PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA25885

Project Name	Public Financial Mgmt Enhancement Project (P152932)
Region	AFRICA
Country	Zimbabwe
Sector(s)	General finance sector (100%)
Theme(s)	Other economic management (100%)
Lending Instrument	Investment Project Financing
Project ID	P152932
Borrower(s)	Republic of Zimbabwe
Implementing Agency	Ministry of Finance and Econ Devt
Environmental Category	C-Not Required
Date PID Prepared/Updated	07-Oct-2015
Date PID Approved/Disclosed	07-Oct-2015
Estimated Date of Appraisal Completion	21-Aug-2015
Estimated Date of First Grant Approval	10-Nov-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

1. Zimbabwe is a low income country with a 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 because of disruptions caused by a land reform program and flawed macroeconomic policies. The country's economy rebounded in 2009 as GDP grew by 25.2 percent between 2009 and 2011- 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 is forecast to slow to 3.7 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. The report further reveals that rural areas are poorer, with 84.3percent of rural dwellers who are mainly women and 62.6 percent of rural households considered poor (and with 16.2percent of them living in extreme poverty). The social sector (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 is informed by principles such as gender equality and gender balance. This was followed by general elections in July 2013 which saw the re-election of the incumbent President, Robert Mugabe, 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 (Zim-Asset) which focuses on four strategic clusters: (i) Food Security and Nutrition; (ii) Social Services and Poverty Eradication; (iii) Infrastructure and Utilities; and, (iv) Value Addition and Beneficiation. In June 2013, Zimbabwe signed an IMF Staff-Monitored Program. This followed the lifting of 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.

3. During this period, the Bank's main source of funding was an Analytical Multi-donor Trust Fund (AMDTF) which ran from 2009-14, 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 activities.

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 World Bank and development partners have been supporting analytical work in public and private sectors of the economy while also providing technical assistance 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 of the World Bank group.

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Sectoral and institutional Context

5. Prior to the onset of economic decline, the GoZ was in the process of strengthening the building blocks of the PFM system, which was largely through the implementation of an Integrated Financial Management System (IFMIS) with effect from 1999. The IFMIS supports the basic financial management 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 government, with bank accounts controlled by the the Accountant General's Department. This was a traditional system that used a main Exchequer Account, main Paymaster-general (PMG) Account and sub-accounts for line ministries which were managed on a Single Treasury Account 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

(DMFAS) database which was not integrated with IFMIS.

6. Following the achievement of relative economic stability, the GoZ, focused on rebuilding its public financial management systems in 2009. The management of the PFM system is mainly concentrated within the Ministry of Finance and Economic Development (MoFED) with the exception of public procurement management which is vested in the SPB. Within the MoFED, the Permanent Secretary has the overall responsibility for PFM while the Principal Director has the responsibility for budget planning and execution. The Accountant General has responsibility for IFMIS, treasury duties, internal controls, production of timely and appropriate management and financial accounts. Within Ministries, Departments and Agencies (MDAs), the Accounting Officers have overall responsibility for effective PFM and are assisted by the Finance Directors. While this has yielded significant improvements in the legal framework, IT systems and budget procedures, the full benefits of these reforms have not yet been felt in terms of 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 which 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 the PFM in Zimbabwe were identified in a Rapid PFM Assessment (2009); Country Integrated Fiduciary Assessment (CIFA) (2012)); and Country Fiduciary Re-engagement Assessment or Use of Country FM Systems (UCS) Assessment conducted in early 2015. The key findings of the three assessments are similar and are summarized below:

Key challenges identified in the Rapid PFM Assessment (2009), Country Integrated Financial Assessment (2012), and 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. In respect to risks for aggregate fiscal discipline, expenditure variances in 2009 and 2010 were above 50 percent. This decreased to 13percent in 2012, 6.7percent in 2013 and a favorable variance of 5percent in 2014. The increases in public sector salaries over and above budget limits over the period 2011 to 2014, as well as loan repayments 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 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 Government Finance Statistics (GFS) and Classifications of the Functions of Government (COFO G) standards.

c. Policy-based budgeting and service delivery: There is insufficient linkage between the multi-year budget framework and the results-based budgeting system. There is a need for linkage and effective monitoring and evaluation- through to the budget execution phase- to assure 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

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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 IPSAS Cash Basis standard 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 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 MDA did not reconcile differences between the Sub-Paymaster General Accounts and the IFMIS, and a number of ministries had unauthorized expenditures.

g. Ineffective internal audit in terms of its independence, competence, quality control and ability to provide assurance through its audit products: In other words, the ability of internal audit within Government to assess, with reasonable credibility, the cost-effectiveness of financial management 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 four pillars and 12 key indicators. The overall Zimbabwe procurement system was rated 44percent, 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 State Procurement Board, 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 IFMIS need to work better to ensure that expenditures are well controlled and scrutinized. Though much has improved since the Auditor General issued a 'Disclaimer of opinion' for all public accounts in 2006 because of the breakdown of the IFMIS , 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 in a timely fashion. Much more efficient and effective procurement systems and payroll controls are also needed to move towards donor acceptance to use country systems.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Financial Management and Accounting

Comments (optional)

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

Component Name

Enhance effectiveness of Internal Controls and Internal Audit

Comments (optional)

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.

Component Name

Enhance Accountability through strengthening External Audit

Comments (optional)

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

Component Name

Strengthening the Demand Side of Transparency and Accountability

Comments (optional)

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

Component Name

PFMEP Management

Comments (optional)

44. The objective of this component is to provide the administrative and operational structure for the seamless management and coordination of implementation of activities of the Project by the various component managers. This structure will provide technical leadership in articulating, guiding and monitoring the overall PFM reforms across the Government.

Component Name

Project Implementation support by the World Bank

Comments (optional)

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

IV. Financing *(in USD Million)*

Total Project Cost:	20.80	Total Bank Financing:	0.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
Borrower	0.00
Zimbabwe Reconstruction Fund (ZIMREF)	20.80
Total	20.80

V. Implementation

8. This PFM Enhancement 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 learnt over the past five years during which the Bank provided technical assistance using the Analytical Multi-Donor Trust Fund 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 below:

PFM Steering Committee:

9. A PFM Reform Steering Committee (PFMSC) – will be established to provide strategic guidance and oversight to the project implementation process. The Permanent Secretary for MoFED will chair the committee's meetings, and membership of the committee will include the Accountant General, Head of Internal Audit, Auditor General, Clerk of Parliament, OPC, PSC and the Ministry of Local Government, Public Works and National Housing, three representatives of the ZIMREF contributing partners and a representative of the World Bank as the Administrator of the Trust Fund. Other stakeholders may be invited to the Steering Committee meetings. The Steering Committee must meet at least once in each quarter of the year. The Steering Committee will help in addressing Inter-Ministerial issues pertaining to the entire PFM Enhancement Project and related PFM reform projects of Government. It will also ensure the full engagement of all major organs of 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 the year.

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10. PFM Reform Unit: The existing PFM Reform Unit (PFMRU) will be capacitated to coordinate and consolidate key activities under the various components of the PFM Enhancement Project. There will be a Project Director, appointed and responsible for overall project coordination, who will lead the project management team. 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 Permanent Secretary of MoFED. The Project Director will lead a project management team comprising, inter alia, Procurement Officers, a Financial Management Specialist, Gender Specialist and a Monitoring and Evaluation Specialist (full- or part-time as appropriate). The functions of the project management team will be to coordinate the preparation of Annual Work Plans and Budgets (AWPBs); to coordinate the preparation of progress reports for the consideration of the PFMSC; to coordinate the preparation of annual Procurement Plans (PP), the preparation of quarterly interim financial statements, and the preparation of annual project accounts. The project management team will be responsible for the timely conduct of annual audits of the project accounts and timely submission of same to the World Bank and to the PFMSC. The Project Director will be the principal point of contact with the World Bank's Task Team Leader (TTL) for the resolution of project issues on a day-by-day basis (including requests for no-objections).

11. Component Managers: Component managers will be appointed to oversee the implementation of project activities in each component of the project. The components are: Financial Management and Accounting under the Accountant General, Internal Audit (to be determined); External Audit under the OAG; and Legislative Oversight under the Clerk of Parliament. Each component manager will be responsible for the implementation of activities under him/her and will be reporting to the Project Director.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

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