



This action is funded by the European Union

**ANNEX 2**

of the Commission Decision on the Annual Action Plan 2015 in favour of Zimbabwe to be financed from the 11<sup>th</sup> European Development Fund

**Action Document for Public Finance Management Enhancement Programme for Zimbabwe**

<b>1. Title/basic act/ CRIS number</b>	Public Finance Management Enhancement Programme for Zimbabwe CRIS number: ZW/FED/038-185 financed under 11th European Development Fund (EDF)			
<b>2. Zone benefiting from the action/location</b>	Zimbabwe The action shall be carried out in all areas of Zimbabwe while the project team will be located in Harare			
<b>3. Programming document</b>	National Indicative Programme for Zimbabwe, 11th European Development Fund			
<b>4. Sector of concentration/ thematic area</b>	Focal sector 3: Governance and Institution Building			
<b>5. Amounts concerned</b>	Zimbabwe Reconstruction Fund (ZIMREF) total estimated cost: EUR 100 000 000 Total estimated cost of the action: EUR 25 000 000 <b>Total amount of EDF contribution EUR 10 000 000</b> This action is at this stage co-financed in joint co-financing by: - DFID for an amount of GBP 6 000 000 - Sweden for an amount of USD 5 000 000 - Norway for an amount of USD 2 401 793 - Denmark for an amount of USD 913 369 - World Bank for an amount of USD 5 000 000			
<b>6. Aid modality and implementation modality</b>	Project Modality Indirect management with the World Bank			
<b>7. DAC code(s)</b>	15111 Public Finance Management			
<b>8. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>9. Global Public Goods and Challenges (GPGC) thematic flagships</b>	n/a			

## SUMMARY

The Government of Zimbabwe's development strategy, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM ASSET 2013-2018) contains fiscal reform measures that include the resolve to “Boost the efficient use of Government resources through timely reporting and strengthening the Public Finance Management Systems (PFMS) - Fiscal Reform Measures. Its key result areas include to “Encourage efficient use of public resources, financial discipline and accountability at all levels of public resource mobilization and allocation. The World Bank managed Zimbabwe Reconstruction Fund (ZIMREF) through its Systems and Capacity Development (SCD) window, to which this action will contribute, will support Government of Zimbabwe to implement these public financial management reform measures.

The Public Finance Management Enhancement Programme within the SCD will support a broad range of areas that include planning and policy analysis, resource mobilization, budgeting, procurement, accounting and financial management, cash and debt management, reporting, internal and external auditing. The programme is conceptualized to respond to fiscal measures of the Government's strategy, ZIM ASSET, which involves strengthening of the public sector management systems, institutional reforms, enhancing the capacities for greater efficiency, effectiveness and accountability in services delivery for its citizens.

## 1 CONTEXT

### 1.1 Country context

In July 2012, the European Council made a decision to suspend the application of article 96 appropriate measures, which permitted Zimbabwe and the European Union (EU) to launch the 11th EDF programming exercise in August 2012. A Country Strategy Paper (CSP) 2014-2020 was agreed by the EU Delegation and the National Authorising Officer (NAO) and was immediately followed by drafting of the EU's response strategy, the National Indicative Programme (NIP) which was then signed on 16 February 2015 marking the resumption of full development cooperation between Zimbabwe and the EU.

After a strong rebound since the adoption of multiple currencies following the Unity Government, gross domestic product (GDP) growth in Zimbabwe has slowed down since 2013 and remains below potential. Attributed risks include easing international prices of some minerals, lack of clarity in the implementation of the indigenization legislation, unresolved vulnerabilities in the banking sector, potential fiscal slippages and an unfavourable external position. Zimbabwe's economy remains constrained, with an unsustainably high external debt, deindustrialisation and informalisation of economic activities. The country risk

profile remains exposed to general population vulnerability, lack of coping capacity and weak institutional and infrastructure capacity. The period 2000–2008 also witnessed increased poverty levels, worsened by frequent droughts among other shocks. A poverty report on the 2011-2012 PICES<sup>1</sup> survey reveals that 72.3% of Zimbabweans are poor, whilst 16.2 % of the households are in extreme poverty. Poverty is most prevalent in rural areas, where 84.3% of people are deemed poor and 30.4% extremely poor. The 2013 United Nations Human Development Index (HDI) ranks Zimbabwe among low human development countries: 172nd out of 186 countries compared to 1998, when it ranked 130th out of 174 countries. The estimated GDP per capita in 2013 was USD 953.8, which classes Zimbabwe as a low income country.

Despite the current difficulties, Zimbabwe has enormous potential for sustained growth and poverty reduction given its generous endowment of natural resources and a reservoir of highly skilled human resources base. Realizing this potential would not only require a favourable political and macroeconomic environment but also re-engagement with the international community. Progress has been registered in this regard starting with the Unity Government in 2009 with the adoption of a multiple currency monetary policy regime, bringing an end to hyper-inflation, the commitment to a constitutional reform process, that saw the adoption of a new constitution in 2013, paving way to elections held in 2013 and the adoption of an economic reform agenda through the International Monetary Fund's (IMF) Staff Monitored Programme (SMP). These milestone achievements have added impetus to re-engagement with development partners.

Zimbabwe is endowed with rich mineral resources which include gold, diamonds, coal, platinum and chrome. In the past, growth in GDP has largely been driven by growth in the mining sector. According to the Zimbabwe Chamber of Mines, between 2009 and 2011, the sector grew by an average of 35% per annum. Its contribution to GDP rose from 8% in 2009 to an estimated 16.9% in 2014 and its contribution to employment is averaged 45,000 people during the same period. In 2012 the sector contributed USD445 million in tax revenues translating to 11% of the total government expenditure budget. The exploitation of the country's mineral endowments in a transparent and accountable manner offers scope for the sector to make a significant contribution to increase the fiscal space.

After the July 2013 election, the Government of Zimbabwe came up with a five-year (2013-2018) economic blueprint, namely the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM ASSET), which is being implemented through four strategic clusters: (1) Food Security and Nutrition; (2) Social Services and Poverty Eradication; (3) Infrastructure and Utilities; (4) Value Addition and Beneficiation and two sub-clusters: (a) Fiscal Reform Measures and Public Administration, (b) Governance and Performance Management. The Government's transformational agenda is anchored on its commitment to implement a wide range of developmental programmes that are targeted at establishing a comprehensive national infrastructure with public enterprises reforms as one of the major focus.

In 2013, the World Bank developed a five-year (2014-2019) Zimbabwe Reconstruction Fund (ZIMREF) to support the Government in the implementation of ZIM ASSET. ZIMREF is a transitional Multi Donor Trust Fund. It has four windows which will contribute to Zimbabwe's development agenda through alignment to government and cooperative partners' funding priorities. The windows are: (1) Private Sector Led Growth (PSG), (2) the Government Systems and Capacity Development (SCD), (3) the Resilience and Livelihoods Support (RLS) and, (4) the Analytical and Policy Support (APS).

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<sup>1</sup> Poverty, Income, Consumption and Expenditure Survey, ZimStat 2013

### ***1.1.1 Public Policy Assessment and EU Policy Framework***

The reform of the Public Finance Management Systems (PFMS) was identified as one of the key priority for Government in ZIMASSET. The objective of the reform is to enhance transparency and accountability in the management of public resources. The Government, through the Ministry of Finance and Economic Development (MoFED), is mandated to provide for the efficient and effective planning and management of public finances for the betterment of the lives of Zimbabwe's people. The Integrated Financial Management Information System (IFMIS) is acknowledged as one of the key tools required to ensure transparency and accountability in the utilization of public resources.

The management and control of public resources in Zimbabwe is enshrined in the Public Finance Management Act [Chapter 22:19], promulgated in 2010. However, the regulations to operationalise the PFM Act have not been finalised. In an effort to enhance transparency and accountability in the management of public entities, Government in collaboration with stakeholders has put in motion a process of reviewing the PFM Act and developing the regulations to guide its implementation. Further, to enhance corporate governance within public entities, the PFM Act will be amended to incorporate public enterprises and local authorities as well as align it with the new Constitution. Following the promulgation of the new Constitution of Zimbabwe through Constitutional Amendment Act (No. 20) of 2013, the Government of Zimbabwe commenced the process of realigning the various acts with the Constitution. The Government, through the Attorney General's Office, is in the process of drafting the appropriate bill.

The Ministry of Finance and Economic Development is in the process of crafting a new PFMS roadmap 2016-2018 to replace the current PFMS roadmap which is coming to an end in 2015. The roadmap will aim at ensuring that the core processes of budget preparation and executions as well as the financial accounting are implemented in an effective, transparent and timely manner. The Government is also developing a comprehensive Public Finance Management (PFM) reform strategy with Technical assistance from the International Monetary Fund.

In the mining sector, the Government is in the process of undertaking a comprehensive review of the mining fiscal regime with the view to coming up with an appropriate tax system that attracts investment into the sector and promotes optimal mineral extraction. In order to ensure transparency in the mining sector, the Government is developing a template that will be used as an audit tool to assess mineral and revenue leakages including projecting future revenues from the mining sector. An initiative called the Zimbabwe Mineral Revenue Transparency (ZMRT) which comprise of representatives from Government, mining houses and other stakeholders will be resuscitated with the objective of improving transparency and accountability in the management of mineral revenues through participative and multi-sector policy dialogue including generating independently reconciled reports of revenues paid to Government by mining houses. The Zimbabwe Mining Development Corporation (ZMDC), a state enterprise whose mandate is to promote mining investment and development, and which also holds substantial shareholding in various mining companies on behalf government will be required to publish its audited financial statements.

The Government of Zimbabwe and the World Bank have agreed to the EU's proposal for a Public Expenditure and Financial Accountability (PEFA) assessment to be undertaken no later than 2017, coinciding with the planned mid-term review of the National Indicative Programme. The PEFA will afford the Government, the EU and other stakeholders an opportunity to assess the progress achieved towards the strengthening of country's public expenditure, procurement and public accountability systems.

The action falls under the NIP's third sector of concentration "governance and institutional building" and in particular under specific objective 1 "to support the implementation of public finance management reforms required to maintain macro-economic stability". Support to public-sector management for better service delivery is among the key priorities identified by the EU Development Policy and strategy as indicated in the Communication on "Increasing the Impact of Development Policy: An Agenda for Change", where there is an explicit reference to the need for the EU to support national programmes to improve policy formulation, public financial management, including the setting up and reinforcement of audit, control and anti-fraud bodies and measures, and institutional development, including human resource management. It is also highlighted that domestic reform and pro-poor fiscal policies are vital.

### ***1.1.2 Stakeholder analysis***

The main stakeholders of this programme will be the users of PFM systems which are mainly Government Ministries, Departments and Agencies (MDAs) responsible for the delivery of public services. The Ministry of Finance and Economic Development and The Ministry of Information and Communication Technology (MICT) have important roles to play; the Ministry of Finance and Economic Development being the key ministry with the mandate of PFM while the Ministry of Information and Communication Technology is the administrator of the electronic PFM system.

The indirect beneficiaries are the organisations that promote accountability, for example, the Civil Society, the Public Accounts and Finance and Economic Management Committee and other committees of Parliament in executing their oversight role over the management of public finances. A more efficient and effective utilisation of the public resources is expected to benefit the general public by better services and greater value for their taxes.

The office of the Auditor General is also in an important stakeholder in ensuring compliance with laid down procurement procedures, enforcement of internal controls and proper accounting for government revenues and expenditures.

Other stakeholders include the World Bank as manager of the fund and the development partners who are contributing into the ZIMREF.

### ***1.1.3 Priority areas for support/problem analysis***

There are a number of PFM issues that require attention before attaining acceptable levels of transparency and accountability for public resources. The fact that donors were operating outside government systems for over a decade attests to the need to strengthen PFM systems. The Country Integrated Fiduciary Assessment (CIFA) in 2012 and the Fiduciary re-engagement assessment in 2015 identified the budgeting process, accounting and reporting, internal audit, external audit, procurement and oversight of parliament as areas that require immediate intervention to be addressed through (1) result-based budgeting; (2) good governance in government procurement, including through transparent and secured e-procurement processes; and (3) public financial management enhancement to ensure provision of required attention to each area. The action would to not only address PFM reforms within public entities, but also provide support to strengthening the oversight of state enterprises and parastatals to increase accountability, transparency and accountability in the use of public resources, and protect and if possible increase social spending.

## 2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
The absence of a formal PFM reform strategy of the Government	H	Government has put in motion the process of amending the Public Finance Management Act. Further, to enhance corporate governance within public entities, the Government will also transform the current corporate governance framework for State Enterprises and Parastatals into a legal framework.
Weak implementation capacity	M	A capacity building component is built into the programme
Risks due to poor governance/weak fiduciary environment	H	Amendments to Public Finance Management Act have been initiated.
<b>Assumptions</b>		
Government of Zimbabwe's commitment to reforms aimed at improving economic Governance and management and particularly to establishing rigorous public financial management systems		

## 3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

### 3.1 Lessons learnt

Aligning Implementation Capacity to Project Designs: The Public Financial Management Enhancement Project will be designed as a country product with limited guidance from the Bank. The design and investment in IT (information technology) infrastructure should anticipate expansion needs. A project design which includes substantial training aimed at improving implementation capacities of relevant counterpart and implementing government staff helps in sustaining the reform initiative.

Management of Capacity Building for Effectiveness: Capacity building works better when it is centrally managed. The project design should take account of grant financing from donors, which requires more flexible design of capacity building activities. This will minimize duplication of efforts, and encourage cost effectiveness. The PFM Enhancement Project is funded through the ZIMREF with a project oversight committee which will approve and monitor expenditure based on agency request. This will provide flexibility and control. In addition, structures are in place to ensure transparency and accountability.

Political Economy Considerations: Changes in political economy are not predictable but could be better adapted if project design allowed greater flexibility in implementation. It is pertinent therefore to constantly evaluate and adapt to change in circumstances to better manoeuvre public management reform programmes. The project management unit will adapt the project to such developments.

Key Staff Availability to Ensure Project Success: Recruiting specialists for Monitoring and Evaluation (M&E), IT, financial management, and procurement in the implementing agency at the beginning of the project is critical to the success of the project.

The project has been formulated taking into account the conclusions of the PEFA/CIFA exercise conducted in 2012, the final evaluation of the Analytical Multi Donor Trust Fund (A-MDTF) as well as the Country Policy and Institutional Assessment (CPIA) discussions conducted by the World Bank with the Government early 2015.

### **3.2 Complementarity, synergy and donor coordination**

The Public Financial Management Enhancement Project is complementary to other existing programmes in Zimbabwe financed and/or co-financed by the European Union, EU member states, United Nations Agencies, African Development Fund, Global Fund and Global Vaccine Alliance (GAVI). These interventions include the Capacity Building Project for Economic and Financial Management, Global Fund against HIV/AIDS, Tuberculosis and Malaria programme (GFATM), GAVI, Strengthening Health Information System, which includes the extension of IFMIS from provincial to district level, UNDP Strengthened National Capacities for Planning Public Finance, Aid and Debt Management programmes. The programme will also be complementary to the EU funded programme: "Support Programme for the Parliament and Office of the Auditor General of Zimbabwe" implemented by UNDP.

The PFM interventions during the past five years could not have happened without good collaboration with the development partners. To start with, funding of the technical assistance provided to PFM in Zimbabwe came from the A-MDTF which was contributed to by development partners. A PFM Steering Committee was set up which comprised the Ministry of Finance and Economic Development, Office of the President and Cabinet (OPC), Auditor General, Parliament, State Procurement Board and PFM Donor Group. The Committee was chaired by the Ministry of Finance and Economic Development and oversaw implementation of PFM interventions financed by the World Bank, African Development Bank (AfDB), Department for International Development (DFID), UNDP, EU and other bilateral cooperative partners. To ensure a united front from the cooperative partners, there was a PFM Donor group which met regularly to also provide oversight over the project from a donor perspective, discuss funding opportunities available either to the A-MDTF or as a bilateral support, share programme of action and agree on key issues that should be brought to the attention of the PSC. Similar arrangements are in place for the implementation of this project. In addition to this governance arrangement for the PFM projects, ZIMREF has a Policy Oversight Committee which will be endorsing projects funded by the trust fund. Below the Policy Committee there will be technical working groups which will review proposals and make recommendations as well as provide status updates to the policy oversight committee. These coordination structures will minimize duplication of efforts and facilitate complementarity. Government is part of these structures and in some instances will be chairing.

Additionally the Ministry of Finance and Economic Development has announced the revival of the government led PFM working group.

### **3.3 Cross-cutting issues**

Gender and disability considerations will be mainstreamed in all projects financed under the SCD window. Projects shall be designed to encourage equal participation and engagement of women and men in project decision-making processes and project activities. Gender-disaggregated indicators will be used in M&E frameworks. Disability issues should be mainstreamed in all project activities and infrastructure constructed with ZIMREF resources should be accessible to people with disabilities. Environmental assessments and social assessments are a prerequisite to all World Bank administered and financed interventions.

## **4 DESCRIPTION OF THE ACTION**

### **4.1 Objectives/results**

The overall objective is to maintain macro-economic stability through support to the implementation of public finance management reforms.

**Specific objective 1:** To improve budget planning and execution, financial reporting, fiscal transparency and accountability in government finances in Zimbabwe.

**Result 1.1:** Budget coverage and improved macro-fiscal planning and management.

**Result 1.2:** Improved accountability and transparency through improved effectiveness of internal audits.

**Result 1.3:** Improved scope, nature, and follow-up of external audits.

**Result 1.4:** Improved quality and timeliness of annual financial statements as measured.

**Specific objective 2:** To support the Government of Zimbabwe to improve the transparency and efficiency of public procurement.

**Result 2.1:** Increased transparency, accountability & value for money in public procurement.

**Result 2.2:** Improved readiness for implementation of e-procurement.

### **4.2 Main activities**

#### **Activities under result 1.1:**

- Policy dialogue with the Government of Zimbabwe and other relevant institutions including civil society, private sector, international financing institutions and other donors regarding progress on the implementation of the economic governance reforms and debt resolution process.
- To review and implement the PFMS roadmap.
- Activation and configuration of a documents management system.
- Activation of budget planning and consolidation module.
- Activation and configuration of the Business Intelligent module of Systems, Applications and Products (SAP).
- Review of the chart of accounts to cater for result-based budgeting.
- Training of users and super users of PFMS.

#### **Activities under result 1.2:**

- Improvement of the governance and legal framework to provide a wider range of internal audit services.
- Establishment of quality assurance arrangements for high quality audits and reports.
- Leveraging technology in the audit organisation through use of modern tools including Computer Assisted Audit Techniques (CAATs).

#### **Activities under result 1.3:**

- Development of competencies of staff both on the technical and business level through a range of basic, specialist and professional level skills training in specialised types of auditing including compliance audits, financial audits, IT audits, performance audits and forensic audits.

- Build capacity of private audit firms to help carry out the audits for and on behalf of the Auditor General and also enhance the operational capacity of the Office of the Auditor General (OAG) through skills training.
- Re-engineering audit procedures and development / revision of audit manuals.
- Training staff in new procedures including regularity audit, performance audit, IT audit, procurement audit, forensic audit and revenue audit to ensure delivery of high quality audit products.
- Facilitating networking and knowledge transfer with other Supreme Auditing Institutions.
- Supporting efforts of OAG in enhancing audit visibility and citizen partnership.

**Activities under result 1.4:**

- Conducting gap analysis of national practices with cash International Public Sector Accounting Standards (IPSAS), development of financial reporting to support issue of statements based on cash IPSAS.
- Developing the skills to run Integrated Financial Management and Information System (IFMIS) and use it effectively for PFM.
- Conduct a risk assessment of the IFMIS system.
- Implementation of the Local Government (LG) IFMIS at Local Government Councils.
- Review the chart of accounts and introduce to facilitate addition of codes for each programme and sub-programme.
- Training of line ministry staff in the use of the new chart of accounts.
- Linking results indicators to the M&E indicators used by ZIMASSET.
- To conduct a Public Expenditure and Financial Accountability Assessment (PEFA) assessment.

**Activities under result 2.1:**

- Improved accountability through informed use of electronic Government (e-GP) for all procurement transactions.
- Strengthening of the capacity of pilot procurement entities in procurement following revised procurement framework.
- Standardization of procurement process and streamlining administrative delays.
- Building State Procurement Board (SPB) capacity in conducting monitoring of procurement under e-procurement environment.

**Activities under result 2.1:**

- Conduct a baseline study of the procurement process and development aspects to enable assessment of the impact of e-procurement on procurement and service delivery.
- Conduct an E-readiness assessment and design of e-procurement implementation strategy of budget planning and consolidation module.
- Business process re-engineering and design of e-procurement business, functional and technical requirements.
- Acquisition and piloting of e-procurement system in 8 procuring entities.

### **4.3 Intervention logic**

Over the past five years, the World Bank through Analytical Multi Donor Trust Fund (A-MDTF) provided support to the Government of Zimbabwe to: (i) improve its capacity and accountability and (ii) enable the World Bank and international donors to remain abreast of the development challenges. Through the A-MDTF, support was provided to improve the quality and integrity of public financial information and procurement management to the Government of Zimbabwe through the provision of Technical Assistance (TA). While the implementation of these activities assisted the Government to uphold the provision of the constitution on section 298 that highlights the principles that must guide all aspects of public finance in the country, it also increased the capacity of central government capacities in public financial management. Both the Government and the Development Partners benefited from the use of the MDTF administered by the World Bank because it saved transaction costs and provided a coordinating mechanism. As the country has started to put together a coherent policy framework and strengthen implementation capacity, it needs active private sector investments and support from development partners. ZIMREF allows partners to channel their support through a Bank-managed instrument to address identified priorities and build institutional capacity in the country.

In addition, there is still a need for an improved transparency and accountability for public funds - not only at the central government but also at the statutory institutions including the state owned enterprises, provincial and district authorities. The proposed programme is designed to address the pre-requisites for sustained reform across the PFM system and ensure sustenance of momentum gained through the technical assistance during the last five years. It will also ensure that the next phase of development of the broader PFM system is done effectively.

The programme is envisaged not only as a means to embark on PFM reforms but also to reengage with the Government in Zimbabwe in a more substantial and structured way around economic governance issues as well as debt resolution. The success of the programme would have a catalytic effect on accelerating the progress on various other avenues of engagement with the government. The limitations and challenges faced would contribute to the learning curve. Considering the country context and the institutional challenges, the components were carefully selected to keep the risks at a minimum.

## **5 IMPLEMENTATION**

### **5.1 Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

### **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) 2015/322.

### **5.3 Implementation modalities**

#### **Indirect management with an international organisation**

This action may be implemented in indirect management with the World Bank in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 17 of Regulation (EU) 2015/323. This implementation entails the management of the Zimbabwe Reconstruction Fund (ZIMREF), which is a country-specific umbrella-type multi-donor trust fund. The objective of the ZIMREF as described in 4.1 and 4.2 is to contribute to strengthening Zimbabwe's systems for reconstruction and development with a focus on stabilization and reform, reconstruction, development and poverty alleviation efforts in Zimbabwe. The ZIMREF includes support to strengthen public sector management systems including through institutional reforms and capacity building with a special emphasis on demand-side approaches; support to analytical work on Zimbabwe's key development challenges; support to investments in economic and social reconstruction and support to efforts to increase productivity and improve the business environment. The World Bank has already made a grant contribution to the ZIMREF of USD 5 000 000.

This implementation is justified because the ZIMREF is the main mechanism to pool donor support to the Government's economic governance reform programme. ZIMREF builds on the positive experience of a previous World Bank managed trust fund, the Analytical Multi-Donor Trust Fund (A-MDTF) with support from DFID (UK), USAID, EU, GIZ (Germany) and the governments of Australia, Canada, Denmark, Finland, the Netherlands, Norway, Sweden, and Switzerland, which was an effective mechanism in helping the Government, as well as other stakeholders, build-up technical knowledge and strengthening policy formulation and implementation capacity in key areas, including PFM reform. In addition, the programme will also benefit from the World Bank's global technical knowledge.

The entrusted entity would carry out the following budget-implementation tasks: concluding all contracts and payments resulting from those contracts necessary to implement the action, including the signature of agreements with the Government of Zimbabwe, the procurement, through a competitive process of a project implementation entity to be set up at the Ministry of Finance and Economic Development, to conduct among other tasks the implementation of the procurement plan. All contracts are awarded and implemented in accordance with the procedures and standard documents laid down and published by the World Bank and as described by the ZIMREF operational guidelines.

The entrusted international organisation is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 17 of Regulation (EU) 2015/323. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management.

Following the request in writing by the World Bank on 14 April 2015, the Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of 01/06/2015 because the implementation of the action is planned to start on that date and even including the commitments from other donors a significant funding gap remains for the year 2015.

#### **5.4 Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission’s authorising officer responsible may extend the geographical eligibility, in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

**5.5 Indicative budget**

	<b>EU contribution (EUR)</b>	<b>Indicative third party contribution, in currency identified<sup>2</sup></b>
5.4.1. Indirect Management with the World Bank: Public Finance Management Enhancement Programme for Zimbabwe	9 900 000	DFID GBP 6 000 000 Sweden USD 5 000 000 Norway USD 2 401 793 Denmark USD 913 369 World Bank USD 5 000 000
Evaluation and Audit	100 000	N.A.
Totals	10 000 000	GBP 6 000 000 USD 12 401 793

**5.6 Organisational set-up and responsibilities**

ZIMREF has a local two-tier governance structure comprising a Policy Oversight Committee (POC) and Technical Review Groups (TRGs), supported by a Secretariat based in Harare, and Project Implementation Teams (PITs). The POC consists of representatives of the Government, contributing partners and the Bank as Administrator. The POC serves as a strategic forum for discussion of ZIMREF policies and outcomes, provides the strategic direction for ZIMREF financing, and approves specific activities. The POC will be co-chaired by the Government and the cooperative partners (which will rotate between the World Bank (as Administrator) and the contributing partners). The POC will act collectively and make decisions by consensus. All decisions will require agreement by the World Bank and the Government. The POC will be supported by Technical Review Groups whose responsibility is to provide technical guidance to the POC, ensure technical quality-at-entry of projects, oversee project implementation, provide support for cross-sectoral and stakeholder coordination, and review and analyse M&E plans and findings. TRGs will be comprised of technical staff from the World Bank, contributing partners, and relevant Government line ministry/agency official as well as civil society representatives. Finally, the PITs comprise Government ministry and World Bank staff, implementing bodies as per implementation arrangements and any consultants financed by the implementation grants to support these teams. The PIT will be responsible for preparation of the projects for submission to the TRG and POC, and for the implementation and completion of the projects in line with approved implementation arrangements as described in the project-level Project Implementation Manual (PIM).

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<sup>2</sup> Non-earmarked contributions to ZIMREF

## **5.7 Performance monitoring and reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

## **5.8 Evaluation**

Having regard to the importance of the action, a mid-term evaluation will be carried out for this action or its components via the implementing partner.

It will be carried out for problem solving and learning purposes, in particular with respect to assess the structure and design of the trust fund and to draw lessons from activity implementation. The responsibility for the preparation is with the ZIMREF secretariat, using Terms of Reference (TORs) to be agreed by the TRG. Impact Assessments should be conducted by independent evaluators contracted by the World Bank, utilise both quantitative and qualitative methodologies, must include beneficiary and stakeholder surveys and/or consultations, and should highlight best practice and lessons learned.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

## **5.9 Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. Indicatively, a contract for audit services shall be concluded under a framework contract in 2020.

## **5.10 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

However, no budget is foreseen in this programme for communication and visibility as these measures will be funded through the ZIMREF managed by the World Bank.

The WB will develop a dedicated communication strategy to ensure a smooth flow of information among all stakeholders and appropriate visibility for the donors. The objectives of the ZIMREF communications will be to inform, raise awareness and educate the public and beneficiaries about the various projects and activities of the ZIMREF; increase the visibility of the contributing partners and engage with key ZIMREF stakeholders in a transparent and open manner, thus allowing for effective feedback at all stages of the strategy's implementation. More in detail the EU visibility will be enhanced through specific visibility events at the contracts' signature, reports' presentation on mid-term reviews and impact evaluation results.

APPENDIX - Indicative Logframe matrix

	<b>Intervention logic</b>	<b>Indicators</b>	<b>Baselines</b> (incl. reference year)	<b>Targets</b> (incl. reference year)	<b>Sources and means of verification</b>	<b>Assumptions</b>
<b>Overall objective: Impact</b>	To maintain macro-economic stability through support to the implementation of public finance management reforms.	Transparency International Corruption Perceptions Index  Status of Utilisation of Results Based Approach (RBA) in budget preparation.	Rank: 156/175 (2014) Score: 21 /100 (2014)  0 Ministries (2015)	Improved rank by at least 10% (2018)  3 ministries (2016) 9 ministries (2017) All ministries (2018)	Transparency International reports, Open Budget Initiative Citizen feedback	
<b>Specific objective(s): Outcome(s)</b>	SO 1 To improve budget planning and execution, financial reporting, fiscal transparency and accountability in government finances in Zimbabwe.  SO 2 To support the Government of Zimbabwe to improve the transparency and efficiency of public procurement	Set of standard Public Expenditure and Financial Accountability (PEFA)/country Integrated Fiduciary Assessment (CIFA) indicators. *	Baseline: (2012) PEFA/CIFA Assessment (31 indicators table of overall scores available) and Country Procurement Assessment Reports (CPAR ) indicators (14 indicators/ overall system score of 44%).	Target: (2018) All relevant PEFA/CIFA scores reflect improvement to at least to the next level	Set of standard Public Expenditure and Financial Accountability (PEFA)/country Integrated Fiduciary Assessment (CIFA) indicators.	
<b>Outputs</b>	Result 1.1: Budget coverage and improved macro-fiscal planning and management.	Aggregate expenditure out-turn compared to the original approved budget  Composition of the expenditure out-turn compared to the original approved budget  Aggregate revenue out-turn compared to original approved budget  Extent of unreported government operations	Baseline: CIFA/PEFA Indicators: (2012)  PI 1 NR  PI 2 D  PI 3 NR  PI 7 D+	Targets: (2018)  PI 1 C  PI 2 C  PI 3 C  PI 7 C	National Budget  PEFA Indicators P1-7 and P10-12  Evaluation report to be delivered in March 2018.	Government will keep up the reform momentum.

	<p>Public access to key fiscal information</p> <p>Multi-year perspective in fiscal planning, expenditure policy and budgeting</p> <p>Degree to which the intervention is monitored &amp; evaluated</p>	<p>PI 10 C</p> <p>P 12 C</p> <p>0 Ministries (2015)</p>	<p>PI 10 C+</p> <p>P 12 C+</p> <p>9 Ministries (2016) 18 Ministries (2017)</p>		
Result 1.2: Improved accountability and transparency through: Improved effectiveness of internal audits.	<p>Number of compliance audits, financial audits, IT Audits, Performance Audits &amp; Forensic audits conducted by Office of Accountant General.</p>	<p>Baseline: (2012)</p> <p>PI-21, C+</p>	<p>Targets: (2018)</p> <p>PI 21 B Timeliness of financial reports by MDAs as provided by PFMA</p>	<p>PEFA PI-21 MDAs financial reports PFM /act 1/2009 Sec 80. Audit reports Gazette on regulation of Audit Office Act</p>	Retention of trained staff.
Result 1.3: Improved scope, nature, and follow-up of external audits.	<p>Revision Status of audit procedures &amp; manuals.</p> <p>Number of Staff trained in new procedures for regularity audit, performance audit, IT audit, procurement audit, forensic audit &amp; revenue audit.</p> <p>Visibility enhancing activities implemented by OAG.</p>	<p>Baseline: (2012)</p> <p>PI 26 C+</p> <p>PI 26 C+</p> <p>Limited Publication of audit reports</p>	<p>Targets: (2018)</p> <p>PI 26 B</p> <p>PI 26 B</p> <p>Publication of audit reports</p>	<p>CSI 8.3 and 8.4. Approved &amp; functional strategic plan. Assessment by INTOSAI</p>	Availability of champion for the proposed reforms & sustained political will.
Result 1.4: Improved quality and timeliness of annual financial statements as measured.	<p>Status of Gap analysis of the national practices with cash IPSAS.</p> <p>Development Status of Financial reporting format to support the issue of statements based on cash IPSAS.</p>	<p>Baseline: (2012)</p> <p>PI-25, D</p> <p>PI-25, D</p>	<p>Targets: (2018)</p> <p>PI – 25 B</p> <p>PI – 25 B</p>	<p>PEFA Indicator PI-25 CSI 6.1. Financial Statement</p>	Staff retention after training.

	<p>Result 2.1 Increased transparency, accountability &amp; value for money in public procurement.</p>	<p>Percentage of e-GP transactions in pilot entities.</p> <p>Ability of State Procurement Board (SPB) to monitor procurement transactions under e-procurement.</p>	<p>Baseline: 0 (2015)</p> <p>E-procurement not in place (2015)</p> <p>E-procurement not in place (2015)</p>	<p>Target: 100% (2018)</p> <p>Reduced procurement cycle time.</p> <p>Improved compliance with procurement framework</p>	<p>Procurement management systems (PMIS) reports.</p> <p>SPB audit &amp; monitoring reports</p>	<p>Low uptake by large procurement entities.</p>
	<p>Result 2.2: Improved readiness for implementation of e-procurement.</p>	<p>Status of E-readiness assessment &amp; development status of e-procurement implementation strategy.</p> <p>Revision status of business process &amp; functionality and design status of e-procurement business.</p> <p>Status of standardizing procurement processes &amp; level of streamlining administrative delays.</p> <p>Development Status of Baseline survey of the procurement process for impact assessment of the e-procurement &amp; service delivery.</p> <p>Number of procurement entities in which E-procurement is piloted.</p>	<p>To be developed in line with OECD-DAC 12 indicators after conducting a baseline survey</p> <p>0 entities</p>	<p>Readiness assessment report produced</p> <p>E-procurement implementation strategy &amp; roadmap developed</p> <p>GP guideline prepared.</p> <p>GP bidding documents with business, functional &amp; technical requirements prepared</p> <p>8 entities</p>	<p>OECD-DAC methodology</p> <p>Baseline Survey Report published.</p> <p>Acquisition of e-GP procurement system endorsed</p>	<p>The pace for implementation of reforms will not delay project implementation.</p> <p>Effective coordination in place.</p>