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Public Investment Management Efficiency Review

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ABBREVIATIONS AND ACRONYMS

CCEFA	Cabinet Committee on Economic And Financial Affairs
CIFA	Country Integrated Fiduciary Assessment
CPAR	Country Procurement Assessment Report
DIF	Domestic And International Finance
GPA	Global Political Agreement
ICEU	Implementation And Control of Expenditure Unit
IDBZ	Infrastructure Development Bank of Zimbabwe
LMS	Line Ministries
MDAS	Ministries, Departments And Agencies
MOEPIP	Ministry of Economic Planning And Investment Promotion
MOESAC	Ministry of Education, Sport, Arts And Culture
MOF	Ministry of Finance
MOHCW	Ministry of Health And Child Welfare
MOICT	Ministry of Information Communication Technology
MOLGRUD	Ministry of Local Government, Rural And Urban Development
MOPW	Ministry of Public Works
MTP	Medium-Term Plan
NPC	National Planning Commission
PAC	Project Appraisal Committee
PIM	Public Investment Management
PPP	Public Private Partnership
PSIP	Public Sector Investment Program
SOE	State-Owned Enterprise
SPB	State Procurement Board
STERP	Short-Term Emergency Recovery Programme
ZESA	Zimbabwe Electricity Supply Authority
ZRA	Zimbabwe Revenue Authority

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ACKNOWLEDGEMENT

This Zimbabwe Public Investment Management Efficiency Review was prepared by a team consisting of Tuan Minh Le (Task Team Leader (TTL), Senior Economist, AFTPR), Camilla Blomquist (Co-TTL, Public Sector Specialist, AFTPR), G.P. Shukla (Consultant, Professor at Duke University), Huong Mai Nguyen (Consultant, AFTPR), and Tendai Mukurazhizha (Local Consultant, AFTPR). The team was guided by Nginya Mungai Lenneiye (Country Manager, Zimbabwe) and Anand Rajaram (Sector Manager, AFTPR).

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EXECUTIVE SUMMARY

The Public Investment Management Efficiency Review is intended to support the Government of Zimbabwe, and in particular the Ministry of Finance, in its efforts to strengthen the efficiency of the public investment system, with the goal of improving the creation, operation and maintenance of public sector capital assets that support service delivery and economic growth.

Efficiency in capital expenditure has become increasingly important in the face of foreseeable constraint in Zimbabwean government financing in the medium-term. While significant improvements in macroeconomic policies have set in motion slow but steady economic recovery since 2009, financing constraint and capacity gaps in the Government's delivery of public services have led to limited progress in human development. The country's once relatively developed physical infrastructure has deteriorated dramatically in recent years and become a major hindrance to sustained economic recovery. Since the start of the hyperinflation period, the core building blocks in the public financial management system have also deteriorated.

The problems of public investment management are not merely financial but systemic. Budget execution deficit remains a major bottleneck. Due to large backlogs across sectors, capital budget allocation has prioritized completion and rehabilitation of on-going and stalled projects and programs. No new projects are presently under consideration. Project implementation is constrained by planning, procurement, human, organizational and institutional capacity challenges even when financial resources are available.

Following the Rajaram et al. diagnostic framework (2010), the performance of Zimbabwe's public investment is examined across eight stages of a sound PIM system: (1) Investment guidance and preliminary screening, (2) Formal project appraisal, (3) Independent review of appraisal, (4) Project selection and budgeting, (5) Project implementation, (6) Project adjustment, (7) Facility operation, and (8) Project evaluation. The diagnostic suggests the following areas for attention:

First, the Medium-Term Plan 2012-2015 has provided strategic guidance for line ministries to prepare and pre-screen project proposals. However, there is uncertainty about the availability and release of funds in a timely fashion, which is perceived to result from unclear linkage between stated sector strategies and actual budget allocations.

Second and third, formal project appraisal is in essence consultations between the Ministry of Finance's Public Sector Investment Program staff and implementing ministries. While there is no formal project appraisal and feasibility analysis done at the line ministries' level, inadequate appraisal technical expertise in the PSIP further adds to critical weakness of the independent appraisal function. There is an exception in the Infrastructure Development Bank of Zimbabwe, a government- and privately-financed development bank, where there is decent capacity for appraising infrastructure projects.

Fourth, criteria for project selection are relatively loose, and multi-year fiscal planning and expenditure budgeting remain weak. The task of project selection is invariably concerned with clearing the pipeline of pending projects and rarely extends to selecting new projects. Cash-based budgeting is a problem in Zimbabwe because the bulk of private sector activity still relies on government spending. There is a vicious circle in which budget expenditures depend on revenues from the private sector, which depends on budget expenditures.

Fifth, project implementation is hindered largely by cost and time overruns. There is not enough capacity in the State Procurement Board to handle a large portfolio of procurement requests, especially with regards to procurement of complex construction projects. Moreover, irregularity in funding releases negatively affects contractor payment. While the government expenditure framework is constrained by the yearly resource envelope, the pool of funds dries up at the beginning of the year, leading to the year-end weighed release, thus affecting progress throughout the project cycle.

Sixth, project adjustment is challenging, because overall record-keeping is improper and insufficient. While financial monitoring is feasible through Treasury figures and project status is generally managed through site visits by the Ministry of Finance, physical verification and reporting by line ministries are neither automatic nor regular. In cases of time and/or cost overruns, the MOF does not have authority to stop the project mid-way. And there is a clear hesitation to re-evaluate the continuation of projects, even when the expected costs of completions are higher than perceived benefits.

Seventh, with regards to facility operation, there is a proper system of maintenance of asset registry in place, but the timeliness and adequacy of operation and monitoring funds can be problematic due to the disconnect between capital and recurrent budgeting.

Eighth, since no major projects have been completed in recent years, no ex-post appraisal or evaluation has been done.

Currently, public investment projects are mainly financed by the national budget. Regulatory frameworks for public-private partnerships are in place, but sluggish recovery from the private sector has not made it a notable source of financing for capital projects. Foreign loans and grants, and humanitarian aid from donors are not channeled through the official budget. The Ministry of Finance, the Ministry of Economic Planning and Investment Promotion, State Procurement Board, Ministry of Public Works, Line Ministries, Infrastructure Development Bank of Zimbabwe, and the private sector each plays a unique role across various stages of the PIM system. On one hand, a more strategic examination of their roles is needed to strengthen their respective capacity in the process. On the other hand, there is a need for the Finance Ministry to champion the recommended reforms to ensure an efficient and coherent linkage among key players in the PIM chain.

Given the limited human resources, the Government of Zimbabwe is hard-pressed to make the necessary adjustments to the public investment system. The Government will make its choice of specific forms to required functions, especially in appraisal and project selection. There are few "quick wins," and reforms have long-term horizons. They often require well thought-out planning and budgeting mechanisms, specialized technical and managerial skills and inter-ministerial coordination.

This report is intended to provide the basis for a follow-on discussion with government on possible options and approaches to addressing the identified problems, focusing on those which are the most critical to Zimbabwe's economic recovery and long term development. It is complementary to the Action Plan, also developed by the team for consideration by the Government of Zimbabwe, which suggests a list of reform actions over the immediate to medium-term to strengthen the regulatory framework and build capacity across central and implementing agencies.

I. Introduction

1. Country context

1. **Zimbabwe is a landlocked country in southern Africa surrounded by Zambia, Mozambique, Botswana and South Africa.** With a population of 12.6 million (2010), Zimbabwe is dominated by the Shona ethnic majority and the Christian faith. The country's rich endowment of natural resources makes commercial agriculture and the mining industry the main pillars of the economy, while it has also boasted one of the highest literacy rates in Africa (92 percent). Subtropical climate allows for a diverse agricultural base, until the controversial and disruptive land reform that ultimately pushed the agro-based private sector into shadow economy and led to loss of investor confidence.

2. **In the past decades, Zimbabwe has undergone major economic and political crises, which created setbacks in the national development path.** After years of struggle, the country gained independence from Britain in 1980. Recent brewing social disenchantment and the abrupt withdrawal of foreign aid until 2009, however, have exerted significant pressure on inflation, unemployment, food insecurity, and corruption. The country went through an economic meltdown during the 1998-2008 period when the economy contracted by about 40 percent. Under the Global Political Agreement brokered in 2008, the formation of a power-sharing government has sent positive signal to citizens, investors and donors, but the current political situation still endures much uncertainty. Delicate balancing relations among leading parties reflect a moderate level of political risk and have a negative effect on business confidence. The three parties within the inclusive government have divergent approaches to the long-term goals of economic development, which have implications for policy reforms.

3. **A number of stabilization and reform measures implemented in this period will form the basis for policy-making in the medium-term.** Concretely, the Short-Term Emergency Recovery Programme (STERP) was aimed at putting a break on economic decline and alleviating social hardships on the most vulnerable. This is in part done by halting the Reserve Bank of Zimbabwe's uncontrolled excesses and termination of its quasi-fiscal operations. STERP was also meant to address the monetary framework through enforcing a cash budgeting procedure that would match monthly expenditures to monthly revenues, along with hard fiscal constraints on public enterprises and improved revenue generation.[1]

4. **The economic recovery has been underpinned by significant improvements in policies since 2009.** The adoption of the multi-currency system has engendered macro-stability, stabilized prices, and restored confidence and incentives for firms and households to produce and consume. The aggregate effect led to an estimated real GDP growth of around 8.1 percent in 2010, with a projected growth of 9.3 percent in 2011 and 9.4 percent in

[1] See, Michael Bratton and Eldred Masunungure, The Political Economy and Governance Context of Transition Recovery in Zimbabwe. 2009. Harare.

2012.[2] Since 2009, goods and services are increasingly available; schools and hospitals are re-opened; and cholera epidemic has been put under control.

5. **Nonetheless, economic constraints and capacity gaps in the Government's delivery of social services have translated into limited improvement in human development.** In 2011, Zimbabwe ranked 173 out of 187 countries on the UNDP's human development index. According to the most recent available data from the World Development Indicators (2009), infant mortality rate was 52.2 percent, HIV/AIDS prevalence was 14.3 percent, and more than half of the population was dependent on international food aid for survival. Poverty rate increased from 42 percent in 1995 to 63 percent in 2003.[3] In 2010, The United Nations Children's Fund reported 78 percent of Zimbabweans were "absolutely poor" and 55 percent of the population lived under the food poverty line.[4]

2. Why a Study on Public Investment Management?

6. **This Policy Note responds to the Government's request for technical assistance in building institutional capacity and coordination around the capital investment management system.** It is part of the last component of a two-phased, sequenced program to support the Government's preparation and execution of the 2013 capital budget, which is funded by a Multi-Donor Trust Fund. The two phases include: 1) multi-sector mission to support to planning and implementation of the 2012 capital budget; and 2) diagnostic assessment of PIM systems and action plan for reforms toward medium- to long-term capacity building. The Note will leverage existing World Bank knowledge products, and on-going economic policy dialogue on social and economic recovery, including findings and recommendations from the multi-sector missions to support the 2010 and 2012 capital budgets, as well as the Public Expenditure Note on the national budgeting process.

7. **Public investment management (PIM) has gained greater significance in the face of the dual challenge—setting the country on a steadier path to recovery and the foreseeable constraint on increasing fiscal space in the medium-term.** The PIM Review is part of a broader agenda to recuperate the gains made in public financial management prior to the hyperinflation era and to respond to the urgent need to use public resources more efficiently.

8. **In the post-hyperinflation period, key building blocks of the public financial management system have degenerated.** The integrated financial management system for budget execution, control and reporting (SAP) was first put in place in 1999 and had not been designed to accommodate hyperinflationary digits. When the inflation climbed, SAP

[2] Several liberalization measures were undertaken, such as the removal of price controls and elimination of the quasi-fiscal activities of the Revenue Board of Zimbabwe, thereby reducing the fiscal burden from subsidies and transfers. See, Zimbabwe Growth Recovery Report, The World Bank, Washington, DC. 2010.

[3] The cited poverty rate is the proportion of households living below the total consumption poverty line. See, Zimbabwe Interim Strategy Note for FY 08/09, World Bank December 12, 2007, based on Poverty Assessment Study Survey II (PASS II), Draft Report, December 2006.

[4] Voice of America. Unicef Says 6.6 Million Zimbabweans Living Below Food Poverty Line, 08 April 2010.

was rendered dysfunctional, and all government transactions had to be managed and authorized manually. Other critical functions such as public procurement and state audits, as well as technical capacity at the line ministry level, are severely compromised in terms of adequate human resources. Government budget credibility has been called into question due to overestimation in the original budget, while uncertainty about the revenue side has been complicated by the multi-currency tax assessment.[5]

9. **Zimbabwe's once developed physical infrastructure has deteriorated dramatically in recent years and become a major constraint to sustained economic recovery.** Upon consolidating its fiscal position, the Government budgeted US$455 million for capital spending in 2011 to support the much needed infrastructure rehabilitation. In light of the very small budget for capital investment in the past, the Ministry of Finance (especially the Public Sector Investment Program, PSIP) and line ministries have been caught unprepared to manage this financing surge, and are simultaneously faced with a jammed pipeline of projects that had been started prior to the hyperinflation period in 2008-2009. By and large, addressing the challenges in the management of project management and monitoring, particularly under the growing capital expenditure budget, can vastly enhance the Government's capacity to provide basic services and in turn create improvement in the people's quality of life.

10. **Meanwhile, Zimbabwe faces significant capital shortage and financing constraint, given the record of economic instability and poor credit-worthiness.** In maintaining limited engagement with the Government, much of donors' financial support has circumvented the state system and been channeled through local and international NGOs. The private sector as the potential driver of the economy is hindered by limited lines of credit. As banks face a liquidity problem, the cost of short-term loans remains high, and a medium- and long-term capital market has not yet developed. Furthermore, the policy environment has not been sufficiently conducive to attracting foreign direct investors. With the Treasury operating on a cash-based budgeting system, public spending has been restricted to yearly available cash. Many infrastructure investments that are critical for economic recovery and poverty reduction would remain under-financed into the medium-term.

11. **Recognizing these eminent and structural problems, the Government has swiftly put in place critical measures to improve the legislative framework for public fiduciary and public financial management system.** The Public Finance Management Act 2010 and the Audit Office Act came into effect in April 2011. These laws provide the broad basis for the development and safeguard of sound public financial management, and inform policy- and decision-making around better revenue collection and the use of scarce public funds.[6] Nonetheless, their effective implementation depends on more specific

[5] For more in-depth analysis of the challenges facing PFM, refer to the Rapid PFM Assessment. 2011. Harare. The report thoroughly outlines weaknesses in the tax administration, cash management, payroll controls, general accounting, debt sustainability and budgeting reporting and oversight. It also provides policy recommendations and identifies areas for further technical assistance and other follow-up activities to rebuild and strengthen the PFM system in the wake of the monetary crisis.

[6] The Republic of Zimbabwe Country Integrated Fiduciary Assessment. Main Report Draft. World Bank. January 19, 2012.

guidance to the ministerial level, as well as greater involvement of the Parliament's Portfolio Committees in order to achieve better transparency and efficacy of the budget management process.

12. **While the process of preparing the capital budget has generally improved over the past two years, the recent diagnostic work has identified limitations in the PIM chain.**[7] Institutional shortcomings are present in key areas, from the insufficient costing mechanism, to the lack of sound budgetary control points for every project, procurement procedures and monitoring of time and cost overruns. The magnitude of the challenge rests on the insufficient capacity to design bankable projects, to effectively manage project implementation within implementing agencies, and the subsequent under-execution of the capital budget at the downstream level.[8] Substantial project delays result from various factors. First, the lack of economic data on total estimated costs (or total financial requirements) has distorted the "readiness to implement." Second, projects are halted at various stages of construction due to inflation, which necessitates cost readjustment for the project. Third, prolonged implementation period has exposed projects to revalidation, re-pricing and re-negotiation, as well as the risk of fluctuating inflows. On top of this, Zimbabwe's cash-based budgeting system and the weighted year-end spending further add to the complexity of capital budget preparation and execution. In the past few years, the MOF has been operating on ad-hoc measures created during the state of economic emergency, which affects longer-term planning and multi-year budgeting.

3. Objective of the Policy Note

13. **The objective of the Policy Note is to support the Government of Zimbabwe to strengthen the efficiency of PIM system, with an ultimate goal of contributing to improved governance, service delivery, and economic growth**. The findings from the Note will complement and benefit on-going support for public financial management by development partners, including the Note by the Global Expert Team in March 2011 and the World Bank Multi-Sector Mission to support to Planning and Implementation of the 2012 Capital Budget (September-October 2011). The Policy Note is aligned with the draft Interim Strategy Note (FY 2013-2014), which is aimed at assisting the government build the core institutional systems in managing public resources more effectively.

14. **The study will inform a reform and capacity strengthening action plan with the Government as well as subsequent Bank's proposed technical assistance program to strengthen the PIM.** To this end, it provides an analysis of the core institutional and procedural strengths and weaknesses of the current system, thereby enhancing the understanding amongst government officials at different levels, and recommends a set of

[7] Public Investment Management in Zimbabwe: Project Selection & Budget Formulation, Project Execution, World Bank, Washington, DC. March 2011.
[8] During the World Bank Annual Fall Meeting in 2011, the Zimbabwean delegation raised a deep concern over the low absorptive capacity in capital investment that has resulted in a large stock of incomplete projects.

politically feasible and institutionally compatible options for reforms over the short to medium terms.

4. Scope, Methodology and Audience of the Study

Scope

15. **The study provides an assessment of the institutional and procedural challenges in managing the PIM system.** In doing so, it will examine the institutional design of the PIM process, *de facto* roles of key players, financing modalities of public investment, the recent trend in capital budget allocations and the efficiency of the current structures and procedures. The study serves as underpinning analytical tool to support the development of a concrete action plan for institutional capacity-building.

Methodology

16. **The diagnostics follows the evaluation framework suggested by Rajaram et al (2010) as an underpinning analytical tool.** It is also based on semi-structured interviews of government officials and the private sector as well as review of relevant publications and reports on the sectoral challenges to public investment budgeting. While gathering critical data and information for the report, the team has largely benefitted from the MOF's active engagement, support and collaboration to organize several rounds of interviews and meetings with relevant counterparts in the Government. The Policy Note has also drawn upon a wealth of secondary sources, including independent research and reference to international experience in PIM reforms.

Audience

17. **The primary audience** for this report is the Government of Zimbabwe, in particular the Ministry of Finance (MOF), the Ministry of Economic Planning and Investment Promotion (MoEPIP), the Ministry of Public Works (MOPW), the Infrastructure Development Bank of Zimbabwe (IDBZ), the State Procurement Board (SPB) and line ministries (LMs) as key players in the public investment program. Secondary audience would be development partners, private sector stakeholders, non-state actors and the academia.

5. Structure of the Policy Note

18. The second chapter describes the recent trends in public investment. The third chapter will provide a description of the financing modalities by which public investment budgeting takes place, key players in the systems and their driving incentives, capacity and governance context, and the institutional framework of PIM. The fourth chapter assesses the performance of the PIM system. The fifth concludes with policy implications and reform options.

II. Recent Trends in Public Investment

Introduction

19. Currently, capital investment has mainly been funded by the national budget, with donors' support in key economic sectors such as infrastructure rehabilitation, manufacturing and agriculture. Before the hyperinflation period, public investment in capital projects was small and largely marginalized by recurrent expenditure. The substantial increase in capital investment, relative to current expenditure in the medium-term government budget framework, is in line with general recognition of the role of infrastructure rehabilitation and social sector investment in order to sustain the national economic growth. Agriculture (15 percent), Water and Sanitation (12 percent), Transport (10 percent) and Energy (10 percent) are sectors that received the most capital allocations in 2011. Budget execution has improved, but compared to the surge of capital budget allocation, the net rate of disbursement out-turn is still lagging from 90 percent in 2010 to 65 percent in 2011, despite a 40 percent increase in capital investment allocation in 2010-2011.

1. Sources and composition of the capital budget

20. Since the economic stabilization in 2009, Zimbabwe has consolidated its fiscal position through increased revenues.[9] As a result, its planned expenditures were almost US$1 billion in 2011. The capital budget almost doubled from US$252 million in 2010 to US$455 million in 2011. According to the MOF's 2012 Budget Strategy Paper, capital expenditure is projected to rise from 4.9 percent of total expenditure in 2009 to 25 percent in 2012 and 30 percent in 2014. These projected capital allocations approximate US$610 million in the 2012 budget estimates and US$973 million of 2014 estimates.[10] Budget allocation to current expenditure will gradually reduce from 87.3 percent of total expenditure in 2009, to a projected 73.4 percent and 68.9 percent in 2012 and 2014 respectively.

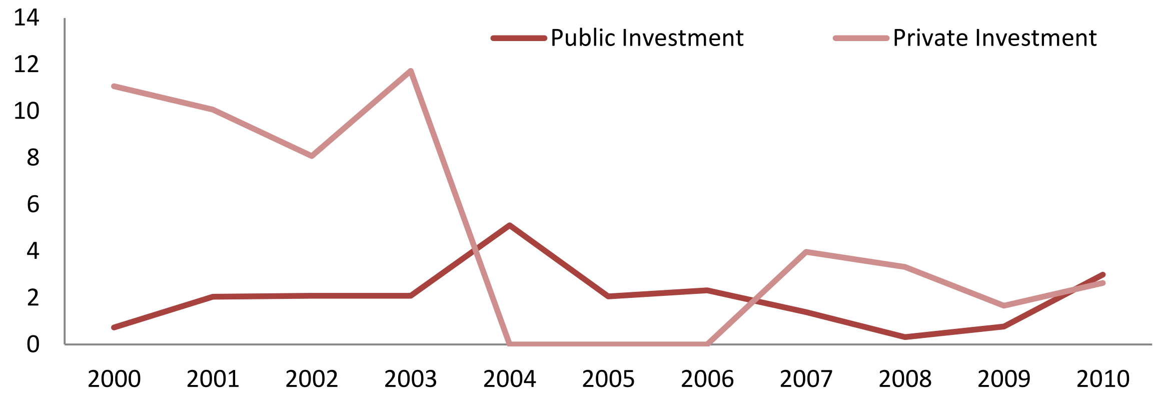
21. Prior to the hyperinflation period, private investment in capital expenditure accounted for around 10 percent of GDP from 2000 to 2003, while public investment only approximated 2 percent of GDP. In 2003-2004, private investment nose-dived radically, with public investment rising to fill the investment gaps. After 2006, private investment started to pick up pace, but until 2010, it has not recovered to pre-crisis level and only hobbles around 4 percent of GDP. During the same period, public investment hit one of its lowest levels in 2008 (0.32 percent of GDP) when the country faced tremendous inflationary pressure, but

[9] Thanks to on-going tax reforms focusing on ZIMRA restructuring, strengthened compliance mechanism, and increased automation of the tax collection system, inter alia, domestic revenues are expected to grow from 30 percent in 2011 to 34 percent in 2012. Despite the Government's appeal for more external development support in order to augment domestic revenues in financing priority projects and programs, no significant growth from development partners is anticipated in the 2009-2014 periods. Such inflows actually decreased from US$593.7 million in 2011 to US$500 million in 2011. The 2012 Budget Strategy Paper, Ministry of Finance, Harare.

[10] Budget figures are drawn from the Budget Estimate (Blue Book) for the fiscal year ending on December 31, 2012, which was prepared by the Ministry of Finance and presented to the Parliament.

towards 2010, it has risen to match the same level as private investment of around 3 percent of GDP.

Figure 1: Public and private capital formation as percentage of GDP from 2000-2010



Source: WDI (2011) and authors' calculations

22. The combined public and private investment amount still composes a relatively small portion of GDP (See Figure 1). Under the government's budget, there is an emerging shift in current and capital expenditure allocations. Traditionally, recurrent expenditures have accounted for a disproportionate share of the budget. Concerns have arisen, however, in the levels of remuneration in the public sector, in light of the cost of living, placing upward pressure on public sector wages. The high non-discretionary component of the total expenditures has been crowding out funding for critical development and other programs necessary for economic recovery and poverty reduction.[11] Local governments face internal revenue generation challenges and have to depend on the central government for all provincial financing.

23. Meanwhile, public service delivery has remained subpar in a number of areas, especially investment in productive assets and hard infrastructure conducive to growth. This has also resulted in the inability of common Zimbabweans to access quality social services and the market, further inhibiting their participation and inclusion in the formal economy. The Medium-Term Plan 2012-2015 (MTP) identifies robust infrastructure as a key enabler for economic recovery, growth and transformation. With this in view, the Plan stresses the importance of restoration of basic services and provision of efficient and reliable infrastructure network in order to facilitate business and social operations, stimulate economic growth and social transformation. Such clear direction of priority has translated into a rebalancing of budget allocation between current and recurrent expenditures.

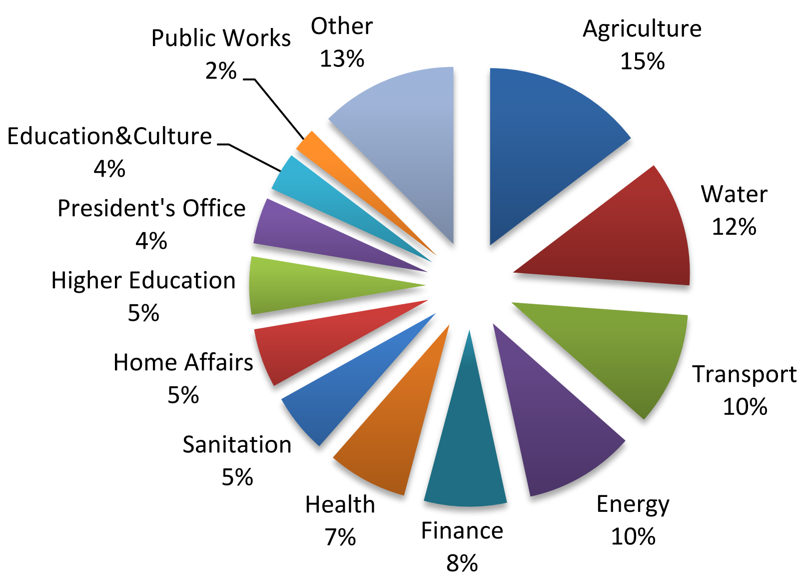
[11] 2012 Budget Strategy Paper, Ministry of Finance, August 2011.

2. Trend in capital budget allocations

24. While a US$610 million capital budget for 2012 is a significant step forward in meeting the much needed infrastructure rehabilitation, the PSIP still has a significant backlog of incomplete projects in the pipeline. Since 2010, the Government has allocated resources towards rehabilitation of roads as well as water and sewer reticulation systems, including inter-governmental transfers to the local authorities. In the 2012 budget, US$63 million was allocated towards this cause. Public utilities such as the Zimbabwe Electricity Supply Authority (ZESA) and National Railways of Zimbabwe among others are also getting government funding for their various rehabilitation projects.

25. As indicated in Figure 2, capital allocation in 2011 was highest in the agriculture sector (15 percent of the total public investment expenditures), water (12 percent), transport (10 percent), and energy (10 percent). Social sectors such as Health received 7 percent and Education 9 percent (5 percent for higher education, and 4 percent for primary education and culture). Other ministries, including Ministry of Mines, Industry, Environment, Media, Economic Planning, Justice, and National Housing, combined, received 13 percent. The MOPW, which is in charge of construction projects by LMs, receives just 2 percent directly from the budget.

Figure 2: Capital allocation by ministry in 2011[12]



Source: Ministry of Finance

[12] The conversion from Zimbabwean dollar to a multi-currency system has resulted in difficulties in collecting time-series data on capital allocation.

26. Given the limited fiscal space that the country is facing, there is a huge burden on the GoZ to ensure that there is efficiency in the implementation and management of the projects currently being financed. Notably, public infrastructure in Zimbabwe has deteriorated to a level where more than US$14 billion (at 2009 constant prices) will be required in the coming decade to rehabilitate and expand the existing infrastructure to enable the country to increase its productivity. There is therefore a critical need for the country to ensure that the PIM value chain is being followed.[13]

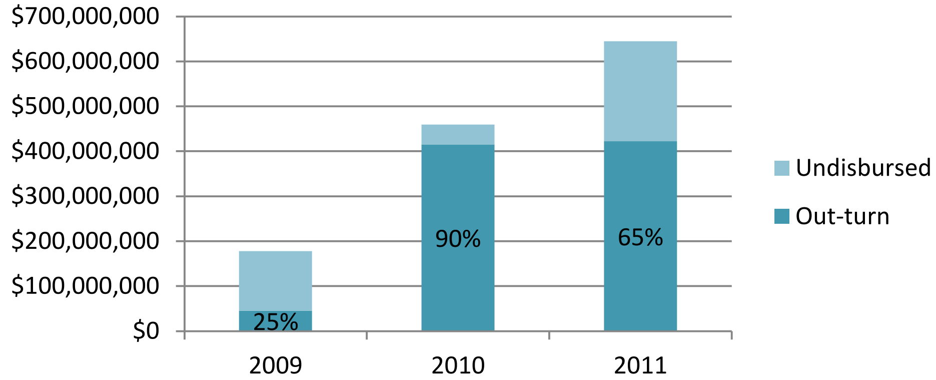
3. Budget execution deficit as a prominent problem

27. Budget execution deficit has been a major bottleneck in PIM. There is a large stock of incomplete projects that are spread throughout the country, many of which have been stalled since the Zimbabwean dollar era. Project implementation is constrained by planning, procurement, and capacity challenges, especially in execution management, even when financial resources are available. The loss of critical skills and expert personnel during the hyperinflation crisis has had a compounding negative impact on the internal capacity for project operations and monitoring. Besides, insufficient management capacity of implementing agencies with regard to the utilization of disbursed funds on capital projects constitutes a great concern. Contractors have displayed gaps in capacity to execute, adjust and supply contracts, while service providers face difficulties in offering service without upfront payment.

28. As all the current projects in the PSIP pipeline are on-going, the prioritization of project completion informs budget allocation. This means that where the funds get disbursed first is based on the projects' progress to completion and its turn-over value. This approach proves fruitful to enhancing the rate of execution and thereby capital outturns. Figure 3 depicts the budget execution. In 2009 when the country's economy suffers the most from the inflationary pressure, merely 25 percent of total capital allocations were disbursed. Capital absorption of development projects was 90 percent in 2010, pointing to the positive impact of the adoption of the multi-currency system. However, the expenditure out-turns in 2011 again reflects relatively low capacity for capital absorption of public capital investments, where only 65 percent of total allocation got disbursed.

[13] According to the AfDB report on Infrastructure and Growth in Zimbabwe, the costs are estimated for the proposed infrastructure program during the decade ahead for capacity building and technical support, rehabilitation of existing infrastructure networks, and increases in network capacity, prices, including $4.6 billion of private investment in upgrade of existing infrastructure and new capacity.

Figure 3: Capital investment out-turns 2009-2011



Source: Ministry of Finance and authors' calculation

III. Institutional Mapping

Introduction

29. The national budget is the main source of financing public investment projects. Regulatory frameworks for public-private partnerships (PPP) are in place, but slow recovery from the private sector has not made it a notable source of financing for capital projects. Foreign loans and grants and donors' humanitarian aid are not channelled through official budget. The Appropriation Act and Finance Act empower line ministries to execute their budget, but tremendous backlog at the State Procurement Board has prompted LMs' call for a revision of procurement regulations to enhance its efficiency. More strategic examination of the roles of key players across stages of the PIM system, namely the Ministry of Finance, the Ministry of Economic Planning and Investment Promotion, State Procurement Board, Ministry of Public Works, Line Ministries, Infrastructure Development Bank of Zimbabwe, and the private sector, is needed to strengthen their respective capacity in the process. It has become evident that there is a need for the MOF to champion the various reforms to ensure an efficient and coherent linkage among key players in the PIM chain. This chapter focuses on the modalities by which public investment is financed. It will explain the key players involved in the system of PIM and their formal roles in the capital budgeting process, as well as the regulatory framework around PIM.

1. Modalities of Public Investment

30. As the national budget is the main source of PIM financing, Multi-Donor Trust Funds (MDTFs) and foreign governments' investments do not come in the form of budget support. They are not reflected in the national budget. There are limited activities in the private sector, which is traditionally small and has recently been hard-hit by the economic downturn.

31. Zimbabwe has implemented a few projects under public-private partnership (PPP) in the past, but the volume has been quite low compared to the government's needs. Currently, only four PPP projects are in operation in Zimbabwe: Newlands Bypass (2007), Ngezi Platinum Highway (2001), Beitbridge-Bulawayo Railway (1999), and New Limpopo Bridge (1995). And three projects are currently under preparation: Beitbridge One-Stop Border Post Concession (awarded in 2010, not yet started), Chitungwinza Hospital (not yet tendered), Gowke North Coal-fired Power Station (unable to raise debt under current regulatory framework). [14] With the issuance of PPP guidelines in 2004, the Government has set up an enabling environment by designating the state apparatus involved in the process and establishing mechanisms for awarding PPP contracts. The volume of projects though has not increased due to barriers that the government initiatives have failed to

[14] For instance, the Development Bank of South Africa (DBSA) has planned to invest US$260 million for upgrading the Plumtree-Bulawayo-Gweru-Kwekwe-Harare-Mutare highway and US$54 million has already been drawn to pay the contractor to commence the works.

overcome. Thus far, PPPs have not become a sustainable financing modal for capital investment, but have started to demonstrate its potential.

32. Foreign grants and loans have run as vertical parallel funding to those projects under the Public Sector Investment Program (PSIP). They have mainly targeted at social service sectors. China has started to provide government-to-government grants and loans to invest in specific sectors such as transport, health and education. Mineral (diamond) resource-for-infrastructure deal just as the case of construction of a defence college has also started to emerge. Nonetheless, the grants were designed to bypass the budgeting process under the Ministry of Finance, while obliging the Government of Zimbabwe to make in-kind contributions. For example, in the agreement to open a hospital in Mahusekwa, the Chinese Government agreed to build the hospital and supply the necessary hospital equipment, while the Government of Zimbabwe will provide accommodation for the nurses and doctors to ensure smooth operation of the hospital. US$2 million has been allocated from the 2012 budget to fulfill this commitment.[15] More recently, the Government of Japan has expressed interest in investing in an energy project in partnership with the Ministry of Energy.[16] The Indian Government has planned to lend US$100 million on concessionary terms towards the health sector. Nonetheless, there has been no formal agreements signed to date, and details for these arrangements still continue to be further refined.

33. Donors' support has been mainly humanitarian, and has always been listed off-budget. Pledged aid support totalled US$618.3 million in the fiscal year 2011, and primarily targeted at programs in health, education, agriculture, energy, water and sanitation, technical assistance and governance.[17] Of the total pledge, the contribution of US$80 million was made through the Multi-Donor Trust Fund, also known as the Zim-Fund. This Fund is administered by the African Development Bank to finance projects and programmes in energy, and water and sanitation sectors, which so far have received US$35 million and US$29 million respectively. Nonetheless, it has widely been observed that donors are circumventing the government systems and channelling their assistance through the various local and international NGOs.

2. Regulatory framework and formal decision making process

34. The broad legal framework for public financial management, which underlines the functioning of the PIM, is being shaped. Critically, the Appropriation Act and the Finance Act empower line ministries to execute their budget. The State Procurement Board follows the procurement regulations to carry out their mandate and coordinate with line ministries to find the best available contractor to complete the projects. Internal auditors as well as

[15] Budget Estimates, for the year ending December 31, 2012, Ministry of Finance November 24, 2011. The completed construction of the Mahusekwa hospital is a rare case, as many other capital projects have been stalled or severely delayed.
[16] This is according to insights from the Permanent Secretary for Energy during an interview with Energy Ministry officials.
[17] The 2012 National Budget Statement, Ministry of Finance November 24, 2011.

the Office of the Comptroller and Auditor General personnel coordinate to ensure compliance with procedures (e.g., procurement) and regulatory mandates (e.g., the Public Financial Management Act). In view of the backlog at the State Procurement Board, there has been debate about the need to revise procurement-related regulations to improve the efficiency at the Board, as well as reduce the time to prepare procurement contracts for projects, especially those that are highly capitalized.

35. The decision-making process for public investment follows the national budget cycle. The cycle starts with the MOF's issuance of expenditure targets and guidelines for ministerial budget proposals in August, and end with the preparation of the Mid-term Fiscal Policy in June-July. Strategic planning at the MDAs' level and submission of budget proposals are done during August and September. Budget examination and review of proposals are carried out by the Cabinet Committee on Economic and Financial Affairs (CCEFA). Once budget submissions are approved for allocations, they are consolidated to the proposed national budget (the Blue Book) and presented to the Parliament's Portfolio Committee on Budget, Finance and Investment for review and authorization.[18] Budget implementation starts in December, as ministries are *de facto* responsible for monitoring and reporting of project operations and performance reports due to MOF in January. Annex 2 summarizes the country's budget cycle.

36. The Medium-Term Plan 2011-2015, prepared by the MOEPIP, outlines the national development priorities. It serves as guidance for the macro-economic and budget framework in the upcoming three-year period, and focuses on macro-economic stabilization and rehabilitation of hard and soft infrastructure in the country. Accordingly, the Plan has placed greater emphasis on capital investment and called for adjustments in the recurrent expenditure.

37. The MOF issues the Budget Call Circular based on the budget policy framework for the year and the projection outlook for the outer year. It provides timeline instruction and guides the parameters on the format and content of the expenditure proposals for ministries' budget submissions. LMs come up with their priority list of projects to be completed and other administrative capital expenditures based on the budget ceilings they are given.[19] They are also responsible for designing their project proposals. Some LMs conduct their own project appraisal in conjunction with MOPW, whilst other LMs hire private sector consultants to complete the task. After this process, they forward the appraised project proposals to MOF for financing, provided they are under the budget ceiling. In close consultation and discussion with individual LMs, the MOF through its PSIP department determines projects to be selected for funding, and ensure that such selection is prioritized according to the goals and objectives outlined in the MTP. MOF's consultations with LMs closely review project values and justification of their

[18] Despite its de jure mandate, the Parliament and its designated budget committee appear to have no genuine weight in the budget process and their decision has been perceived to simply serve its structured formality. No changes have ever been proposed by the Parliament to the Budget put forward by the MOF on behalf of the Cabinet.

[19] The issuance of ceilings for capital budget started in the 2012 budget. Prior to that the sky was the limit and it meant more work for MoF as they tried to rationalize the allocations without guidelines on what to take on board. The issuance of ceilings has transferred the prioritization and is empowering ministries to bring for financing what they view as critical.

contributions toward the national development plans. The MoF holds meetings with the Cabinet Committee on Economic and Financial Affairs (CCEFA) throughout the budget preparation while the Parliament arranges a workshop to solicit its members' inputs into the budget (See graph depicting the budget cycle in Annex 2).

38. Once a project has been approved for funding, it will be implemented by the MOPW or the private contractors. For new projects, the overseeing LM will coordinate with the SPB to find a contractor for their project. Once tender has been completed through a bidding process, the project monitoring will be jointly carried out periodically by the LM and the MOF. The MOF has ceded the monitoring role of infrastructure projects to the IDBZ, an institution established in 2005, which compared to central ministries today has the requisite human and technical capacity to enforce project implementation and supervision.

39. Most projects under the PSIP pipeline are work in progress. Due to substantial backlog, no new projects have been proposed into the budget. Line ministries continue to oversee projects towards completion, as monitoring is done periodically by the MOF and the IDBZ.

3. Overview of key institutions involved in PIM

40. The key players across different stages of the PIM include the MOF, MoEPIP, MoPW, LMs, SPB, IDBZ, and the private sector.

Ministry of Finance

41. The Ministry's mandate is to formulate and coordinate sound macroeconomic policies, and to effectively mobilize, allocate, manage and account for public resources. It has the central role in the PIM process and would become the likely driver of system reforms along with other players, notably the MoEPIP. It is the central ministry in charge of financing all capital projects and liaising with donors and other governments interested in investing in the country. The MoF provides strategic guidance to line ministries and all other stakeholders through various economic blueprints, among them STERP I, STERP II, budget call circulars and budget statements, which gives them significant influence in PIM.

42. A number of subordinate departments under the MOF, namely the departments of PSIP, Recurrent, the Implementation and Control of Expenditure Unit (ICEU), Revenue, and the Domestic and International Finance (DIF), are directly or indirectly involved in the PIM process. Aside from the PSIP, which oversees the entire capital budget process and directly works with LMs in their preparation of project proposals and monitoring of project progress, the Revenue Department mobilizes resources to fund project expenditures. It mainly works with the Zimbabwe Revenue Authority (ZRA). The DIF liaises with donors and foreign governments, and negotiates loans on behalf of line ministries in cases where the Government acts as guarantor. The Recurrent Department coordinates with the PSIP to scrutinize project documents from LMs to take into account the recurrent aspects of every project.

43. While the MOF has a formal role in filtering out bad projects and ensuring value for money, it has so far been primarily concerned with the fiduciary responsibility and not enough on the quality monitoring of project implementation.[20] There is a need for the MOF to clearly define *guidelines for reviewing project proposals*. The ICEU, whose key mandate is to monitor and evaluate the implementation of government projects, can benefit from further technical training in monitoring and impact evaluation to improve efficiency and quality of their work. Currently, the IDBZ has been monitoring infrastructure projects alongside the MoF officials, much of which has become a learning process for MOF in project monitoring and evaluation.

Ministry of Economic Planning and Investment Promotion

44. The Ministry's official mandate is to formulate, coordinate and monitor the short, medium and long-term national, regional, sectoral development programmes and strategies to achieve sustainable National Economic Development. It provides investment guidance to LMs and other interested parties through the MTP 2011-2015. Investors can look at the list of priority capital investments to make their investment decisions in the country.

45. It can also examine the LMs' capital budget submissions to ensure alignment of funded projects with the MTP.[21] The Ministry has under its purview various technical departments[22], including the Policy Planning & Coordination and Investment Promotion, which coordinates more effectively with the MoF in ensuring that key steps in a sound PIM process, such as preliminary screening and project appraisal, are well-executed, and that line ministries' capital budget submission are aligned with the MTP. Meanwhile, the Zimbabwe Investment Authority, which reports to MOEPIP, has the mandate to provide guidelines for PPP modality and propose strategies to engage the private sector in public capital investment. There is a clear need to coordinate efforts among the regulatory institutions and the private sector to form a coherent framework for PPP financing.

Ministry of Public Works

46. The Ministry oversees the construction and maintenance of government buildings, plant and equipment, and maintains the government asset registry. They are also charged with the responsibility of formulating and coordinating policies for the construction industry, valuating and managing government estates in and outside Zimbabwe, as well as providing professional and technical advice to the smaller local authorities. They manage consultants

[20] The Public Sector Investment Programme (PSIP) department has been performing more or less the independent reviewer task wherein they look at the projects that the LM will have submitted to check if they are in line with the set of guidelines that would have been issued. Under this arrangement, there is an officer from MOF/PSIP assigned to work with every line ministry who reviews all their project proposal submissions and assist them.
[21] During an interview, the Permanent Secretary of the MOEPIP revealed that they would like to revive the defunct National Planning Commission (NPC) and host its Secretariat. This remains a political issue. The Commission is envisaged to be in charge of preliminary screening of all projects to be implemented and ensure that all aspects of the PIM management chain are taken into consideration and exercised more effectively.
[22] See the Ministry's Organogram in the Annex 4.

undertaking government contracts, although high staff turnover poses a constraint on human resources within the ministry.

47. Most of these tasks are however not being adequately performed, due to capacity constraints and lack of manpower and tools of trade. The Ministry has departments such as engineering services, architectural services, quantity surveying, valuation and estate management as well as construction and maintenance. If these specialised departments are better equipped and have their full staff compliment, the existing structure can enable the Ministry to play its role in PIM efficiency and to coordinate more effectively with the MoF.

Infrastructure Development Bank of Zimbabwe

48. The IDBZ was launched by the Zimbabwean Government in August 2005 as a vehicle to mobilize financial and technical resources for public and private institutions with an interest in infrastructure development. The connection they make with the Pension Funds, Mutual Funds, Government, Corporate and banking institutions, non-governmental organizations, international organizations and agencies, among other possible financiers and potential investor institutions, allows them to promote investment in infrastructure. Aside from the main inflows from the MOF's Development Fund[23], the IDBZ also raises independent resources from private investors based on their business networks.

49. In 2010, the MoF created a new window of financing called the Sinking Fund.[24] Drawing from this window, selected ministries use the loans to finance their projects or projects implemented by their parastatals.[25] The IDBZ has played the *agent* role on behalf of the government in providing the terms and conditions for the management of the loans. Under this agreement, the Bank is supposed to open an account for every project through which it receives and disburses funds. They also monitor and evaluate implementation milestones for each of the funded projects in conjunction with the MoF and provide the MoF with comprehensive periodic reports regarding the financial status of the Fund. While the IDBZ expresses its commitment to ensure smoother and more effective implementation of capital projects, there appear cases of discontent by certain LMs.[26]

State Procurement Board

50. The Board was established by a parliamentary act in August 2001 with institutional mandate to procure goods, services and construction contracting for the Government and its agencies. Its main roles are to conduct procurement on behalf of procuring entities, supervise procurement proceedings of procuring entities, and enforce proper compliance

[23] The Development fund is an off- balance sheet structure that houses activities and special projects undertaken by the Bank as an implementing agent on behalf of the Government.
[24] Initial capital in the Sinking Fund was first raised from the Special Drawing Rights. By the end of 2010, excess revenues were transferred into the Sinking Fund to alleviate the usual capital shortage usually occurring at the beginning of the fiscal year. This is aimed to help avoid delays in implementing projects.
[25] See Annex 3 with a list of projects under the Sinking Fund.
[26] During the mission interviews, some LMs perceive the IDBZ as "stepping on their toes," and as a result, they desire to take over the key functions of the IDBZ in disbursement of funds and monitoring.

with the Act. It may also initiate investigations in procurement entities among other roles conferred or imposed on them. As procurement is a critical factor in capital financing, the SPB plays a very important role in PIM, especially at the implementation stage of the projects/programs. Presently, the threshold guiding LMs' spending for any goods or services without necessitating the explicit Board approval is US$50,000. This low ceiling has been a cause for projects to stall, as most projects are much above the threshold. On one hand, the huge backlog at SPB has impeded progress in project execution. For example, in 2011, the government wanted to procure road maintenance equipment, but only 5 out of the 15 requests have been awarded tender by December 2011. There has been a prevalent sentiment among LMs on the need to revise this limit.

51. On the other hand, human capacity at the Board has been inadequate to perform effectively its full mandates. Within the SPB, there are one principal officer, eight procurement executives and four procurement auditors to oversee the procurement issues for all tenders across the government. Unfortunately, vacancies in the Board leave a large technical gap for its effective operations. The majority of LMs have expressed their support to the decentralization of the procurement function under the purview of LMs with the SPB retaining its regulatory role. Lifting the threshold and allowing for more procurement responsibility to be undertaken directly at MDAs level have been recommended as an interim remedy. Complementarily, the Board can issue proper guidelines to LMs on how they should handle the tendering process.

52. The SPB has also suffered from the lack of in-house technical expertise in procuring certain specialized goods. LMs have expressed frustration at the SPB for selecting the lowest bidder, which later often causes frequent cost escalations and do not even always deliver on quality. The current procurement structure has pointed to critical structural weaknesses that would merit close examination among the MOF, the SPB and relevant LMs to explore effective reform options in the procurement area to enhance the efficiency of the system.

Line Ministries

53. Line Ministries are responsible for and are involved in almost every step of the capital project cycle.[27] With projects proposed at the local level, LMs conduct the preliminary screening of the projects before they forward them to MoF for financing. In their diversity, some LMs, such as the Ministry of Agriculture, Mechanisation and Irrigation Development have technical departments (in this case, Agricultural Engineering and Irrigation), which enables them to carry out internal technical assessment. Those ministries, like the Ministry of Education, Sport, Arts and Culture that do not have technical departments rely on the MoPW for designs, appraisals, costing, implementation matrix and other project details. Others such as the Ministry of National Housing and Social Amenities send their projects to be appraised by the IDBZ. Ministries such as Health and Child Welfare and Education, Sport, Arts and Culture engage the Environmental Management Agency (EMA) to carry out an environment impact assessment for their projects. In completing the EIA, the

[27] For instance, the Ministry of Agriculture, Mechanization and Irrigation Development typically has irrigation or water and sanitation projects that originate from the community and are generally driven by local needs.

Agency assesses the areas, where the construction is to take place and their technical department conduct the assessment.

54. Notably, the line ministries also carry out internal project screening and selection. In particular, they rank projects in funding priority and consult detailed allocations with the MOF for their inclusion in the Budget Estimates. LMs have pointed to the cash budgeting system and unpredictable releases of funds as obstacles for proper planning for project implementation. In addition, LMs commonly face the serious problem of brain drain and there is urgent need to enhance their technical capacity in all areas of program/project design, costing, appraisal, monitoring and evaluation.

Private Sector

55. The private sector is still recovering from grave impact of the economic meltdown. It has been identified in the national medium-term development plan as an engine of economic recovery and growth in Zimbabwe and are increasingly participating in economic development through contributions to policy dialogue and formulation.[28]

56. Private companies with the technical fields in engineering, architecture, quantity surveying and professional associations such as the Zimbabwe Building Contractors Association and the Construction Industry Federation of Zimbabwe offer their expertise as project contractors on certain projects, which require those skills. The private consultants can be hired to prepare project documents, and conduct feasibility studies and appraisal do the feasibility studies and appraisal.[29] Furthermore, they may implement projects as contractors. As contractors, their main concern generally has to do with late payments of their certificates. Failure to clear these certificates often leads to time and cost overruns. Private contractors are under-capitalised, and advance payments are needed prior to the start of implementation. Another problem frequently faced by overseeing line ministries can be that they are under-performing even after being paid in advance. Due to skills flight, most of the firms have lost their experienced personnel, but are in the process of rebuilding human capacity. The lack of equipment, or out-dated equipment, is another impediment to project execution.

[28] Zimbabwe Medium Term Plan 2011-2015, Ministry of Economic Planning and Investment Promotion, July 2011

[29] Prior to the currency crisis in the country, feasibility studies had been done on large projects like dam construction under the Ministry of Water. However, in the post-crisis period, no new projects are proposed, and therefore, there is no need for feasibility studies. The capacity for such technical work remains in the country.

IV. Assessment of the Performance of the PIM System in Zimbabwe

Introduction

57. This chapter explores the performance of the PIM across eight stages: (1) Investment guidance and preliminary screening, (2) Formal project appraisal, (3) Independent review of appraisal, (4) Project selection and budgeting, (5) Project implementation, (6) project adjustment, (7) Facility operation, and (8) Project evaluation. The analysis follows the Rajaram et al. diagnostic framework (2010). In addition, as part of a hands-on approach to ensure the practicality of proposed reform options, the team had extensive discussions with officers directly involved in design, pre-screening, appraisal, selection, budgeting, and implementation of two specific projects, in particular, the J. M. Nkomo Airport and Central Registry Building projects (a summary of the key points is presented in Annex 5). The discussions help pinpoint the typical core problems in different stages of PIM.

1. Investment Guidance and Preliminary Screening

58. Strategic guidance for public investment is critical to anchor government decisions and to guide sector level decision-makers. In addition, preliminary screening of projects helps root out bad projects from the very beginning, and thereby saves time and costs by preventing such projects from proceeding to the appraisal stage.

59. In Zimbabwe, the preparation of budget proposals for public investment begins at the level of line ministries. Capital investment proposals are expected to be linked primarily to two sources: (a) the Medium Term Plan 2011-15, and (b) the expressed demand from the communities.

The Medium-Term Plan 2011-15

60. The MTP (Box 1) emphasizes on two aspects of growth and development: (a) Human Development and Social Security Strategy, and (b) Infrastructure Rehabilitation and Development. The MTP is supplemented by three appendices. Appendix I lays down the Millennium Development Goals (MDGs) for Zimbabwe. Appendix II lists the projects of national priorities for 2011-2015. It covers both the infrastructure sectors (Energy, Water, Sanitation, and Transportation including roads, rail and air services) and social sector programs (Health, and Education). It also lists projects from agriculture, mining, tourism, housing and construction as well as Information and Communication Technology. This Appendix is quite specific in terms of outputs to be produced, implementing agency, estimated costs, source of funding and the timeframe for implementation. The MTP is also unique in the sense that it goes on to list projects in the private sector as well, such as fertilizer and textile plants, electronics and chemical production, etc.. Appendix III shows an implementation matrix, which guides the fiscal authorities in allocation of funds to capital expenditure programs. It covers all the sectors that are included in the budget and gives policy objectives, policy targets, specific programs/projects to achieve those objectives, activities required to implement the program/project and the implementation agency involved.

61. Clearly, MTP provides adequate guidance for LMs to prepare and pre-screen project proposals. While the procedures for pre-screening are in place, there are two problems. First, there is uncertainty about the availability and the release of funds in a timely fashion. Second, the linkage between capital expenditures and recurrent expenditures remains weak, which again emanates mainly from uncertainty of funds. Government officials in our interviews repeatedly shared their concern that while sector strategies and objectives are formally linked to the MTP, they are only expressions of intent. Uncertain fiscal forecast and budget based on tentative presumptions undermine not only the quality of pre-screening but the entire PIM process. Naturally, doubts are raised whether the MTP will represent more than a shopping list of desired projects/programs and the extent to which it will be actually implemented.

Box 1: The Medium Term Plan (MTP)

The five-year MTP has been prepared in consultation with all the stakeholders including the development partners. All the LMs have been asked to follow the MTP. It is the first development plan after a decade of severe economic recession. The MTP is the premier economic and social policy formulated in response to the mandate set out in Global Political Agreement (GPA) to support the restoration of economic stability and growth in the country. It builds on the foundations laid by the Short Term Emergency Recovery Program (STERP) and the 3 Year Macroeconomic Policy and Budget Framework (STERP II). The MTP is designed to guide all other Government policy documents and sets out clearly the national priorities and investment programs for the next Five Years 2011-2015. The MTP's main goal is to transform the economy, reduce poverty, create jobs, maintain macroeconomic stability and restore the economy's capacity to produce goods and services competitively.

Source: Medium Term Plan (2011-15) document, MoEPIP

Guidance from Local Communities

62. Interviews with LMs indicate that the demands from the local communities provide another important source of guidance for project formulation. This is particularly true of activities that have direct bearing on the communities. Agriculture is a case in point. Project demand is articulated by farmers through local governments – village, district and provincial committees. In case of small projects, prefeasibility study is even done by communities.

63. The same is true of Ministry of Education, Sport, Arts and Culture, where the main capital projects are school construction. Presently, there are 132 such ongoing projects at different levels of completion out of which 25 have been picked up for implementation in 2012. The demand for all these projects is driven by the respective communities. In many cases, the actual construction is also done by communities that take the responsibility of running the schools as well.

64. In the Ministry of Health and Child Welfare (MoHCW), project formulation has traditionally been a bottom-up process, rooting from the communities' demand-driven needs. With regards to pre-screening of proposals, there is a range of criteria to be considered: catchment areas, condition, income level, and needs of the community. Another important consideration is that patient shouldn't have to walk farther than 8-9 km to get to the nearest healthcare facilities or clinics. Similarly, in the Ministry of Local Government, Rural and Urban Development (MoLGRUD) all the water and sewerage projects are initiated at the community level and the small ones are also implemented at that level. A similar practice has been adopted in the Ministry of transport. Projects are by and large formulated in-house after due interactions with the various stakeholders.

65. It is worth noting that even when projects/programs are initiated at the community level, they are screened by the concerned line ministry and financing is determined at the central government level. LMs are also supposed to pre-screen those proposals that originate at its level.

2. Formal Project Appraisal

66. Effective appraisal is the backbone of the entire PIM. In Zimbabwe, donor funded projects/programs are off budget. The donors directly fund such activities and execute them through private contractors of their choice. There is a duality in project appraisal. The donor-funded investments are developed and appraised on the basis of the specific donor's guidelines, while the government financed projects follow the government's own procedures.

67. For projects financed directly by the government, LMs submit their proposals to the MOF for appraisal. Typically, the project proposals are expected to provide the following basic information:

- The beneficiaries of the project.
- Project's impact to the beneficiaries.
- Its value to the nation.
- Alignment of the project with the strategic development plans/policies.
- The estimated cost of implementing the project.
- The estimated time of completion.

68. The PSIP department under the MoF is responsible for the appraisal with cooperation from the Implementation and Control of Expenditure Unit. Each officer at these two departments is assigned a number of ministries. During the appraisal, they may call the LMs in for a meeting to clarify or discuss further the project proposals. Some probing questions are also intended for the MOF to ascertain if a particular LM is ready to implement the proposed project.

69. At the PSIP department, the majority of the posts – including one deputy director, two chief economists, and twelve economists – have been filled; and work is underway to fill the Department Director position. However, the ICEU is still left with a number of posts

unfilled, including the positions of deputy director, chief accountant, and three (out of six) economists. The departments are faced with dual challenges: the lack of personnel and the in-depth appraisal technical expertise. Annex 4 summarizes the statutory mandates of the PSIP and ICEU.

70. The problem is coupled with the practice that there is no formal project appraisal done at the level of LMs. Typically LMs could provide only qualitative justification for the proposed projects in terms of activities, outputs and beneficiaries. The only thing of quantitative nature in these proposals is a table of cost estimates and financial information including item-wise expenditure estimates under various capital and recurrent heads, but there is no cash flow analysis of any kind. The incorporation of environmental impact assessment in project proposals leaves much room for improvement. In practice, nobody seems to monitor the impact of a project/program on the environment during its design or implementation stages. Thus, any appraisal of the budget proposals is being conducted only on the basis of their descriptive rather than substantive rigor.

71. There are two reasons for this practice. First, during the last ten years of economic recession, there have been virtually no new projects/programs. The line ministries and government agencies have a huge backlog of old unfinished projects/programs in various stages of completion. The thrust of capital budgeting in the last few years therefore has been on salvaging these incomplete investments and avoiding further loss of value. Presently, the emphasis is on rehabilitating on-going projects based on investment already made and no new projects are under consideration. In the strict terms, the rehabilitation of all major projects/programs should be conducted like a new proposal. However, keeping in view the backlog of projects/programs and the fact that any additional delay only means higher time and cost overruns, a quick prioritization of the pending projects may suffice. So project appraisal will truly become relevant only when new projects/programs are visualized in the next few years.

72. Second, the line ministries and government agencies do not have the requisite capacity and desired skills for conducting any cost-benefit analysis. Before 1999, project/program appraisal was required by the order of the then Planning Commission, and line ministries would comply with that to the extent possible. Under the changed circumstance, the appraisal methodology has not been applied for the past several years and the necessary skills have been mostly lost simply due to disuse. The problem has become more severe due to an extensive flight of skills from the country in general and the public sector in particular.

73. While project formulation and appraisal capabilities are not available with the LMs, the IDBZ has been able to retain qualified staff as their salary structures are better. The MoF uses the IDBZ capabilities for getting some of the major projects appraised. The IDBZ is expected to have a prominent role in project appraisal once new proposals are taken up in the budget. In addition, there are some consulting companies with decent appraisal capacity. The Institute of Project Management of Zimbabwe, a private institute, trains people in project management. There is no problem in getting good consultants from the

private sector for conducting project appraisal, the problem however is the funding to hire these firms.

3. Independent Review of Appraisal

74. An independent review of appraisal is required to ensure objectivity and value-for-money for projects appraised by implementing agencies rather than by a central agency.

75. The task of independent review of appraisal and screening feasibility reports prepared by the line ministries was done by the National Planning Commission (NPC) before 2000. Since the NPC does not exist anymore and as currently the entire burden of appraisal falls onto the MOF, the question of independent review does not arise. At the core of the problem lies the fact that the Treasury is not equipped in terms of both human and financial resources to do across-board appraisal of all major project proposals.

4. Project Selection and Budgeting

Project selection

76. Proper project selection for financing would facilitate successful implementation and translation of public investment into productive asset.

77. The PSIP division in the MoF maintains the inventory of capital projects/programs to be funded through the budget. All projects, even political ones, have to go through the LM concerned and the MoF. Projects cannot be included in the budget from outside. For instance, recently the president launched a school computerization program. He gave directions to the Ministry of Education Sport, Arts and Culture (MoESAC) and the Ministry of Information Communication Technology (MoICT) and then they followed it up. When the proposal duly formulated comes to the MoF, it will be examined by the PSIP and then implemented.

78. Starting from the previous fiscal year, each LM is given a budget ceiling. The proposals within that portfolio are accepted after due scrutiny and justification. Clear criteria for project selection are largely missing. Normally, PSIP asks two questions: why is this particular project being taken up and is it within the allocated budget ceiling of the line ministry? The MOF analyzes proposal submissions and then meets with each LM on individual projects to decide on an agreed list of projects on a fixed budget for capital expenditure.[30]

79. Multi-year fiscal planning, expenditure policy and budgeting remain weak.[31] The main problem Zimbabwe is facing today is twofold: a large backlog of pending projects/programs which are partially complete and uncertainty of government revenues.

[30] The MoEPIP wants to participate in the scrutiny of proposals jointly with the PSIP but since the budget year of 2012, they have not been part of the team checking budget submissions by LMs.
[31] The 2012 Country Integrated Fiduciary Assessment (CIFA) report gives a rating of C for this aspect of the Zimbabwean PFM.

The task of project selection rarely extends to selecting new projects/programs and it is invariably about clearing the pipeline of pending projects/programs. The biggest question facing the LMs and the MoF is how to prioritize the projects/programs in the pipeline. For instance, the Ministry of Public Works alone has 257 of such projects which it is implementing on behalf of other LMs. Also, there is a lack of data on the condition of these projects and the funds that would be required to complete them.

Prioritizing the projects/programs in the pipeline

80. Thus, given the resource constraints and a large number of incomplete projects/programs, the government has tried to prioritize capital investment projects with the highest positive impact on the overall economy and social welfare of the people. Accordingly, the following sectors are given priority: (i) power; (ii) water and sanitation; (iii) roads; (iv) communications; and (v) social infrastructure in housing, health and education.

81. Within these priority sectors, the following criteria for project selection has been suggested and adopted by the government:
    - Asset preservation to prevent further loss of value to assets and reduce risk to lives;
    - Rehabilitation of deteriorated infrastructure;
    - Maintenance to preserve value and avoid wasting resources on repeated rehabilitation;
    - Completion of on-going projects so that the infrastructure spending already made becomes useful; and
    - Selection of new infrastructure projects/programs in critical areas.

82. Thus the capital budgeting process for new investments can begin in real sense only when the bulk of incomplete projects/programs are well on their way to rehabilitation and there is fiscal space for it.

Budgeting

83. The revenue intake of 26 per cent of GDP in 2010 represents a remarkable recovery and equals the levels of revenues in year 2000. This level of revenues, however, is a share of a much reduced GDP. The 39 per cent reduction in constant dollar GDP during the recession period is bound to result in reduced levels of revenues and thus create substantial shortfall compared to the budget requirements. Another budget related problem is the risk of the recurrent budget expenditures crowding out the capital budget funds.

84. Under the 'policy-based budgeting' dimension of the PFM performance, Zimbabwe earned an overall score of B from the Country Integrated Fiduciary Assessment (CIFA) , 2012, for adherence to a fixed budget calendar and the clarity and comprehensiveness of the guidance and preparation of budget submission. However, the problem of uncertainty of flow of funds remains a serious matter. Even after the project/program is selected and included in the budget, its funding both during the construction and operating phases remain uncertain. The under-execution of the capital budget is therefore a major concern.

85. The inherent problem is highlighted clearly by the indicators on budget credibility of the CIFA report. Under almost all the indicators in this category Zimbabwe gets a score of D. There were large deviations in the aggregate expenditure out-turn, composition of expenditure out-turn and aggregate revenue out-turn compared to the original approved budget.

Cash based budgeting and uncertainty of funds

86. Zimbabwe operates on a cash rationed budget and to ensure that it does not run into large deficits and fiscal instability, it exercises a tight cash control on the expenditures. The result is that in spite of a project/program being included in the budget, funds are not released till revenues are actually received in the government treasury. This naturally results in uncertainty about spending from the budget. Some of the ministries such as transport and energy also raise their own revenues and retain a portion of those funds, but the amounts are small compared to their expenditure needs. Sometimes, co-financing by a state owned enterprise (SOE) is also seen. For instance, the Zimbabwe Electricity Supply Authority (ZESA) is responsible for electricity supply projects. ZESA raises the money through user fees collections. Also, a sum of US$500 million is expected from the Natural Resource sector, mainly diamond mining, and it is expected to go through the budget from 2012. Prior to that income from diamond mining has not been reflected in the budget.

87. Although cash based budgeting is practiced in many other developing countries, it is particularly a problem in Zimbabwe due to the weak and fragile state of the private sector. Normally, revenues can be forecast to a fair degree of certainty even in those countries that operate on a cash based budget. This is because the quantum of economic activity by the private sector can be predicted within acceptable margins of error. The problem in Zimbabwe is that the bulk of private sector activity is linked to expenditures from the government budget. Therefore the budget expenditures largely determine the future tax revenues. Thus there is a vicious circle in which budget expenditures depend upon revenues from the private sector which depends upon budget expenditures. The problem is further aggravated by the seasonality in collection of government revenues.

5. Project Implementation

88. Once a project is selected for financing, the implementing authority must ensure execution is done according to plan. However, huge problems of time and cost overrun persist in Zimbabwe. Often there is a delay of many years in completion and often the total cost of a project ends up being several times higher than the original outlay. On the average, there is a cost overrun of at least 40-50% by the time projects are completed. The problems are caused by multiple factors, but mainly due to a time-consuming procurement process; uncertainty and unpredictability of release of funds; and low capacity of private contractors for maintenance and construction work. At present, there is a huge problem of incomplete projects/programs and almost 100 percent projects remain incomplete.

89. Some core challenges to implementation of the current PSIP can be highlighted.[32] Insufficient PSIP project management skills in Government.

- Such capacity constraints increases typical risks that affect project implementation e.g. poor procurement and project management planning, stakeholder interference.
- Lack of discipline and the use of informal processes and procedures. The preparation of a set of transparent, uniform guidelines on project cycle management is underway with support by DFID.
- Uncertainty and unpredictability in the timing and amount of budget releases.
- Commitment management issues. The system of commitment management is not formalized with the risk of running up liabilities that will not be covered by the cash budget.

Contracting and contract management

90. The selection of contractor is done by the line ministry if the amount for work is less than US$50,000. In case the amount is higher, due approval of the State Procurement Board is necessary. In addition, before signing the contract the draft contract has to be vetted by the Treasury and the Office of Attorney General. Any subsequent variations to the contract terms and conditions must be with the concurrence of all relevant stakeholders and the contractor is made aware of the financial risk of embarking on non approved variations.

91. Before commencement of actual work, the contractor is required to submit a comprehensive program of works showing the critical path and all the subcontracted works. This has to be approved by the project architect. It may be pointed out that the Government only pays for goods delivered or services rendered. Since the execution and progress of projects/programs is interrupted several times due to uncertainty of release of budget funds, the contractors often face the problem of working capital. It is not uncommon for the contractors to demand an advance payment which is denied and then it results in disqualification of the contractor and starting of a new bidding process. It should also be noted recently, some contractors have been getting advance payments. Certain contractors, however, do not perform: instead of procuring materials for project, they divert the funds to address their other pressing cash flow issues.

92. Contractors receive a certificate of payment when the work is completed. Such a certificate will have to be cleared by an Internal Audit before actual payment can be made, but due to the lengthy audit procedures, many of the certificates are not honored in a timely manner. Also, due to the credit crunch, there is further delay in honoring payment of contractors and this leads to more delay in implementation of projects. This is closely related to the problem of delayed release/ irregular flow of funds from the MoF.

93. The MoPW is primarily responsible for construction work on behalf of the line ministries. Some ministries such as agriculture, transport and water have their own workforce and can implement small construction jobs. Medium and large size projects are generally assigned to the MoPW which may complete the work using its own labor force or by hiring private

[32] The PREM internal document: 'Overview of Public Investment Management Issues in Zimbabwe' (mimeo).

contractors depending upon the size of work. In the energy sector, implementation is mostly done by utilities themselves, sometimes using their own manpower – civil works and electrical works etc. However, the utilities also engage outside experts and international supplier companies and that has to go through the SPB.

94. Qualified local contractors are limited in number. They generally face serious capacity problems and often fail to deliver on time. International contractors are brought in only when there is donor/foreign government funding. There is some foreign funding on projects/programs (from China, India, and Japan) mostly in the form of grants or concessional loans (2 percent, 3 years of grace period and long repayment period) and these are being implemented with the help of foreign contractors.

Procurement

95. The Public Procurement Law was enacted in 1999 and accompanying regulations were put in place in 2002. In the mission interviews, while LMs acknowledge some improvements in procurement, they remain critical about the lingering bureaucratic and time-consuming process. In many cases, proposals sit at the desk of the SPB for 3-4 months without clear explanation. There exists a tension between least cost approach and maintenance of quality. Firms complain that the SPB often gives priority to "lowest cost": it is not unusual the SPB approves purchase of untested equipment for which spare parts are not available and which turns out to be more costly in the long run.[33]

96. It is also felt that the threshold of US$50,000 for referring the procurement to the SPB is too low. The majority of LMs would prefer further decentralization of the process where the bulk of procurement can be made at their level with supervision of SPB. This, of course, has to be examined in view of the tradeoff between the acceleration in the pace of procurement and the risk of higher corruption and lower value for money for the government.

97. The recent country procurement report (CPAR) points out a number of critical areas that need to be strengthened in order to improve the legislative and regulatory framework. The CPAR specifically recommends the enactment of a new Act addressing the weaknesses in the current procurement act and regulations.[34] The country scores low ratings on many important features of the procurement system. It gets a score of 40 percent on the existence of comprehensive and transparent legislative and Regulatory framework. On the integration of procurement in the governance system and development of institutional capacity, the overall score at 39 percent is again on the low side.

98. The country's procurement efficiency and integrity receive much below than average scores in the CPAR. Particularly, the procurement operations and practices just get the score of 33, effective control and audit systems: 33, and ethics and anticorruption measures: 29. In addition, the private sector has to often deal with rather hard business

[33] Interview note (on file with the mission team).
[34] The CPAR highlights the lack of procurement plans as one of the major weaknesses of the procurement system, while the Procurement Act 2/99 (Chapter 22:14) promulgated in March 1999 has no reference to such plans at all.

environment due to a number of restrictions imposed by the Government. As a result, some suppliers may prefer to deal with the government through middlemen which means additional cost to the government for the same goods and services.

Irregular flow of funds and lack of capacity/skills

99. During implementation, projects/programs are often delayed or remain incomplete during the construction phase itself because of irregular flow of funds from the budget. Cash-based budgeting with weighed year-end expenditure has been problematic for both disbursing and receiving agencies **(**Box 2). The first two quarters of the financial year are generally gone in accessing funds. It is only in September-October when only three months are left before the end of financial year that line ministries begin to receive actual funding. Then the procurement process itself takes a fair amount of time. By the time, the implementation picks up momentum, the financial year draws to a close and the process stops. Then the same cycle has to be repeated.

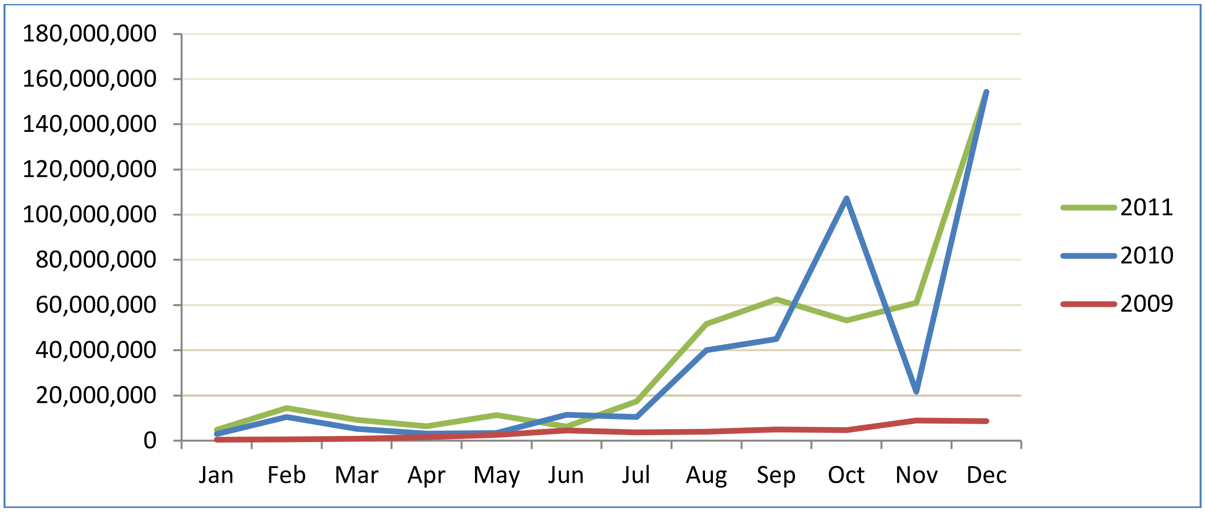
100. To mitigate the risk of uncertainty for project financing, the MOF attempted to rationalize the cash needs for projects and dedicated special accounts for 16 high priority large investments managed by the IDBZ. IDBZ is well staffed with expertise in various stages of the PIM. It is often requested by the MOF to support their relevant functions in screening, budgeting and monitoring of project execution. However, there is a need to clarify functions and to enhance collaboration. in various cases: the IDBZ sees it roles as custodian of the funds and line ministries view the role of IDBZ as to reserve the funds for their projects but not to gate keep or monitor their day-to-day implementation.

101. The lack of skill among the personnel of the implementing agencies staff and the high staff turnover is also a problem in implementation of the capital budget in most line ministries. Since 2009, many of the experienced staff has left. Ministries and implementing agencies are manned by college graduates and they face severe problems of under-capacity. They suffer both from skill flight and inadequate equipments.

Box 2: Year-End problem in capital financing

The government faces a liquidity crisis: the pool of fund dries up at the beginning of the year, as a result of the spending surge at the end of the previous fiscal year (See Figure 4). This is in part due to the cash-based budgeting system, under which the government expenditure framework has been constrained to the year-by-year resource envelope.

Figure 4: Monthly disbursement of Capital expenditure in 2009-2011



Source: Ministry of Finance

6. Project Adjustment

102. Effective monitoring could provide an important check on time and cost overrun and allows for needed adjustments during construction.

Monitoring of project execution

103. Formally, there are two levels of monitoring of project implementation. For major projects, first level of monitoring project team prepares monitoring report to the LM. Second level of monitoring involves MOF and/or IDBZ in the case of large projects assigned a special account managed by the IDBZ. In addition, as all construction for government financed projects is carried out by the MOPW, the ministry has its own monitoring system, including on-site inspection.

104. At LMs, planning departments are in charge of monitoring and its quality. At the MOF level, it is the responsibility of the ICEU. Staff at ICEU is supposed to prepare reports on the project status after each site visit and generally assist LMs in tracking the compliance of implementation plans. The ICEU issues a program of site visits to LMs, but all ministries do not follow this strictly. Also, the LMs may not submit site visit reports or submit using a different format.

105. The ICEU is also responsible for examining the quarterly reports from LMs, but this seldom involves a serious review, redesign or cancellation of projects/programs. According to most LMs, the MoF is mostly interested in expenditures and not in physical progress or technical quality. The problem is more aggravated due to brain drain—which leads to improper and insufficient record keeping: As project information on stalled projects is missing, the process of gathering project data may have to start again, and this would entail revalidation of project costs and renegotiation of contractors.

106. While financial monitoring is feasible through Treasury figures, physical monitoring is hard without on-the-spot checking. According to the MoF, this is not being done on a regular basis by the LMs unless the MoF itself participates in this kind of verification. Naturally, this is not possible in every case. The MoF staff may sometimes conduct physical site visits of projects under construction, but these are random and cannot yield much substantive feedback.

107. Thus the physical verification and reporting by LMs is neither automatic nor regular. The quality of such reports is often poor. The LMs, on the other hand, face the problem of lack of resources for conducting regular in-depth monitoring and field visits. There is scarcity of staff, vehicles, fuel and funds required for effective monitoring. Also, the monitoring reports by LMs are seldom followed by release of funds from the MoF. Therefore, the seriousness and sanctity of monitoring process is largely compromised. This impedes ability of both LMs and MOF to detect signs of implementation challenges and to address them in a timely manner.

Mid-way adjustments

108. Projects are seldom dropped or stopped mid-way due to change in project parameters and change in their costs or benefits due to changed circumstances. In cases of large cost overruns, MoF has no authority to stop projects mid-way. In cases of request for project modification and additional funding, there are no procedures for reappraisal, the LMs are only asked to provide an explanation. There is a clear hesitation to reevaluate projects, even when the expected costs of completions are higher than perceived benefits.

109. This lack of adjustment in projects often leads to repeated cost overruns and realization of suboptimal outcomes. Projects/programs, however, are invariably stopped due to paucity of budget support. Thus “project adjustment” does not take place in the real sense of the term. A large number of projects have been stalled by the implementing line ministries due to lack of funding.

Quality control and value for money

110. There is also an issue of quality control during implementation. At present, the practice in Zimbabwe is that the architect is the project manager. This raises the possibility of a conflict of interest since the person who designs the project/program also implements it. It can therefore be argued that the appointment of a separate project manager will enhance the quality of implementation and ensure “value for money”. On the other hand, a counter argument is made that in the present system the architect is liable for any loss or poor performance as he designs and implements the project. If there is a separate project manager, it will be hard to fix liability. Presently, no coherent follow up takes place on quality control and as such, the MoF perceives that the government is not getting its “value for money.”

7. Facility Operation

111. Investment can only be translated into productive assets and good service delivery if O&M expenditures are sufficiently allocated and well used throughout the project life.

112. In Zimbabwe, there exists a proper system of maintenance of asset registry. The bulk of infrastructure built through the capital budget are owned, retained and managed by the respective line ministries. They become assets of these ministries and are maintained by them. In some cases, this task is decentralized. For instance, in case of the Ministry of Local Governments, the asset registries are maintained by the respective local governments. Also, a consolidated national registry of assets is maintained by the MoPW.

113. However, there is a lingering problem with the timeliness and adequacy of O&M funds due to the disconnect between capital and recurrent budgeting. Operating agencies/LMs operate the created assets through recurrent budget allocations. While salaries are the first commitment made, other operational expenditures are not always released in full and on time. Like capital budgeting, O&M expenditures are subject to uncertainty and seasonality of government revenues.

8. Project Evaluation

114. During the past decade, however, since no major projects have been completed, no such ex-post appraisal or evaluation has been done. Project evaluation has generally been a concept which is not put in practice.[35] This said, ex-post evaluation as an important management tool helps both the MOF and LMs to draw lessons for enhancing the quality of PIM in the next cycle. It is commonly observed, even in some advanced PIM systems, that project evaluation function is typically a weak link within the PIM system. Evaluation used to be conducted in Zimbabwe to some extent during the 1990s before the economic meltdown.

[35] ICEU under its mandate is supposed to evaluate government projects and programs but face severe capacity constraints.

V. Policy Implications

115. The diagnostic assessment (chapter IV) indicates the Zimbabwean PIM has deteriorated due to the major economic and political crises over the past decade. Fiscal constraint mixed with missing core elements of a rigorous system of project appraisal, financing, execution and monitoring, as well as the 'brain drain' in both private and public sectors, has left a large backlog of incomplete programs/projects in the pipeline. Cash budgeting leads to uncertainty of release of funds for completing construction, and exacerbates the perpetual disconnect between capital and recurrent expenditures. Weak public sector governance also exacerbates the PIM deficiencies. Both the MOF and LMs suffer from lack of requisite skills and manpower for performing core functions of the PIM. LMs complain that the existing procurement practice has been instrumental in delaying the project implementation. Such observations tend to indicate that the government does not receive "value for money." The MOF highlights the three major inter-linked challenges, all related to the transition from Zim dollar to dollarization, (1) project re-costing; (2) contract re-validation; and (3) redefining of project scope.

116. Some policy implications arise from the following considerations and principles:

- The government will make its choice of specific forms to required functions, especially in appraisal and project selection. While capacity is notably limited, other critical issues—political commitments, coalition, and inherent institutional incentives—would ultimately determine the forms that major players of the PIM system could agree upon.
- While there are some 'quick wins,' they are few. PIM reform has long term horizons. It requires specialized planning and budgeting mechanisms, specialized technical and managerial skills, and coordination. Changing institutions, mindset, rules of the game, and building capacity require time.[36] On top of such challenges is the often misalignment of institutional incentives between the MOF/MOEPIP, and LMs.
- "No one size fits all." The situation in Zimbabwe is unique. As such, international best practices in any single country can serve as reference but not necessarily specific guidance for furthering the PIM reforms in Zimbabwe.
- The policy implications presented in this report aim to complement the companion Action Plan that proposes specific reform activities over intermediate/short- medium terms across the eight stages of a sound PIM system.

The politics of choice: preparation versus implementation.

117. Different countries with weak PIM systems find themselves in the position of making various hard choices (Box 3).

[36] For example, it took Chile, the country with one of the most stellar PIM system, more than a decade of consistent effort to build sufficient capacity in gate-keeping function.

Box 3: Cross-Country PIM challenges and reform targets

Different countries face various challenges across stages of the PIM and attempt to search for the 'right' dose of reform actions.
Vietnam: 13 percent of GDP in public investment are being hampered by poor implementation. Priority therefore is to improve implementation.
Equatorial Guinea: With investment constituting well over 50 percent of government expenditure, government is seeking to improve project selection process and implementation capacity.
Ghana: Non-concessional borrowing (forthcoming US$3 billions Chinese loans) tied to resource revenue puts a premium on careful project selection as a priority.
Guinea: Surging mining revenues prompts the Government to seek for an appropriate design of Sovereign Investment Fund with focus on governance framework, investment criteria and implementation capacity.

Source: Rajaram, 2012.

118. Countries have also resorted to a wide range of modalities in the PIM reforms (Box 4). The first policy choice for PIM reforms in Zimbabwe is to determine whether the first priority should be preparation of new projects *or* execution. While the Zimbabwean PIM system is weak across all stages, targeting execution would generate most impact given the huge backlog of incomplete projects and fiscal constraints. Enhancing quality of execution would entail a number of reform actions – falling into certain down and upstream area:

- Upstream area would require *stringent appraisal procedures* to ensure only fiscally and economically feasible projects can pass through the gate keeping function.
- Downstream areas in the case of Zimbabwe would require emphasis on continued *procurement*, *financial management reforms* and *streamlining monitoring function*. More detailed discussion follows.

Box 4: Comparative modalities of PIM reforms

Implementation first: Countries (e.g., Brazil) consider that major problems lie in downstream implementation rather in upstream project planning and appraisal.

Better planning first: This is the other extreme case where better planning is regarded as the key to enhance the overall efficiency and efficacy of PIM. As such these countries tend to invest more on building capacity in the upstream stages of the PIM and strengthening the roles and functions of central financial agencies (e.g., Chile, Korea).

Center of excellence: Countries such as Chile and Columbia put high premium on creating strong planning/finance ministries – which are expected to run effective gate keeping function and central monitoring of project execution.

Center of power: Centralization of appraisal or monitoring require central authorities which are given sufficient resources. Brazil put intensive monitoring under the Chief of Staff Office of the President's Office, while the National Development Agency in Timor Leste is in charge of both central level of monitoring and reviewing the quality of project preparation.

Legal change first: Changing legal system is required as an entry to empower central agencies in gate-keeping and monitoring when the appraisal is decentralized (e.g., Recommendations for Sierra Leon, Zambia).

Contracting out: Algeria and Cape Verde, for example, contract out certain functions of PIM such as appraisal and project management to leverage the existing limited capacity of the central government agencies.

By-pass the system: A typical example is the new modality of PIM, the PPP.

Transparency: Premium is put on transparency which reinforces accountability. The PIP in Chile is a case in point: it is developed centrally and available to public.

Choice of an appropriate form of gate keeping function

119. Most emerging economies and certain developed countries follow the *decentralized approach* for gate-keeping in combination with instituting an independent review function. On the other hand, notably Chile, Peru, some other countries in the Latin America and the Caribbean region, and Korea resort to the model of 'Center of Excellence' which is essentially a *centralized approach*. The first approach refers to a system whereby LMs have the responsibility to appraise their own project proposals and a financial/planning central agency would be in charge of performing its review of the appraisal done by the LMs (this independent review function should be effectively linked to project financing decision). The latter relies on creation of a dedicated agency within a central government agency (Ministry of Planning in the case of Chile, for example) to appraise and keep a

database of projects suitable for financing. There is no 'right' answer, but the choice of a particular form of institutional setting for gate keeping would reflect political and institutional realities in the country.

120. The choice of the institutional setting is easier said than done as it entails the requirement for the change of the regulatory framework and long-term capacity building. One option that Zimbabwe could consider would build on the current role and mandates of the MOF, in particular, the PSIP department. In this option, a Project Appraisal Committee (PAC) could be established at the central level for conducting an independent review of project/program proposals submitted by LMs. The committee would be chaired by the MOF with broad representation from other stakeholders such as the MOEPIP, major spending LMs (e.g. health, education, Public Works etc.), IDBZ and specialists with technical appraisal backgrounds from outside the government (e.g.: University of Zimbabwe, private sector consulting firms), especially for technically complicated and mega projects (the threshold is to be defined).

121. Project sponsoring LMs and development agencies may conduct the initial round of project/program pre-screening and appraisal. Capital investment proposals with an outlay above certain threshold will have to be cleared by the PAC. The PAC would prepare own guidelines which need to be specific and unambiguous so as to leave little scope for subjectivity in determining whether or not a project may be recommended for budget funding.

122. Along with making the changes outlined above, an extensive capacity building program targeted at both central agency (MOF, MOEPIP) and LMs, and especially at the PAC should be undertaken. It is worth noting that the challenges confronting human resource development issues in the Zimbabwe public sector are well known. Since the start of economic recession more than a decade ago, Zimbabwe has experienced a significant loss of skilled individuals and this calls for the need to develop appropriate HR schemes to retain trained staff.

The quest for pragmatic methodology to measure and weigh project costs and benefits and to address core challenges in execution

123. In the short run, the MOF should consider developing a *simple project submission* form that the LMs are to follow. The form would request LMs to present at least rudimentary cash flow statements of benefits and costs of new projects/programs. While the MOF is reviewing the draft Project Cycle Management Guidelines (prepared with the DFID's assistance), it may be necessary to focus in the immediate term on finalizing and issuing a uniform project submission form.

124. There is a need to prioritize and clear the projects/programs in the pipeline of incomplete works in PSIP. Unless this is done, the entire process of capital budgeting is in a state of deferral. The PSIP pipeline mainly consists of three types of projects: stalled or suspended, ongoing and planned or new projects. Again, the guiding principle would be that execution

is the first priority, and thereby *only clear-cut case of socially and economically feasible projects are to be selected.*

125. In a nutshell, the following process may be adopted:

- Newly planned projects should be subject to *different methodologies for appraising* the costs and benefits as applicable to projects of different scales and technical complexity. This is the common practice applied successfully in advanced PIM systems (e.g., South Africa, the UK, and Ireland), with the first practice being the issuance of a *transparent definition of mega and medium-small projects*. Caution should also be exercised, though, for collusion across different agencies in intentionally splitting the projects of large scale to smaller ones and henceforth diminishing the economic rate of return or even turning upside down the costs-benefits equation (Glenday, Kaiser, and Le, 2012).
- For the ongoing projects, *review of project design* is necessary if some major parameters such as input cost or inflation rate have changed substantially during implementation. This is a fairly simple exercise if the initial ex-ante analysis has been done properly and amounts to only replacing the outdated parameters with the new ones. If, however, such an exercise was not done initially, doing it afresh will take time and therefore a modified cost effectiveness approach needs to be undertaken (Annex 6).
- For the stalled projects, the initial analysis may be taken as the starting point but then the chances are that both the benefit and cost parameters have changed with passage of time. It is easier to update the benefit side but on the investment costs side, one has to include the in-use value of investments already made plus the new investment needed to complete the project. This is therefore a more complex and time taking exercise and again a modified cost-effectiveness approach may be adopted in the short run.

126. In addition, quick wins could be achieved with engagement of private sector to support the government in re-costing and re-scoping of incomplete projects lingering from the Zim dollar era. As a result, LMs will be in a position to develop and update standard costs for projects or components of projects, which can also be used as a benchmark for appraising and controlling both total and annual project costs.

127. The World Bank mission Aide Memoire (September-October 2011) has provided policy recommendations for both procurement and financial management reforms, which this report does not attempt to repeat in this chapter but summarizes in Annex 7. The core challenges in implementing the current PSIP (discussed in chapter IV) suggest that a pragmatic, consistent strategy to build capacity in key functions of the PIM, notably project appraisal, management skills, and commitment management needs to be developed in parallel to filling the gaps in the current regulatory and legal system governing the PIM. There is no short cut or easy answer to developing a sustainable capacity building strategy, removing institutional disincentives, and creating motivation for various players to follow the rules of the game. Stakeholder participation and donor support in technical assistance and facilitation of south-south exchange could prove useful for Zimbabwe – in surveying needs analysis, identifying specific requirements and difficult choices for institutional setting, training modalities, and collaboration across different stages of the PIM.

Enhancement of monitoring quality

128. A *two-level monitoring* is needed:
- on the site at the *project level* by the architect and the project engineers on a daily/weekly basis and by the LM itself on a monthly basis; and
- by the MoF at the *government level* on a quarterly basis. The results of monitoring at this level are strictly linked to clear and release of the next tranche of funds.

129. The first level of monitoring is being done by the respective project engineers but this is not monitored by the LMs in an effective manner. While the financial progress is monitored on the basis of monthly expenditures reported to the treasury, the element of physical verification is often missing. ICEU issues programs for spot verification by the LMs but this is not followed earnestly. As a result, the spot verification of the physical progress is not done in a regular and satisfactory manner. Thus, for the second level monitoring at Government level, the MoF has to depend upon reports of the LMs which often lack actual verification of progress on the ground. The ICEU should devise a set of *monitoring guidelines* for monitoring by LMs and MOF and could insist on regular compliance. It is critical to ensure that funds for monitoring and evaluation of major projects/programs should be earmarked in the budget allocations of the LMs.

130. Over the medium-long run, a system of ex-post evaluation of the projects/programs and guidelines for conducting evaluation should be put in place. Rather than creating a new center for ex-post project evaluation, this function can be assigned to the ICEU unit in the MoF. This will, however, require the training and employment of additional staff with skills in sampling and impact evaluation of projects/programs.

Support of PPP modality

131. Large investments are needed to improve Zimbabwe's infrastructure and this would be virtually impossible without the participation of the private sector. However, PPPs can be double-edged. The government should develop a functional system of identifying and measuring fiscal risks associated with this modality of investment.

132. According to an estimate of the African Development Bank, the total investments required to meet the infrastructure needs of Zimbabwe would amount to a total of US$14.2 billion dollars during 2010 and 2020 or a sum of US$1.4 billion per annum on an average. From budgetary sources, total capital expenditures over the next five years are expected to average US$593 million a year.[37] Given the existing budgetary constraints, the GoZ feels that the involvement of the private sector in infrastructure through public-private partnerships (PPPs), and privatizations is essential to fund the infrastructure needs of the country.

133. The GoZ requested the World Bank for assistance to identify the bottlenecks that are preventing private investment in infrastructure in the country, and to identify specific

[37] IMF Article IV, 2011.

projects that could be piloted as PPPs. A report prepared by consultants of the World Bank identifies the most prominent barriers, including:

- Lack of a *clear legal and policy framework for PPPs*,
- Lack of *PPP knowledge* and skills within the government and absence of a coordinating and oversight body,
- *Weak regulatory capacity in specific sectors* (energy for example).

134. The report suggests that it would be desirable to start with a few pilot projects in selected sectors.[38] The seriousness of GoZ to promote PPP programs would be established if the country is able to successfully close one or two PPP deals for infrastructure projects. This would have to be accompanied by adoption of a sound policy and legal, regulatory, and institutional framework for implementation of PPPs.[39]

[38] This part is based on a report on "Zimbabwe Rapid Needs Assessment" made in February 2012 to Public-Private Infrastructure Advisory Facility, World Bank by Castila Advisory Group.

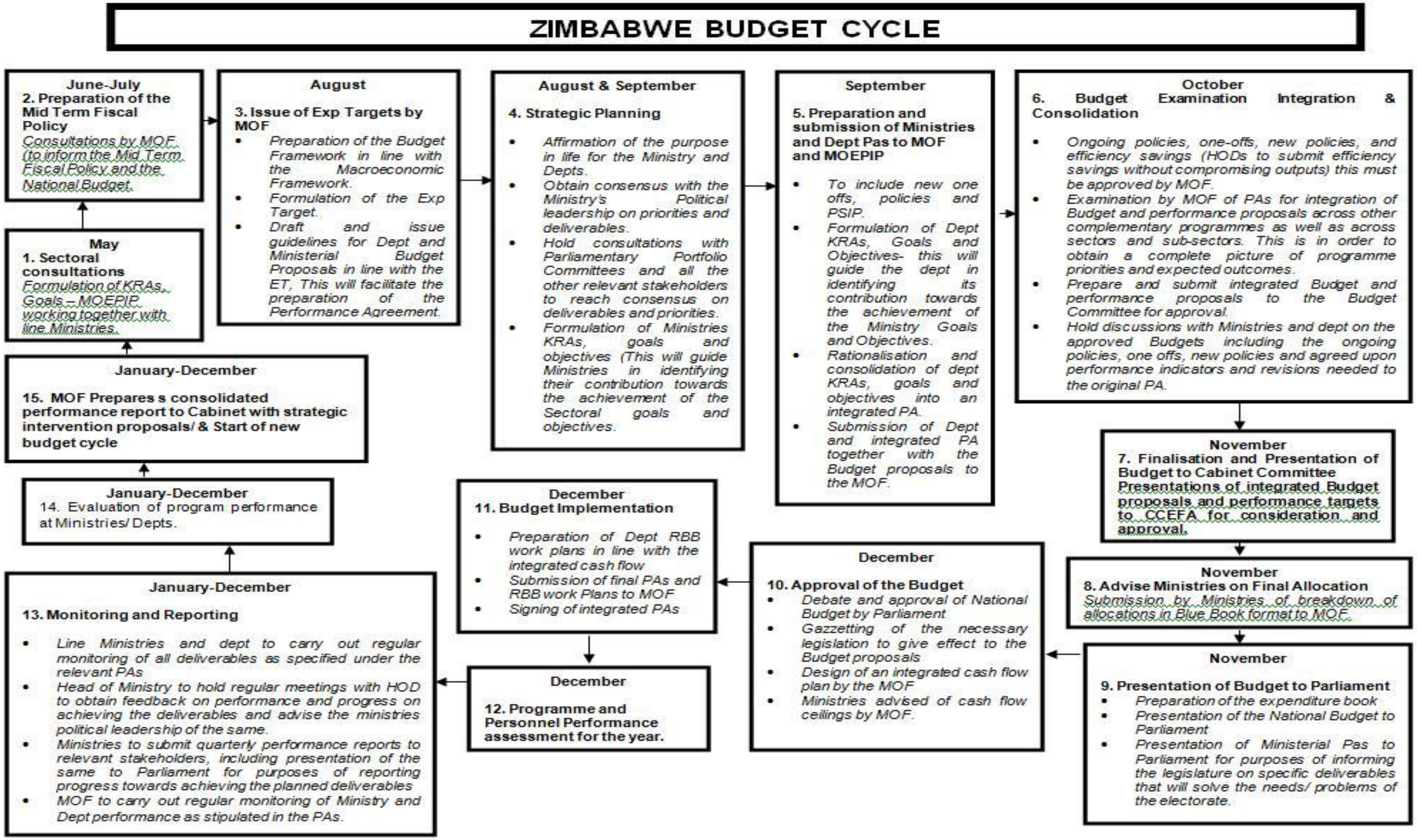
[39] The report has suggested three pilot projects in transport (852 Km long Beitbridge-Harare-Chirundu toll road), energy (Lupane Coal Bed Methane Gas project with 5-10 MW capacity) and water (bulk water supply to Harare from Kunzvi dam) sectors. These projects are supposed to have strong political support, are financially and economically viable, and could be completed within the next 1 to 2 years.

Annex 1: Zimbabwe: Selected Key Socio-Economic Indicators

Indicator Name	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP (current US$, billion)	6.8	6.3	5.7	5.7	5.6	5.2	5.0	4.4	5.8	7.5
GDP growth (annual %)	2.7	-9.8	-17.2	-6.9	-6.1	-3.3	0.2	-17.7	6.0	9.0
GDP per capita (current US$)	537.5	499.0	448.6	450.2	444.2	415.3	402.1	354.7	467.9	594.5
Inflation, consumer prices (annual %)	76.7	140.1	431.7	282.4	302.1	1,096.7	24,411.0	-	-	-
Foreign direct investment, net inflows (% of GDP)	0.1	0.4	0.1	0.2	1.8	0.8	1.4	1.2	1.8	1.4
Net ODA received per capita (current US$)	12.8	15.8	14.8	14.8	29.6	22.2	38.4	49.2	59.1	-
Trade (% of GDP)	68.1	67.3	71.3	77.8	78.4	86.6	88.8	108.8	98.0	93.7
Ease of doing business index (1=most business-friendly regulations)	-	-	-	-	-	-	-	-	-	168.0
Life expectancy at birth, total (years)	43.8	43.3	43.1	43.3	43.9	44.7	45.8	47.1	48.5	-
Malnutrition prevalence, weight for age (% of children under 5)	-	-	-	-	-	14.0	-	-	-	-
Mortality rate, infant (per 1,000 live births)	67.6	66.0	64.2	62.1	60.2	58.5	56.4	54.2	52.2	50.9
Prevalence of HIV, total (% of population ages 15-49)	23.7	22.5	21.1	19.8	18.4	17.2	16.1	15.1	14.3	-
Tuberculosis treatment success rate (% of registered cases)	71.0	67.0	66.0	54.0	68.0	60.0	78.0	74.0	78.0	-
Employment to population ratio, 15+, total (%)	66.0	65.6	64.8	66.0	65.6	64.8	64.3	63.0	64.1	-

Source: WDI 2011

Annex 2: Zimbabwe Budget Cycle



Annex 3: List of projects under the IDBZ window

Ministry of Energy and Power Development

Rehabilitation of Hwange thermal station (ZPC)

Rehabilitation of Kariba hydro power station (ZPC)

Rehabilitation of small thermal power stations (ZPC)

Ministry of Transport, Communications and Infrastructure Development

Construction of J.M.Nkomo International Airport (CAAZ)

Rehabilitation of Harare International Airport-taxiways and runway (CAAZ)

Rehabilitation of Buffalo Range Airport (CAAZ)

Rehabilitation of track infrastructure (NRZ)

Dualisation of Harare-Gweru road and construction of Manyame bridge (ZINARA)

Dualisation of Harare-Masvingo road and construction of Mukuvisi bridge (ZINARA)

Laying of the fiber optic cable (TELONE)

Ministry of Local Government, Rural and Urban Development

Rehabilitation of roads - Harare city council

Rehabilitation of water & sewer reticulation and roads- Bulawayo city council

Rehabilitation of water & sewer reticulation - Masvingo City Council

Rehabilitation of water and sewer reticulation- Marondera Town Council

Rehabilitation of water and sewer reticulation- Chinhoyi Municipality

Rehabilitation of water and sewer reticulation- Rusape Town Council

Rehabilitation of water and sewer reticulation- Gwanda Municipality

Rehabilitation of water and sewer reticulation- Chipinge Town Council

Rehabilitation of water and sewer reticulation- Bindura Municipality

Rehabilitation of water and sewer reticulation- Ruwa Town Council

Rehabilitation of water and sewer reticulation- Zvishavane Town Council

Rehabilitation of water & sewer reticulation - Masvingo Rural District Council

Rehabilitation of water & sewer reticulation - Hwange Rural District Council

Rehabilitation of water & sewer reticulation - Buhera Rural District Council

Rehabilitation of water & sewer reticulation - Chikomba Rural District Council

Rehabilitation of water & sewer reticulation - other local authorities

Ministry of Water Resources Management and Development

Construction of Mtshabezi water pipeline (ZINWA)

Mutoko water supply (ZINWA)

Beitbridge water supply (ZINWA)

Construction of Tokwe-Murkosi dam (ZINWA)

Construction of Bubi-Lupane dam (ZINWA)

Construction of Mutange dam (ZINWA)

Construction of Wenimbi dam (ZINWA)

Construction of Gwai-Shangani dam (ZINWA)

Construction of Kunzvi dam (ZINWA)

Ministry of Media, Information and Publicity

Rehabilitation of radio and television transmission network (Transmedia)

Ministry of Home Affairs

Construction of the central registry building

Ministry of Higher and Tertiary Education

Construction of halls of residence on state universities.

University of Zimbabwe projects (water and sanitation and other rehabilitation works)

Ministry of National Housing and Social Amenities

Construction of houses and provision of onsite and offsite infrastructure

Ministry of Finance

Public Finance Management System

Annex 4: Organogram for the PSIP and ICEU (MOF)

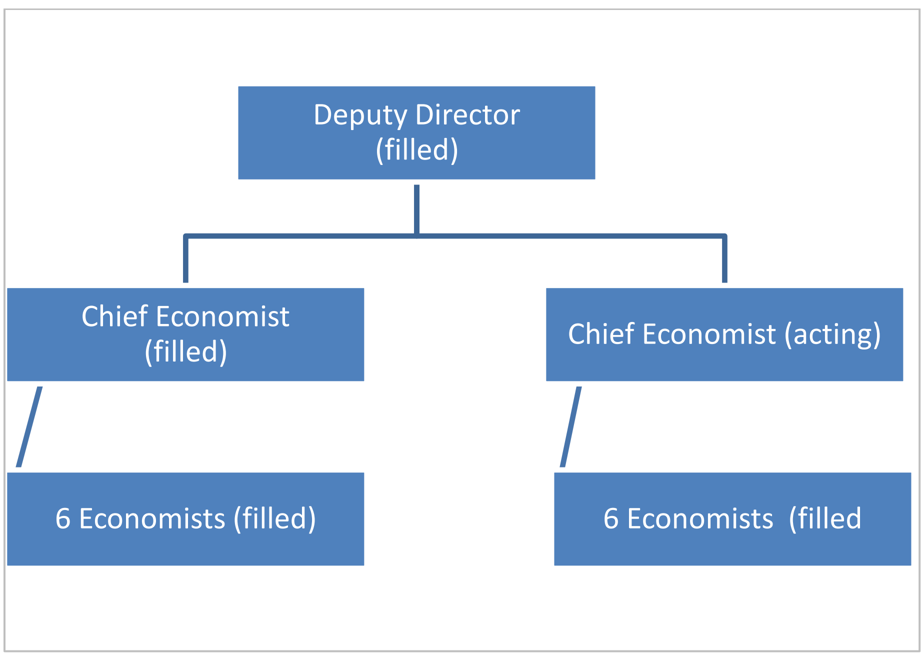
PSIP roles and responsibilities:

- Appraise projects
- Participate in Ministries' budget discussions
- Allocate resources for projects
- Release funds to line ministries
- Support ministries on a day-to-day basis concerning capital budget preparation and execution
- Monitor implementation of projects and programs together with ICEU officials
- Provide monthly expenditure reports

The structure of the department calls for:

- 1 Deputy Director
- 2 Chief Economists
- 12 Economists - each officer is assigned a on average 3 ministries per individual

To date all posts are filled. See below a graphical illustration.



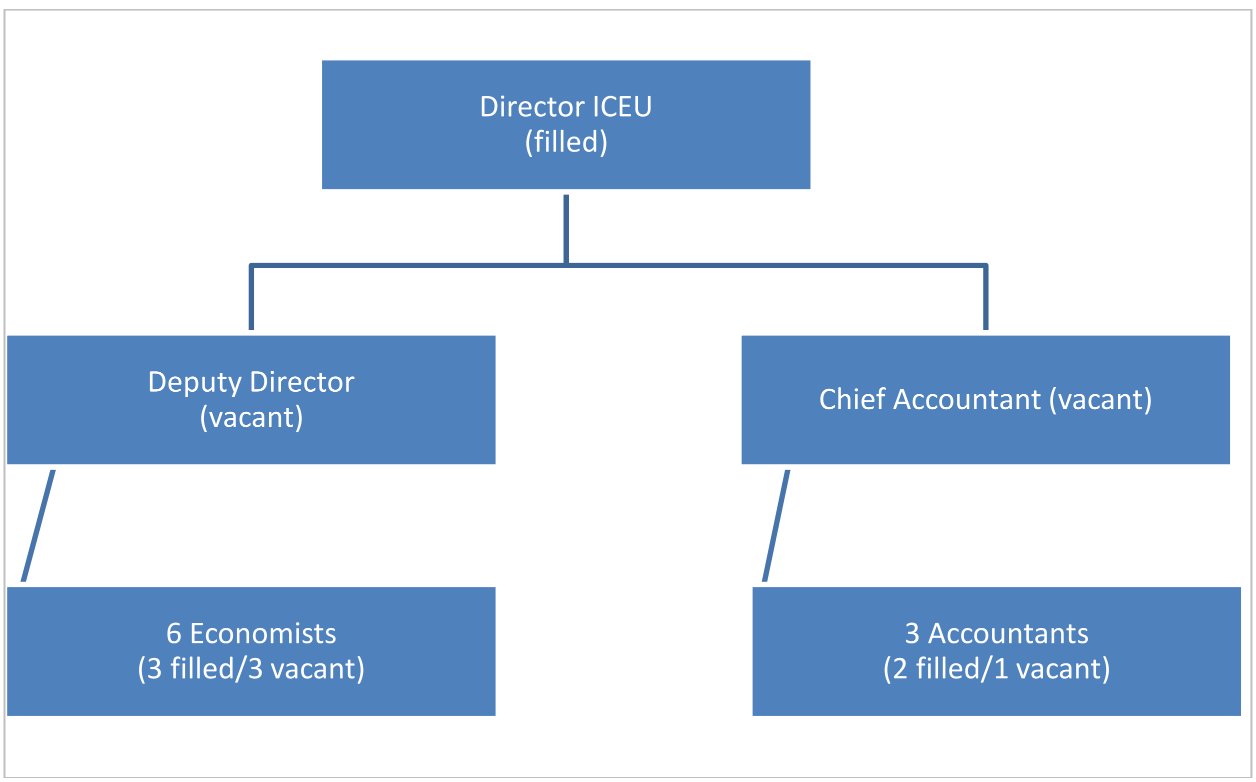
ICEU roles and responsibilities:

- Appraise projects together with PSIP
- Participate in budget discussion meetings
- Monitor the implementation of projects and programs
- Report on every project status after each visit
- Assist ministries in coming up with their implementation plans and track the compliance of these
- Keep a database of all projects under implementation, stalled and funded

The structure of the Department calls for:

- 1 Director
- 1 Deputy Director
- 1 Chief Accountant
- 3 Accountants
- 6 Economists

Each officer (economists and accountants) is assigned a number of ministries. Given that not all posts are filled, officials are on average assigned 7 to 8 ministries per individual. See below the graphical illustration.



Annex 5: Two Project Case Studies

Two case studies were undertaken as part of this study to see how the eight desirable features of the PIM framework function in practice. These two cases relate to renovation and expansion of the airport in Bulawayo and building of a central registry for the Registrar General's office in the Home Affairs Ministry. Both the projects started almost 10 years back and are still in the process of completion. As will be borne out by the analysis below, both the case studies bear testimony to the shortcomings in the PIM system illustrated in this chapter.

Case Study I: J. M. Nkomo Airport project

Project concept

The decision to upgrade Joshua Nkomo International Airport was taken at the political level. At that stage, the project was taken up by the Ministry of Transport, Communications and Infrastructure Development (MoTCID) and its implementation was started in 2003 by the Civil Aviation Authority of Zimbabwe (CAAZ) under the Ministry . It included the rehabilitation of runway and construction of a new terminal building. The target date for completion was May 2004.

Project formulation and appraisal

Project was formulated by the MoTCID and appraisal was done by University of Zimbabwe. The contract for the work was given to Murray and Roberts Construction Company. MoF itself did not do a second level appraisal then, The Infrastructure Development Bank of Zimbabwe (IDBZ) made a 2nd level review after the introduction of multicurrency and on their recommendation, the project was adjusted marginally.

The IDBZ has the capacity and adequate manpower for conducting appraisal of projects. The main problem with the MoF and other line ministries is lack of skilled staff due to low salaries and inadequate resources.

Funding

Funds came from MoF and the Reserve Bank of Zimbabwe (RBZ). The main problems have been lack of funding, shortage of materials, unavailability of fuel and price escalation. With passage of time, materials on site have deteriorated and that has resulted in repeated cost overruns. There is also an information problem about the spending already made due to the switch from Zim dollar to multi-currency era.

Project implementation

The selection of contractor was done by the State Procurement Board (SPB). In all cases, the implementation is done through an open tendering process, although there is no international bidding. Then the bidding process is taken over by the SPB which finalizes the choice of the contractor.

No independent project manager was appointed for this project. This is the normal practice in the country. The MoTCID and MoF did not get information about potential problems in the absence of independent project manager. Also, there is a lack of capacity in project management in

general. The consultant engineers and professionals also lacked capacity, in comparison to the contractor's whose performance was much better.

Monitoring is done by the project team through site meetings and technical meetings. A monitoring report is submitted by the consultants to the IDBZ that verifies the report and recommends to MoF for release of payment.

Time and cost overrun
The project is still ongoing and clearly there has been major time overrun. Also, there has been significant cost overrun in this project, from US$4.1 million to US$26.5 million. Variations in design were not controlled and properly managed by the architect and the CAAZ. There is a need for regular review of expenditures during the implementation process.

Asset management
Asset registry will be maintained by the MOTCID. The general practice is that the line ministry concerned maintains the asset registry for each project that it implements. One consolidated asset register is maintained by MoPW.

Evaluation
It was planned that there will be an ex-post appraisal and a final cost and account report would be prepared at the end of the project. This is generally done for projects implemented through IDBZ but not for projects implemented directly by other government agencies and line ministries.

In conclusion

1. According to the IDBZ, one suggestion for improving the funding process could be to budget the entire demand of a line ministry but release actual funds on the basis of availability of funds. The budget often provides for a lower amount appropriation compared to the demand and then there are savings or extra revenues realized towards the end of the financial year. By the time the additional funds could be provided to the line ministry through re-appropriation, the financial year comes to a close and there is no way to make payments even when funds are available. Thus if both the budgeted amount and the actual allocation for the year are indicated, it could ease the situation.

2. Due to unpredictability of budget implementation, it is the capital budget that is generally crowded out. One way to manage this would be to earmark about US$200 million for capital budgeting for 2012 and ring fence this amount so that it is not diverted to recurrent expenditures. The government should avoid having an overly ambitious capital budget. Even if somehow the funds become available, they cannot be properly spent due to lack of capacity, materials and equipment. If the line ministries push too hard, either funds will be wasted or lost through corruption.

3. Sometimes the role of IDBZ is unclear from the point of view of the line ministries. Are they helping in implementation or holding the purse on behalf of the MoF, or monitoring performance or acting as auditors?

Case Study II: Central Registry Building

Project identification
The project was initiated by the Department of Registrar General under the Ministry of Home Affairs during later half of the 1990s and work started in 1997. At that time, the then existing 5 year plan was used for project guidance, now MTP plays that role.

Project formulation and appraisal
A team of consultants prepared the project document. The implementation was given to Ministry of Public Works (MoPW). Although no CBA is conducted, an environmental review is done for all projects including this one.

Project adjustment
Project adjustment takes place due to technical reasons but not as a result of benefits and costs changing due to change in circumstances. Alterations in design are also a continuous process, sometimes warranted by unforeseen situations, and it leads to a variation order which has to be approved by the client ministry.

Project implementation
MoPW implements small and medium size projects with the help of the departmental labor. For bigger projects, contractors are selected by the SPB which are then engaged by the MoPW.

Project manager is a new concept in Zimbabwe. In the British system traditionally followed in Zimbabwe, the architect is the project manager. The architect is also fully liable for performance of the project. This is the system the MoPW uses. But now the system is moving towards appointment of a separate project manager. The MoPW has recommended appointment of a project manager for this particular project.

The main problem with implementation is lack of regular funding. The initial contract sum was US$4.57 million but the revised cost estimate has come to US$9.25 million. Clearly there has been a major time and cost overrun in this project.

Monitoring
Monitoring in the field is done by project engineers through spot checking on a regular basis. Also, MoPW conducts a monthly review meeting in which the line ministries are involved. Finally, a quarterly report is submitted to the MoF.

The IDBZ also monitors implementation since it has adequate technical capabilities. The role of IDBZ, however, needs to be clearly defined in implementation and monitoring. According to the MoPW, sometimes they are overzealous and overstep on the MoPW's jurisdiction. It should act as the financier on behalf of MoF and not as technical experts overseeing the work of MoPW.

Annex 6: Modified cost effectiveness analysis for priority ranking of PSIPs in the pipeline

For clearing the backlog of projects/programs in the PSIP pipeline, the following steps may be undertaken.

(1) Funds should be first allocated to those projects/programs where delay in implementation may cause danger to life or property. This should be done irrespective of the sector in question.

(2) For all the ongoing projects/programs, allocate available funds to sectors based on their priority ranking as envisaged in the MTP or as determined by the government. This allocation has to be done by the Government keeping in view the demand of LMs, availability of resources and the development priorities.

(3) For each of the sectors, a table may be compiled indicating the additional funds required and the total benefits from each of the projects/programs when completed. Estimate the benefit generated for each additional dollar of funding and then rank the projects/programs using this parameter. Distribute the allocated funds among the projects/programs in the order of ranking.

(4) In case benefits were not quantified in the first place, the number of beneficiaries or population affected may be taken as a proxy for benefits, compared with additional investment required to complete the projects.

(5) If nothing works due to lack of data or information, allocate the funds to different ministries as in (2) above and ask them to prioritize their pending projects/programs in the pipeline by a criterion they consider most appropriate for their sector. This list for each of the LMs should then be jointly scrutinized by a committee consisting of members from PSIP in MoF, PIP and the line ministry concerned. Once the list is finalized, available funds be spent according to the priority determined by this committee. This exercise is somewhat similar to what is done during the MTEF process where LMs prioritize projects/programs based on the budget ceiling allocated do them.

Annex 7: Financial and Procurement Reforms

Policy recommendations for financial management reforms

- It is recommended that after the Appropriation Bill is passed, all Ministries should submit their cash plan to Ministry of Finance for consolidation into a comprehensive national cash plan. The cash plan from the ministries must be scrutinized to ensure that the cash flow projections are within budgets and relate appropriately to projects or activities that are of priority and ready for implementation. Based upon the comprehensive cash plan, quarterly expenditure ceilings or expenditure warrants can be issued to the respective Ministries representing authorization to the line Ministries to commit or incur expenditures chargeable on the treasury. This can be done online and/or manually. If manual, then each spending unit must keep a vote register or warrant register and each contract and purchase order must contain the warrant number.

- Treasury must ensure that sufficient amount (almost equal to the warrants issued) is encumbered (deemed committed and not available when considering other request). Treasury must receive on a monthly basis, returns from each Spending Unit to confirm that they honor payments as they fall due. A Cash Management team is chaired by the Permanent Secretary or the Accountant General should be put in place. The membership should include the Principal Director of Budgets, Public Debt and Investments, and two of three of the major Spending Ministries. The duty of the cash management team includes; monitoring and evaluating the actual inflows; and outflows and making necessary adjustments or provisions of ensuing periods; questioning and making follow ups when there are unexpected fluctuations in inflows and outflows. A monitoring and evaluation team with Ministry of Finance or the Supreme Auditors Unit should monitor and submit reports indicating compliance and non-compliance to the Cash Management team. Appropriate sanctions must be in place for breaches of financial discipline. Technical Assistance can be provided in developing and implementing cash plans and commitment controls as well as a framework for managing payment request for capital projects.

Policy Recommendations for procurement and contracting

- Strengthen the institutional framework for procurement and contracting: Procurement as a function is not recognized and organized at procuring entity level. Procurement is decentralized to the extent that contracts below US$50,000 are fully implemented by procuring entity without involvement of State Procurement Board. Further delegation is constrained by lack of institutional setup at procuring entity level. Centralized procurement (process and decisions) creates longer lead times than required by procedures because of the need to have many stages of the process carried out by and at State Procurement Board: To minimize risk of delays and improve sectoral accountability, we suggest that Government establish Procurement Committees in each procuring entity as required by Part IV of the Public Procurement Act, train the committees and decentralize procurement actions and decisions to the Committees in the short to medium term. In the short term, carry out further delegation in procurement

management to Parastatals that have functioning Procurement Committees and Procurement Staff to guide the committees.

- Re-validation of old Zimbabwean Dollar Contracts is complicated, takes time and appear not to provide value for money: Many of the projects proposed for financing in the PSIOP budget are existing projects which do not require procedural procurement processes. The SPB position on these projects/contracts is that they should not be re-tendered because of challenges with professional liability and insurance if a different consultant/contractor takes over.

- The process of revalidation takes more time even compared to a tendering process and the issues: (i) inadequate technical expertise in implementing agencies to re-validate the costs, (ii) varying approaches among implementing agencies that lead to increased costs and non-transparent processes, (iii) voluminous historical information of a project, some dating back as far as1999, is required and reviewed by State Procurement Board, and (iv) design changes in the intervening period.

Source: Cited from World Bank, 2011b

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