election.

(a) **Enabling environment**. The legal framework enabling the PoZ to fulfil its oversight function is clear and comprehensive.[12] As the intersection between the parliament and PFM lies in the budget process, the Zimbabwe Constitution, PFMA, and PoZ's Standing Rules and Orders provide important mandates for parliamentary committees and the parliament as a whole to engage in both ex ante and ex post phases of the budget process. The PoZ's 2014–2018 Institutional Strategic Plan provides direction on priorities for strengthening parliamentary institutions, including, among others, (i) building the capacity of committees to hold the Government accountable for the implementation of the budget, (ii) establishing a PBO to provide technical support to committees considering the budget and scrutinizing public expenditures, and (iii) enhancing public participation and involvement in parliamentary affairs. The ZIMASSET Economic Blueprint provides a framework for the PoZ to ensure the budget reflects the country's development plans.

(b) **Current capacity**. The election cycle and the public mandate that comes with elections afford parliaments a legitimacy in national governance systems that most other institutions do not possess. However, this benefit also brings with it challenges, especially when seeking to achieve sustained capacity outcomes in the face of the natural attrition of elected members due to the election cycle. There was a particularly high turnover of MPs during the 2013 parliamentary elections. Furthermore, both the FEDC and the PAC are sessional; membership is subject to change with each session of the parliament. Typically 50 percent of the membership of both committees changes between sessions. This fluidity requires not only ongoing training for members but also, more importantly, committee-specific technical knowledge and procedures to be codified and used by committee secretariats and external trainers to facilitate regular on-boarding. That the project will straddle two parliaments amplifies the need to design and deliver effective

[12] Section 299 of the 2013 Constitution provides that the parliament must monitor and oversee expenditures by the state and all commissions and institutions and agencies of Government at every level.

committee-specific training programs for new MPs. The PAC in particular is planning to put into effect a three subcommittee model (divided by Government, parastatals, local authority audits) to better manage the workload. In addition, the Government is mandated to provide monthly, quarterly, and annual financial reports to the portfolio committees on program implementation; portfolio committees need guidance in operationalizing the Quarterly Budget Analysis Guidelines, which help them identify and understand key areas to examine in the reports and additional information to request from ministries. Finally, the parliament is establishing a PBO with the aim of providing different types of technical input for committee proceedings such as budget and costing analysis to MPs and staff on committees engaged in the budget process.

(c) **Parliamentary secretariat.** There are currently 15 clerks and 11 researchers, each tasked with supporting at least two of the 26 committees in the parliament. Although there is a high retention rate from year to year, the staff are stretched thin and those serving the FEDC and PAC are not necessarily permanent to their committees for the life of a parliament. To assist, the parliament is arranging an intern program for 11 graduate students per year to support the work of the committees. Nevertheless, given the importance the parliamentary secretariat plays in providing technical, administrative, procedural, and research services to the committees—as well as institutional memory—there is a need to strengthen their skills required to carry out their work.

(d) **Committee coordination or integrated budget.** The Constitution empowers the parliament to engage in budget formulation, enactment, implementation, and audit. The PoZ employs a model whereby the FEDC scrutinizes the overall fiscal framework and budget assumptions while the other portfolio committees scrutinize ministerial budgets. The parliament cannot increase or decrease the budget but can move funds between line items. This restriction requires effective coordination between the FEDC and the other portfolio committees, given that line item amendments are often sectoral and the limited time the parliament is given to scrutinize the estimates; the executive is mandated to table the budget in the parliament before or not later than 30 days after the start of each financial year.[13] Moreover, there are no systematized institutional arrangements established for follow-up of audit recommendations; the PAC does not provide input regarding implementation of audit recommendations into the formulation stage of the annual budget process, a tool which can be used to incentivize accountability of respective line ministries. Similarly, there is scope to strengthen systematic coordination between the portfolio committees and PAC; portfolio committees have the potential to enhance the work of the PAC by feeding in ongoing oversight and reporting on the implementation of audit recommendation through examination of regular ministerial reports.

(e) **Collaboration with the OAG.** The PAC and OAG enjoy a strong relationship; the AG and other OAG staff attend the PAC sittings and trainings to assist the PAC in understanding audit findings and the PAC and OAG consult each other on their respective work plans. As Component 3 aims to enhance the quantity and quality of

[13] According to Section 103 (1) of the Constitution.

OAG reports, the parliament will need to be equipped to consider a larger number of and different types of audit reports, including performance, procurement, and regularity audits, not only for MDA but for parastatals and local authorities.

(f) **Citizen or media engagement.** In accordance with Section 141 of the Constitution, the parliament must facilitate public involvement in its legislative and other processes and in the processes of its committees. The parliament can convey budget priorities and consider audit evidence based on constituent feedback, using public hearings to complement the budgetary information produced by the executive and to subject it to independent interrogation. The FEDC has held pre-budget consultations in the 10 provincial centers; however, the FEDC, the PAC, and portfolio committees have been unable to conduct comprehensive pre- and post-budget consultations and public hearings at the district level. Furthermore, good media coverage can provide a platform to publicize the role of the parliament in the budget process, offering an opportunity to deepen public debate on the allocation and implementation of public resources. The capacity of CSOs and the media to scrutinize public expenditure and engage public officials on PFM matters remains low. The PoZ conducted a successful training for select journalists in 2014 but has yet to engage with editors, the larger media community, and CSOs.

25. **Complementarity with other donors.** The project will ensure that there are complementarities with other reform initiatives where possible. The following key initiatives will be complemented through this project:

(a) Strengthening oversight role of the PoZ supported by the UNDP and AfDB, including oversight of statutory funds of ministries and SoEs; strengthened understanding between ministries and committees on quarterly reports sent to the parliament; transparency and oversight of extractive industries; strengthened parliamentary committees; and training for parliamentary staff.

(b) The UNDP, AfDB, and others are supporting strengthened gender mainstreaming in the work of the parliament, including gender-responsive budgeting.

(c) The UNDP supports the operation of a Parliament Program Coordination Unit aimed at managing all programs supported by development partners, donors, and CSOs. Funding ends in 2017.

(d) The UNDP conducted a baseline survey to determine the capacity of MPs to conduct legislative and policy analysis as well as an assessment of parliamentary staff to identify skill gaps in 2015.

(e) The AfDB will support hardware or office refurbishment and capacity building for PBO staff.

Activities to Be Financed

26. **Phase 1 (US$1.4 million). This component 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** (a) 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; (b) financing 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; (c) providing training for portfolio committees on oversight of budget implementation or execution; (d) providing TA to develop and customize toolkits to support committee business; (e) enabling the parliamentary secretariat to acquire professional certificates and provide ToT workshops for secretariat to on-board new committee members; (f) setting up a PBO to provide secretariat support, procedural guidance, and technical analysis to the parliament through strategic support, procurement of hardware, training, and participation in global practitioner network knowledge exchange events; (g) financing procurement of hardware and Internet connectivity to support the business of committees, secretariat training, and the Parliamentary Program Coordination Unit; and (h) supporting collaboration between the 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, and procurement of vehicles to facilitate travel.

27. **Phase II (US$1.6 million).** This phase will continue to strengthen the parliament's role in budget oversight, in collaboration with other demand-side actors, aiming to ensure transparency and accountability. This includes (a) 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; (b) financing 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; (c) providing training for portfolio committees on oversight of budget implementation or execution; (d) providing ToT to the parliamentary secretariat to use toolkits or handbooks to support committee business processes and on-board new committee members—including the new parliament to be elected in 2018; (e) enabling the parliamentary secretariat to acquire professional certificates (f) facilitating the operationalization of the PBO, providing technical and IFMIS training for staff, financing attachments, and enabling participation in global practitioner network knowledge exchange events; (g) procurement of Internet connectivity to support committee business, secretariat training, and the Parliamentary Program Coordination Unit; (h) facilitating collaboration between the 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; (i) financing consultants to manage and coordinate project implementation through the Parliamentary Program Coordination Unit; and (j) providing any additional technical and logistical assistance the parliament may require to discharge its legal mandate of providing oversight of public funds.

Expected Outcomes

28. 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, guarantee the budget is more responsive, and ensure that public officials are held accountable for the successful implementation of Government policies and that lessons learned from budget implementation will be applied to enhance governance systems in the medium to long term.

Component 5: Component 5: PFMEP Management (US$2.0 million)

29. **Objective**. The objective of this component is to provide the administrative and operational structure for the seamless management and coordination of implementation of project activities by the various component managers. The components of the project will be implemented by different institutions, and there is therefore the need for good coordination to ensure implementation of activities that will result in the achievement of the objectives of the project. The PMU 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 monitor objectives and performance against the indicators (including equal opportunities indicators). The existing Programme Management Unit at the MoFED, currently comprising consultants and civil servants, will be capacitated and made responsible for the financial management of the overall trust fund program. Capacity building is required, both through staff training and through additional appointments, to support the main functions of the unit. This unit will ensure that there is gender balance in all project activities and the project cycle as a whole. The program will also work with the M&E project in the ZIMREF to identify indicators that may measure gender-related progress in areas where sufficient attribution is realistic. In addition to the results framework, a PEFA assessment will be conducted at the start of the project (early 2016) to set the baseline and the PEFA will be repeated just before the closing date of the project to measure progress. The main activities will include the following:

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

(b) Purchase of any office equipment urgently required and other expenses directly relating to the project

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

(d) Two PEFA assessments, a baseline assessment at the start and another before the closing date to measure progress

(e) Quarterly Financial reporting annual audited financial statements of the project.

Annex 7: Detailed Project Cost

ZIMBABWE: Public Financial Management Enhancement Project

No.	Component	Phased Allocation (US$, thousands)						
		Phase I			Phase II			Total Expenditure (US$, thousands)
		2016	2017	Phase I Total	2018	2019	Phase II Total	
1	**Financial Management and Accounting**							
	1.1 Implementation of Budget Module	265	125	390	82	40	122	512
	1.2 IFMIS rollout to town councils	300	402	702	600	0	600	1,302
	1.3 IFMIS rollout to district centers	0	400	400	100	0	100	500
	1.4 Payroll implementation and migration	0	360	360	355	0	355	715
	1.5 Upgrade existing IFMIS infrastructure	623	875	1,498	1,798	375	2,173	3,671
	1.6 Implementation of the cash basis IPSAS and possible migration to accrual accounting	25	25	50	25	25	50	100
	Subtotal	**1,213**	**2,187**	**3,400**	**2,960**	**440**	**3,400**	**6,800**
2	**Enhance Effectiveness of Internal Controls and Internal Audit**							
	2.1 Improve ability of the treasury for developing the national internal audit function for overall coordination	100	45	145	75	75	150	295
	2.2 Training needs identification for internal auditors	15	15	30	5	0	5	35
	2.3 Implementation of Internal Audit Manual	30	30	60	20	20	40	100
	2.4 Enhancing skills on audit in PFMS (IFMIS) environment	75	100	175	75	75	150	325
	2.5 Enhancing professional skills of internal auditors through certifications	40	70	110	40	40	80	190
	2.6 Mainstreaming risk-based audit in internal audit	25	25	50	35	30	65	115
	2.7 Introduction of newer audit techniques and processes	50	75	125	70	45	115	240
	2.8 Increasing use of CAATs and IT audit	50	50	100	130	130	260	360
	2.9 Increasing effectiveness of audit committees	0	5	5	300	300	600	605

	2.10 Supporting the internal audit function development following international best practices	300	300	600	150	185	335	935
	Subtotal	**685**	**715**	**1400**	**900**	**900**	**1800**	**3200**
3	**Enhance Accountability through Strengthening of External Audit**							
	3.1 Improved collaboration with private audit firms for enhanced quality of public sector audit	35	30	65	5	0	5	70
	3.2 Enhancing professionalism and staff skills and competence	300	300	600	400	400	800	1400
	3.3 Introduction of newer types of audits considering the expanded mandate	500	500	1000	600	300	900	1900
	3.4 Introduction of an Audit Management system and use of CAATs and technologies	120	120	240	300	300	600	840
	3.5 Develop OAG profile and interface with public and operational competence	50	50	100	50	50	100	200
	3.6 Enable OAG to develop into a professional institution following global best practices	80	115	195	200	195	395	590
	Subtotal	**1085**	**1115**	**2200**	**1555**	**1245**	**2800**	**5000**
4	**Strengthening the Demand Side of Transparency and Accountability**							
	4.1 Strengthening the role of the parliament in budget formulation and enactment	106	219	325	89	124	213	538
	4.2 Strengthening the PAC	310	278	588	193	325	518	1106
	4.3 Enhancing the parliament's oversight of budget execution	62	52	114	42	30	72	186
	4.4 Strengthening the PBO	105	100	205	100	100	200	405
	4.5 Strengthening parliamentary logistics and interface with citizen to enhance stakeholder collaboration	75	93	168	250	347	597	765
	Subtotal	**658**	**742**	**1400**	**674**	**926**	**1600**	**3000**

5	**PFMEP Management**							
	5.1 Capacity building and logistics for PFMEP management	150	200	350	200	140	340	690
	5.2 Consultancy support for improved reporting systems and operational practices development	90	90	180	80	80	160	340
	5.3 Improved ICT tools, record-keeping facility, and brand building for the program unit	210	360	570	205	195	400	970
	Subtotal	**450**	**650**	**1100**	**485**	**415**	**900**	**2000**
Grant Total		**4091**	**5409**	**9500**	**6574**	**3926**	**10500**	**20000**

Annex 8: Donor PFM Intervention Support Matrix

No.	PFM Reform Supported Areas or Components	Estimated Amount (US$, millions)
	AfDB	
1	Support to the Parliament	1.5
2	Support to the AG	1.5
3	Support to the MoFED	3.0
	UNDP/EU/SIDA	
4	Support to the Parliament	5.1
5	Support to the AG	1.8
	Total	12.9