

**AFRICAN DEVELOPMENT BANK GROUP**



**ZIMBABWE**

**FIRST LINE OF CREDIT TO ZIMBABWE DEVELOPMENT  
BANK**

**Project Performance Evaluation Report (PPER)**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

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CURRENCY EQUIVALENTS

(As at the time of appraisal, first quarter 1989)

Currency Unit		Z\$ (Zimbabwe dollar)
UA 1	=	Z\$ 2.6145
US\$ 1	=	Z\$ 2.250

Evolution of Exchange Rates  
(Z\$/US\$)

<u>Year</u>	<u>Average Exchange Rate</u>
1981	Z\$ 0.689
1982	0.757
1983	1.011
1984	1.244
1985	1.612
1986	1.665
1987	1.661
1988	1.802
1989	2.113
1990	2.448
1991	3.739
1992	5.112
1993	6.529
1994	8.128
1995	8.665
1996	10.002
1997 (February)	10.738

Fiscal Year

GOZ : July 1 to June 30  
ZDB : July 1 to June 30

LIST OF ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AFC	Agricultural Finance Corporation
CDC	Commonwealth Development Corporation
DEG	German Investment & Development Finance Company
EIB	European Investment Bank
ESAP	Economic and Structural Adjustment Programme
FINNFUND	Finnish Fund for Industrial Development Cooperation
FMO	Netherlands Development Finance Company
GDP	Gross Domestic Product
GOZ	Government of the Republic of Zimbabwe
IPPAR	Intermediate Project Performance Audit Report
LOC	Line of Credit
PCR	Project Completion Report
PROPARCO	The Society for the Promotion and Participation of Economic Cooperation
RBZ	Reserve Bank of Zimbabwe
TAF	Technical Assistance Fund
ZDB	Zimbabwe Development Bank

## PREFACE

This Intermediate Project Performance Audit Report (IPPAR) covers the first line of credit to Zimbabwe Development Bank (ZDB). The line of credit of UA 10.0 million was approved on 15 February 1990 and the loan agreement was signed on 31 May 1990. About 80 per cent of the approved amount was committed and fully disbursed within two years and the undisbursed amount was eventually cancelled. The relevant Project Completion Report was completed in June 1994.

A grant of UA 0.46 million from ADF's Technical Assistance Fund (TAF) was approved at the same time as the line of credit for the use of ZDB in its entrepreneurial development programme. The grant facility was yet to be used and was not covered by the PCR mentioned above. At the time of the post-evaluation mission, the utilization of the TAF had started but not yet ended.

The line of credit was, on the whole, satisfactorily implemented and the PCR dealt adequately with project rationale and implementation experience. The purpose of the IPPAR therefore is to review and supplement the findings and recommendations of the PCR, evaluate the sustainability of the benefits of the project in the current economic context and highlight the lessons learnt.

The IPPAR is based on the findings of a post-evaluation mission that visited Zimbabwe in February 1997 and on the Appraisal Report of 1990, the PCR and other Bank documents. The mission held discussions with officials of ZDB, relevant government ministries and the Reserve Bank of Zimbabwe and visited a sample of the sub-projects financed under the LOC in Harare and Bulawayo.

The IPPAR describes the background of the line of credit, including the country economic context, examines the soundness of the project rationale and formulation and assesses various aspects of the completed project, particularly the performance of ZDB, the sub-projects financed and the Bank. On this basis, it summarizes lessons to be drawn from the project and makes recommendations that may help to enhance the effectiveness of the Bank's future lines of credit in Zimbabwe and elsewhere.

BASIC PROJECT DATA

1.	Country	Republic of Zimbabwe
2.	Project	First Line of Credit
3.	Loan Number	B/ZIM/ZDB/LIC/90/8
4.	Borrower	Zimbabwe Development Bank (ZDB)
5.	Guarantor	Government of Zimbabwe (GOZ)
6.	Beneficiary	ZDB
7.	Executing Agency	ZDB

**A. LOAN**

	<u>APPRAISAL</u>	<u>ACTUAL</u>	
1.	Amount (UA Million)	10.00	7.86
2.	Interest Rate	7.50%	7.50%
3.	Repayment Period	10 years	10 years
4.	Grace Period	2 years	2 years
5.	Loan's Approval Date	10/89	15/02/90
6.	Loan's Signature Date	01/90	31/05/90
7.	Loan Effectiveness Date	05/90	10/90

**B. PROJECT DATA**

1.	Total LOC (UA Million)	10.00	7.86
2.	Financing Plan (UA Million)		
	ADB	10.00	7.86
3.	Effective Date of First Disbursement	19/11/90	19/11/90
4.	Effective Date of Last Disbursement	31/12/94	31/12/92

**C. PERFORMANCE INDICATORS**

1.	Cost Overrun/Underrun on ADB loan	-21%
2.	Time Overrun/Underrun	-20 months
	-Slippage of Effectiveness	+4 months-
	-Slippage of Last Disbursement	-24 months
	-No. of Extensions of Last Disbursement	-
3.	LOC Implementation Status	Complete
4.	<u>Implementation Performance &amp; Project Outcome</u>	
	- Implementation Performance	: Satisfactory
	- Bank Performance	: Satisfactory
	- Project Outcome	: Satisfactory

**D. MISSIONS**

<u>ACTIVITY</u>	<u>Number of Missions</u>	<u>Date</u>	<u>Number of Persons</u>	<u>Man/days</u>
Preparation	1	November 1988	1	14
Appraisal	1	March 1989	1	14
Supervision	2	November 1992	2	14
		September 1993	2	14
Follow-up	2	June 1993	2	14
		February 1994	3	14

**E. DISBURSEMENT (UA Million)**

<u>Year</u>	<u>Appraisal*</u>	<u>Actual</u>
1991	-	6.41
1992	-	1.45
1993	-	
1994	-	
Total	10	7.86
Amount Cancelled		2.14

\* No breakdown was given year by year; but a total duration of 4 years was estimated for the LOC to be utilized fully.

## 1. EVALUATION SUMMARY

### Objectives and Scope

1.1 The goals of the first line of credit (LOC) were to bring about sustainable higher economic growth rates, enhance industrial growth and promote entrepreneurial development. The immediate objectives were to rehabilitate, modernize and expand existing enterprises and nurture entrepreneurship in project preparation and management skills to emerging entrepreneurs. The project would enable Zimbabwe Development Bank (ZDB) to mobilize foreign exchange resources for its operations and on-lend this foreign exchange to productive sub-projects for their import requirements, including spare parts and raw materials, as well as finance the provision of technical assistance to emerging entrepreneurs. Except for expenditures on entrepreneurship development, the sub-projects were expected to make all contributions in local currency and no major risk was envisaged.

1.2 The approved loan amount was UA 10 million but only 78.6% of it was disbursed. The undisbursed loan balance was eventually cancelled. A TAF grant of UA 460,000 was approved at the same time for technical assistance to projects promoted by emerging entrepreneurs. The utilization of this grant started belatedly only in July 1996.

1.3 The post-evaluation report is based on a review of the Appraisal Report, the Project Completion Report and other relevant background documents available in the Bank and statistical data and other information collected during a subsequent one-week field mission to Zimbabwe. Information collected in the field came from documents supplied by ZDB, the Borrower and Executing Agency, and discussions with the management and staff of ZDB, officials of relevant government ministries and the Reserve Bank of Zimbabwe and a sample of sub-projects financed. The approach was to compare the achievements of the LOC with expectations at the time of appraisal and to interpret them in the context of changes in the environment during implementation in order to supplement the findings and recommendations of the PCR.

### Implementation Performance

1.4 The project financed 32 sub-projects, most of which were established enterprises with good track records. Implementation of the line of credit encountered no major problems and was accomplished satisfactorily more than two years ahead of schedule. These sub-projects remain operational and most of them have liquidated their loans. A few green-field projects suffered from various problems but all are still operational and ZDB and the promoters are making determined efforts to rescue them.

### Institutional Aspects

1.5 The Bank has continued to be involved in the institutional development of ZDB primarily through its membership in its Board of Directors. ZDB has continued to grow as a strong financial institution.

### Project Impact

1.6 The project has had a positive impact on Zimbabwe's national economy, particularly through its appreciable impact on the industrial sector. However, there was little impact on poverty alleviation and economic inequality on account of the project selection preferences of ZDB which plays shy of green-field projects and emerging entrepreneurs.

### Sustainability

1.7 ZDB and its sub-projects are evidently sustainable and the benefits derived from the line of credit should continue even after the loan has been fully repaid. An important factor underlying the satisfactory performance of the project is the fact that adequate preparatory work was done before appraisal and that the rationale and goals of the project were part and parcel of the development priorities and objectives of Zimbabwe. As regards the sub-projects, good performance was due to enduring factors such as reliance on domestic resources and prior track records as established ongoing concerns. ZDB is sustainable as a financial institution on account of the performance of the sub-projects as well as its careful project selection and efficient financial management. However, it is not clear whether it will continue to be primarily a development finance institution or just another strong financial institution.

### Conclusions

1.8 This report endorses the conclusion of the PCR that, on the whole, the first line of credit to ZDB performed satisfactorily by meeting its important goal of sustaining the country's industrial sector but failed in its objective of developing indigenous small and medium-scale enterprises and entrepreneurship generally. Emerging entrepreneurs and green-field projects would have received more attention and performed better if the TAF grant had been utilized as planned.

### Feedback

1.9 GOZ should take a decision without delay on the desired future role of ZDB as a financial institution, especially as regards its development role. ZDB itself should undertake to identify what it would need to be able to play a more active development role. The Bank, on its part, should ensure that projects are adequately monitored and assisted, especially during disbursement, so that their operational problems can be addressed promptly. The Bank should also ensure that the balance of the TAF grant under this project is fully and appropriately utilized so that the objectives of the project can be more fully realized.

## 2. BACKGROUND

### 2.1 Country Economic Context

2.1.1 The economy of Zimbabwe is well-endowed with natural resources, diversified and integrated, as compared with most other African economies. About three-quarters of the total land area is arable and over 42 types of minerals have been identified. Although the country is entirely in the tropical zone, its climate is generally sub-tropical on account of high altitudes. At the time of appraisal of the ADB line of credit, industry was the most important sector of the national economy in terms of value-added, contributing about 30 per cent of total GDP and over 50% of gross export earnings. The sector was also the largest importing sector, accounting for 45% of commodity imports, and continues to have considerable linkages with agriculture and the mining sector and to dominate the economy. Agriculture, which was mostly rain-fed, provided employment for some 70 per cent of the total population and contributed about 30% of total export earnings and 90% of total food requirements. Accordingly, the performance of the economy was very sensitive to the weather, especially rainfall.

2.1.2 When the country attained independence in 1980, its economy had been remarkably weakened by fifteen years of political unrest and comprehensive trade sanctions by the international community. The economy was also characterized by social and economic inequality as a result of its history of minority settler domination. During the first decade of independence, economic growth was uneven and showed no appreciable trend. The underlying determinants of this situation were exogenous factors, particularly drought, global recession and a generally poor investment climate arising from continued extensive domestic controls and regulation of economic activity. The details of the economic situation in the decades immediately before and after independence are adequately documented in the Appraisal Report of 1990 (paragraphs 2.1.6 - 2.1.23) and the Project Completion Report of June 1994 (paragraphs 2.2.4 - 2.1.10).

2.1.3 Between 1980 and 1988, fixed investment declined from 25 per cent to a 20-year low of 16 per cent of GDP - a rate that was barely enough to maintain the existing capital stock. At the same time, the import bill grew faster than export earnings and net factor income while net capital inflows were experiencing a rapidly declining trend. Towards the end of the post-independence decade, the current account balance and the overall balance of payments began to experience persistently growing deficits and import capacity, limited by foreign exchange availability, had become the major constraint to economic growth, particularly in the manufacturing sector.

2.1.4 In these circumstances, the main development issues confronting the Government of Zimbabwe in 1990 when the ADB first line of credit was approved were:

- i. the stagnation of the economy and how to restore growth;
- ii. declining capital formation and a poor investment climate;
- iii. high unemployment levels;
- iv. continuing social and economic inequality;
- v. a deteriorating external sector; and
- vi. high budget deficits.

The country's development policy objectives and strategies during this period, as set out in three government documents, were consistent with these challenges. By 1990, the Government of Zimbabwe had intensified efforts to solve these problems. Preparatory work on the Second National Development Plan (1991-1995) had been initiated and a trade liberalization study had been launched to prepare the ground for the Economic and Structural Adjustment Programme (ESAP). It was already clear that GOZ was aiming at transforming the country into a market-based economy and that the necessary macroeconomic policies were in the offing.

2.1.5 During the period under review, the financial sector was quite diversified and included the Reserve Bank of Zimbabwe as the central bank, commercial banks, merchant banks, discount house and development finance institutions, notably the Zimbabwe Development Bank. Although they were all involved in domestic-resource mobilization, the commercial banks dominated the market which the Government controlled by administrative fiat rather than monetary and credit policy. During this period the requirements of the Government's deficit financing tended to limit the private sector's access to credit. A gradual shift to market-based monetary control began in December 1989 as part of the new overall economic liberalization process. Two years earlier the Government had introduced the National Scheme for Forward Cover on Exchange Contracts which was aimed at containing for five years the exchange risk exposure of enterprises engaged in foreign exchange contracts.

2.1.6 The implementation of the Second National Development Plan transformed the macroeconomic environment radically but had little impact on the basic structure of the national economy, as can be seen from the economic indicators in Appendix 1. The most important reform measures successfully implemented - trade and investment liberalization, removal of trade restrictions and price controls and deregulation of financial and labour markets - created a macroeconomic environment to which Zimbabwean enterprise was unaccustomed. However, exogenous factors, notably severe droughts in 1992/93 and 1994/95 and regional and international recession during 1992/93, frustrated the achievement of major policy targets and unleashed macroeconomic imbalances.

2.1.7 During the six-year period ending in 1996, real annual GDP growth was uneven and averaged one percent as against the plan target of five per cent, despite a remarkably strong recovery to an estimated 8.1% in 1996 largely as a result of the impact of good rains on agriculture. As the population continued to grow at 3.1% a year, reaching an estimated total of 11.9 million in 1996, real per capita GDP stagnated and slightly surpassed its 1991 level only in 1996. Gross capital formation, which had risen to 27.0% of GDP in 1992, declined gradually but steadily to 18.2% in 1996. In contrast, the external sector improved considerably with the overall balance of payments being transformed from deficit to surplus while external reserves increased from two months of imports in 1991 and 1992 to an average of nearly four months in the four years to 1996. Access to foreign exchange thus became appreciably easier during the plan period.

2.1.8 ZDB, the Executing Agency for the line of credit, had been established in 1983 after GOZ and the ADB had identified the need for an institution that could spearhead the development of medium-term and long-term instruments in Zimbabwe's financial market. GOZ initially held 51% and the Reserve Bank of Zimbabwe 7% of

ZDB's paid-up capital while the balance was held by ADB, a founding shareholder of ZDB, and five other non-Zimbabwean institutional shareholders. This was still the position at the time of appraisal. The shareholding structure has since been broadened to include Zimbabwe Reinsurance Corporation, PROPARCO (of France) and the European Investment Bank and the GOZ holding has been diluted to 33.27%. The current shareholding structure is shown in Table 2.1.

2.1.9 The primary objective of ZDB was and continues to be to mobilize appropriate financial resources for the assistance of new and existing productive enterprises through the provision of medium and long-term loans, equity finance and technical assistance. ZDB finances projects throughout Zimbabwe and has decentralized in recent years by establishing operationally autonomous regional offices in Harare, Bulawayo and Mutare which report to its headquarters in Harare. The line of credit was expected to finance sub-projects throughout the country.

Table 2.1

Shareholding Structure of ZDB as at 30 June 1996

	<u>Shares Held</u>	<u>% of total</u>
Government of Zimbabwe	16,300	33.27
Zimbabwe Reinsurance Corporation	9,200	18.78
Reserve Bank of Zimbabwe	3,500	7.14
African Development Bank	4,000	8.16
Commonwealth Development Corporation	3,000	6.12
DEG (German)	3,000	6.12
FINNFUND	3,000	6.12
FMO (Dutch)	3,000	6.12
PROPARCO (France)	3,000	6.12
European Investment Fund	1,000	2.05
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	<u>49,000</u>	<u>100.0</u>

Source: ZDB, 1996 Annual Report.

2.2 History of Operations

The LOC was the twelfth Bank Group operation in Zimbabwe. The earlier projects, the first of which was approved in March 1981, are listed and described in the Appraisal Report. They include a UA 20 million line of credit to the Agricultural Finance Corporation (AFC) approved in 1985 from which the Bank had its first experience of implementing a line of credit in Zimbabwe. The Bank had no previous experience in the country's industrial sector. Subsequently, the Bank approved a second line of credit of UA 15 million to ZDB, which was declared effective in October 1996 but the first disbursement from it had not been made at the time of the post-evaluation mission.

### 2.3 Formulation

ZDB was primarily the brainchild of the Bank. The Bank, which eventually became one of the founding shareholders, promoted its establishment when preliminary studies carried out shortly after the independence of the country indicated a need for such an institution. Thus ZDB, the Borrower and Executing Agency, was established in response to the national priorities and objectives identified by GOZ. As members of the Board of ZDB, both GOZ and the Bank were fully involved in the decision to apply for an ADB LOC as part of ZDB's funds mobilization drive. Although the economy and ZDB were already well-known to the Bank, a pre-appraisal preparation mission ensured that adequate preparatory work was carried out before the LOC was granted. The involvement of the Bank and GOZ at every stage of project processing ensured that all major relevant issues were adequately addressed at appraisal.

### 2.4 Project Rationale

The need to find solutions to the problems indicated in paragraph 2.1.4 above constituted the rationale for granting ADB's first LOC to ZDB. In particular, the productive base of the industrial sector needed to be rehabilitated and modernized after more than a decade of neglect as a result of civil unrest. Foreign exchange scarcity was the major constraint on new investment in the industrial sector, dependent as it was on imports. The rationale for the grant from ADF's technical assistance fund (TAF), which accompanied the LOC was the need to promote and nurture emerging entrepreneurship by providing necessary technical assistance that would otherwise be uneconomic and unfeasible in the context of the operating guidelines of ZDB. A shortcoming noted in the project rationale was that the linkage of the LOC with the TAF grant would not have been necessary considering that the major priority at the time (against severe shortage of foreign exchange) was to save the existing enterprises from collapsing.

### 2.5 Objectives and Scope at Appraisal

The goals of the LOC were to bring about sustainable higher economic growth rates, enhance industrial growth and promote entrepreneurial development. The immediate objectives of the LOC were to rehabilitate, modernize and expand existing enterprises; and together with the TAF grant, provide financing to emerging entrepreneurs. As can be seen in the logical framework (Appendix 3), attainment of these goals would be indicated by the contribution of the LOC to GDP growth, employment generation and sustainability of the industrial sector - indicators that can be observed by monitoring ZDB portfolio, the sub-projects financed and amount of assistance to emerging entrepreneurs. The LOC would enable ZDB to mobilize foreign exchange resources for its operations and on-lend this foreign exchange to productive sub-projects for their import requirements, including spare parts and raw materials. The TAF grant was to finance the provision of technical assistance to emerging entrepreneurs. Except for expenditures on entrepreneurship development, the sub-projects were expected to make all contributions in local currency and no major risk was envisaged.

## 2.6 Financing Arrangements

2.6.1 ZDB's requirements for funding its commitments over the six-year period ending 30 June, 1994 were estimated at Z\$ 199.356 million of which Z\$ 152.587 million would be needed in foreign exchange. At appraisal in March 1989, ZDB already had a project pipeline of 21 projects with total funding requirements of Z\$ 24.594 million of which Z\$ 17.050 million was in foreign exchange. Local currency commitments were expected to be adequately covered by funds generated from operations and net loan repayments. The foreign exchange requirements amounting to about US\$ 74 million at the 1989 average rate of exchange were expected to be provided through lines of credit to be mobilized in the first instance from ZDB's foreign shareholders. The foreign currency resources already available or with already identified sources amounted to Z\$ 96.225 million or 63% of the six-year requirement and would cover the needs up to 1992. This included resources from five donors - EIB, CDC, DEG, FINNFUND and FMO - which had either approved or indicated their readiness to approve a combined total amount equivalent to Z\$ 70.08 million. (See Appraisal Report, Section 4.3). The ADB LOC of UA 10 million was to help fill the foreign exchange resource gap of ZDB during the six-year period. It was supplemented with a grant of UA 460,000 from ADF's technical assistance fund (TAF) which was intended to finance part of ZDB's entrepreneurial development programme established to provide technical assistance to emerging entrepreneurs. The recipient of the grant was the Government of Zimbabwe while the beneficiary and Executing Agency was ZDB.

2.6.2 ZDB's strategy was to phase the mobilization of foreign resources so as to have LOCs to draw on at all times and also minimize commitment charges. GOZ, on its part, was to guarantee the loan and also cover the foreign exchange risk associated with the LOC by establishing an ADB Global Loan Exchange Risk Covering Account.

## 2.7 Evaluation Methodology and Approach

2.7.1 This intermediate post-evaluation report is based on a review of relevant background documents available in the Bank and statistical data and other information collected during a subsequent one-week field mission to the host country, Zimbabwe. The documents reviewed included the Appraisal Report, the Project Completion Report and other documents available in project files. Information collected in the field came from documents supplied by ZDB and discussions with the management and staff of ZDB, officials of relevant government ministries and the Reserve Bank of Zimbabwe and a sample of sub-projects financed in the Harare and Bulawayo regions.

2.7.2 Although only a small sample of these sub-projects was visited on account of the short duration of the mission, the information gathered is considered adequate to understand the state of affairs. The approach was to compare the achievements of the LOC with expectations at the time of appraisal and to interpret them in the context of changes in the environment during implementation.

### 3. PROJECT IMPLEMENTATION

#### 3.1 Loan Effectiveness

3.1.1 The line of credit became effective in September 1990, seven months after Board approval and four months later than originally planned, even though the conditions precedent to loan effectiveness were expeditiously met. The delay was due to lateness in fulfilling the conditions attached to the effectiveness of TAF and the Bank's position that there should be cross-effectiveness between the LOC and TAF. In the end, this linkage had to be dropped in order to allow the LOC to become effective. Just four months later, in January 1991, the TAF grant was declared effective.

3.1.2 It would appear that linking the effectiveness of the two components of the operation fully was inappropriate as it threatened unnecessary delay of lending to the majority of potential sub-projects which, being established ongoing enterprises, would not benefit from the TAF grant. It would have been more appropriate to provide a built in mechanism for the proper utilization of the TAF grant against the portion of the LOC earmarked for projects promoted by emerging entrepreneurs. Without earmarking some funds for these projects, the line of credit may have been exhausted by the going concerns before the projects of emerging entrepreneurs were suitably prepared to participate on terms acceptable to ZDB. On the other hand, earmarking funds in that manner (at the time when there was severe shortage of foreign exchange) would have meant withholding resources from existing enterprises that needed them urgently. In retrospect, it is questionable whether the TAF facility should have been tied to any particular line of credit. The current outcome indicates that little preparation was made as to the mechanism of utilization of the TAF grant.

3.1.3 Nevertheless, the delay arising from the cross-effectiveness requirement did not translate into further delays in the implementation of the line of credit. The LOC was committed and the final disbursement made within two years of loan effectiveness, which was more than two years ahead of the scheduled deadline for last disbursement. What remained undisbursed was cancelled after a considerable delay.

#### 3.2 Changes in Project Scope

3.2.1 The only appreciable change in the scope of the project during implementation was that only UA 7.86 million or 78.6% of the approved loan amount of UA 10 million was disbursed. In order to avoid disbursement delays, ZDB had gone ahead and disbursed to a few sub-projects from its own resources and requested the Bank for reimbursements. The process took considerable time mainly because the Bank did not accept the currency preference of the ZDB which was contrary to the then existing rules. In order to avoid further disbursement delays and reimbursement issues, ZDB opted to request the cancellation of the undisbursed amount of UA 2.14 million which was effected only after two years following the last disbursement.

3.2.2 During the two years that elapsed before the cancellation, ZDB incurred avoidable commitment charges without any offsetting benefits. The cancellation also meant a diminution of the on-lending resources available to ZDB and constrained the

number of sub-projects financed. The underlying issues should perhaps have been foreseen at appraisal and resolved during loan negotiation. More importantly, they should have been resolved early during implementation. Their persistence suggests that the Bank's supervision missions could have been more effective. On the whole, however, the project appears to have been satisfactorily designed and adequately prepared.

### 3.3 Implementation Schedule

Implementation schedules for the LOC were generally adhered to by the Bank and ZDB and thus appear to have been realistic.

### 3.4 Reporting

No reporting problems were evident but the follow-up by the Bank appears to have been less than adequate, as indicated in paragraph 3.2.2.

### 3.5 Procurement

As indicated in the PCR, the Executing Agency complied satisfactorily with the Bank's procurement rules and procedures. In consonance with the norm for the scale of projects financed, procurement was done mostly through international shopping.

### 3.6 Project Costs

3.6.1 The LOC was to finance an undetermined foreign currency component of eligible sub-projects while the promoters were generally to provide the complementary local currency financing. The appraisal report did not estimate the total costs of these future sub-projects probably because it was impracticable to do so, especially as most of them were still unknown quantities. Ex-post analysis of the 32 sub-projects indicates that the share of the ADB loan in total sub-project financing varied from 7% to 76% and averaged about 55% for the entire portfolio, as can be seen in the PCR, Annex 9.

3.6.2 The indications are that most sub-projects experienced no difficulty in making their required contribution and project implementation was accomplished without cost overruns. However, a few projects constituting a small part of the portfolio, including four green-field projects suffering from management inadequacies, experienced some project cost increases and implementation delays mainly on account of the transitional problems of structural adjustment. Considering that the Zimbabwe dollar depreciated rapidly and lost over 70% of its external value between 1990 and 1995, it is significant to note that the cost burden of sub-projects would have been much heavier and probably prohibitive if GOZ had not borne the foreign exchange risk of the LOC.

3.6.3 In the case of the second line of credit, GOZ decided not to assume the foreign exchange risk and so far ZDB has not found any sub-borrowers. This situation suggests that existing enterprises may also have found LOC I unattractive as a source of foreign currency loans if they had to bear the foreign exchange risk fully, especially when the domestic currency was depreciating rapidly as a result of macroeconomic reforms. GOZ's action in this regard thus appears to have been desirable as it saved

Zimbabwe's industrial sector from collapsing and facilitated the transition to a free market environment. It would be unrealistic, however, to expect the government to bear the full burden of such risk indefinitely because the government's resources may prove inadequate but more importantly because it is inconsistent with other macroeconomic reform measures. In these circumstances, there is need for a study to determine how and to what extent private investors should be protected against the foreign exchange risk of lines of credit without creating disproportionately offsetting adverse effects elsewhere in the economy.

### 3.7 Disbursements and Financial Sources

As indicated above, the only financial sources in this project were the Bank, ZDB and the sub-projects. The experience with disbursements is adequately discussed in the PCR (see PCR, para. 4.4.2). No major problems were encountered, although the Bank's process of effecting disbursements and reimbursements was reportedly not always smooth. The complaint, which extends to other Bank operations in Zimbabwe, takes the form of protracted delays in obtaining responses to disbursement and reimbursement requests sent to the Bank. In addition to the PCR recommendation of increased coordination between the Bank's Operations Department and the Executing Agency, visiting sub-projects during implementation would be helpful for better project appreciation and for finding solutions promptly to budding operational problems.

### 3.8 Compliance with Loan Conditions and Covenants

The PCR indicates rightly that the project did not experience any problems regarding compliance with loan conditions and covenants (see PCR, Section 4.2) following the non-imposition of the cross-effectiveness condition on the LOC and TAF grant. In retrospect, the cross-effectiveness should not have been stipulated considering the fact that the LOC was extended to ZDB and that of the TAF grant to the Government to be passed on to ZDB, on the one hand, and that the LOC was intended to meet largely the foreign exchange requirement of existing industries which do not require or are not eligible to benefit from the TAF grant on the other hand. Alternatively, a specified portion of the LOC should have been tied up with the TAF grant to benefit the intended emerging entrepreneurs.

#### 4. PERFORMANCE EVALUATION

##### 4.1 Operating Performance

4.1.1 The line of credit enlarged the foreign exchange operational base of ZDB at a time when foreign exchange was generally in short supply in Zimbabwe. It therefore gave ZDB a distinctive competitive advantage over other financial institutions in Zimbabwe at that time. This enabled ZDB to save Zimbabwe's industry from total collapse. The replacement of obsolete plant and machinery and overall modernization also made industry competitive in the new environment it subsequently faced as a result of macroeconomic reforms.

4.1.2 However, out of the approved loan amount of UA 10 million, only UA 7.857 million or four-fifths of the total was disbursed while the balance was cancelled for reasons already discussed in paragraph 3.2.1 above. In spite of the reduced net loan value, an impressive number of 32 sub-projects benefitted from the line of credit. The projects selected conformed with the known priorities of Zimbabwe's overall development and industrial sector at the time. The vast majority of these beneficiaries were on-going enterprises that needed rehabilitation, replacement of machinery and equipment, modernization or expansion. This concentration of assistance on existing enterprises was consistent with the immediate national priorities of the time, even though such concentration would be inappropriate at this time.

4.1.3 The sub-projects covered a broad range of industrial sub-sectors, as can be seen in Table 4.1 of the PCR which shows the sub-sectoral distribution of the sub-projects. About two-thirds of the sub-projects depended individually on domestic resources for upwards of 70% of their raw materials. As these enterprises were also run by established entrepreneurs, they performed eminently well and maintained a good debt-service record. At least 22 of them had paid off their loans while six were in arrears as at the end of 1996. The sub-projects also contributed to employment generation mainly by saving jobs that would have been eliminated by the sub-projects in the absence of the ADB line of credit.

4.1.4 The performance of green-field projects, particularly those promoted by emerging entrepreneurs, was much less impressive. ZDB's pronounced risk aversion and emphasis on profitability restricted its involvement in this sector in terms of number and amount. Some of the problems that ZDB seeks to avoid are illustrated by the green-field project promoted by an emerging indigenous entrepreneur interviewed by the post-evaluation mission. Although the promoter had ample technical training and relevant work experience before starting his own business, his working capital base was relatively small and unable to accommodate his interest payment obligations comfortably. The sub-project is currently in arrears with ZDB largely as a result of a one-year delay in completing civil works which, in turn, led to a further start-up delay of eight months needed to re-develop the market. These experiences appear to reflect management inadequacies. To enable the sub-project realize its recognized potential, ZDB was in the process of re-scheduling its loan at the time of the post-evaluation mission.

4.1.5 ZDB's inability until July 1996 to come up with acceptable ways of using the TAF grant for its intended purpose undermined the effectiveness of its efforts to

foster indigenous entrepreneurship by failing to enhance the supply and quality of emerging entrepreneurs as was envisaged at appraisal. TAF funds are currently being used in part to salvage problem projects that could have benefitted more from such assistance at the time of their establishment. The results of not restricting the use of these funds to ZDB projects may also be less impressive than if potential sub-projects under the LOC had been exclusively targeted as planned. Nevertheless, such assistance to emerging indigenous entrepreneurs could contribute towards meeting the developmental and poverty alleviation objectives of both the ADB and ZDB (as development financial institutions) since their success is beneficial to the economy at large.

4.1.6 The heavy dependence on domestically produced raw materials stimulated economic growth through its multiplier effects and industrial growth was evidently enhanced. These facts endorse the view of the PCR that, on the whole, the line of credit achieved its important goal of rehabilitating and sustaining the country's industry but failed to contribute appreciably to the development of indigenous small and medium-scale enterprises and entrepreneurship generally. In hindsight, the latter objective should not have been tied with this LOC since, at the time, the primary objective (against the limited available foreign exchange) was to save existing small and medium-scale enterprises from collapsing.

#### 4.2 Financial Performance

4.2.1 The PCR's detailed analysis of available data indicates that ZDB's financial performance since appraisal time has been outstanding and that this success was likely to be sustained. (See PCR, Section 5.2 and Annexes 10 - 12). Indeed ZDB remains competitive with commercial financial institutions and its loan investment portfolio in terms of Zimbabwe dollars continued to grow through 1995/96. ZDB's annual reports show that net profit has increased from Zim\$14.5 million in 1992 to Zim\$36.7 million in 1996; while dividend was raised from Zim\$3.1 million to Zim\$7.5 million during the same period (averaging about 5% per annum. The return on equity has been at least 21% in four of the last five years as shown in the table below. This remarkable achievement was the joint result of the performance of the sub-projects and ZDB's diligent financial management.

**Table 4.1**  
**Financial Ratios**  
**(in percentage)**

	1992	1993	1994	1995	1996
Net Profit to Equity	21	20	22	32	22
Net Profit to Total Assets	5	5	5	7	5
Dividend to Equity Funds	5	6	6	5	4

4.2.2 ZDB is facing more challenges in recent years mainly due to the ongoing reforms of the economy as well as treats from intensifying competitive forces within an expanding financial sector. As a response to these challenges, ZDB has adopted a more flexible approach to its core activities of resources mobilization and lending. In addition to its traditional lending activities, ZDB is making increasing use of

correspondent bank trade finance facilities and increased the range of services on offer to its customers to include cash advances, pre and post shipment facilities and leasing finance. This orientation and its profit maximization effort are reportedly sustained by the profit and dividend expectations of the shareholders of ZDB and the desire to remain competitive in the financial sector. It should be noted, however, that such orientation has the tendency of reducing its lending operations and entrepreneur development effort to the very small and medium scale enterprises and emerging indigenous entrepreneurs.

4.2.3 A financial internal rate of return for the project was not estimated at appraisal or by the PCR and such an exercise remains rather impracticable for a line of credit. Nevertheless, the outstanding performance of most of the sub-projects suggests that the financial rates of return to them and the line of credit would be acceptably high and certainly permitted satisfactory and sustained debt-servicing by both the sub-projects and ZDB itself.

4.2.4 A point worth noting is the fact that the environment under which this line of credit was extended had been very supportive relating to the foreign exchange risk which at the time was born by the Government. As one of the loan conditions, ZDB was to open a special account known as "Exchange Risk Covering Account for ADB Line of Credit" in order that the Government compensate ZDB for any exchange risk incurred. As of the fiscal year 1996, this account shows a total of unrealized exchange losses of Zim\$76.2 million and realized exchange losses of Zim\$ 55.6 million. These amounts were to be paid as and when realized by the Government to ZDB as per the terms of agreements entered into regarding the administration of certain lines of credit including the first line of credit of ADB. To date, only Zim\$ 5 million has been settled by the Government while the balance is still outstanding. At the time of the PPAR mission, discussion was underway between the Government and ZDB towards the settlement of the outstanding balance.

4.2.5 While the Government's flexibility in bearing the foreign exchange risk at the time is commendable (in view of the then severe shortage of foreign currency in the country), the magnitude of the risk could be very high to be borne by one party alone (in this case, the Government) making the settlement difficult as evidenced by the unpaid portion of the realized exchange losses. This may be one of the underlying reasons why the Government is no longer bearing exchange risk as is the case in the second line of credit extended by ADB. Against this background, it is necessary to find ways of successfully coping transitional problems including foreign exchange risk.

#### 4.3 Economic Performance

The difficulty indicated in the case of calculating the financial rate of return applies equally to the calculation of an economic internal rate of return. Although a few sub-projects were adversely affected by the structural adjustment policies put in place during project implementation, these measures were foreseen and are unlikely to have resulted in any major changes in the estimated costs and benefits of most sub-projects. The only significant unforeseen factor was the severe drought of 1992 which affected the whole economy adversely and most probably reduced actual sub-project benefits appreciably below expectations for that year. This may have resulted in economic rates of return somewhat lower than expected at appraisal but acceptably high

in line with financial profitability rates. In retrospect, the LOC appears to have been economically worthwhile.

#### 4.4 Institutional and Social Performance

4.4.1 The Bank has continued to be involved in the institutional development of ZDB primarily through its membership in its Board of Directors. ZDB is a well-managed organization which has evolved towards a flat structure with distributed functions in Regional Offices located in Harare, Bulawayo and Mutare. The common services such as accounting, treasury, personnel, training and data processing are handled at Head Office. In order to cope with the challenges in the financial sector, ZDB is continuously improving its systems and procedures for managing information for decision making and risk control. The current organizational structure is shown in Appendix 2.

4.4.2 ZDB is manned with a capable, stable and generally self-sufficient professional staff which is continually upgraded through short-term training and part-time degree courses subsidized by ZDB. The majority of the staff or 60% fall into the professional category. Currently, particular focus is being placed on further improvements of benefits to its staff in order to be more competitive in the labour market and retain its competent staff.

#### 4.5 Women in Development

Gender issues did not arise at the time of appraisal. Most of the sub-projects are dominated by male employees but some of them, such as a travel goods factory visited by the post-evaluation mission, employed about as many women as men. As regards ZDB, the gender situation has improved remarkably in the past year during which half of the new professional staff were women.

#### 4.6 Environmental Performance

Environmental issues were also not raised at appraisal or by the PCR. These issues are relevant only at the sub-project level and some of the sub-projects visited appeared to be environment-friendly for the most part or have taken adequate measures to protect the health of their workers. On the whole, the line of credit did not have any adverse impact on the environment.

#### 4.7 Performance of Consultants, Contractors, Suppliers and Borrower

Consultants and contractors did not feature prominently in the implementation of the LOC and no problems were encountered with suppliers once they were satisfied with the payment arrangements. The borrower, ZDB, performed well by making timely disbursements and by ensuring through efficient appraisal and supervision that sub-projects played their roles satisfactorily and did not impede project implementation. ZDB also performed well in assisting sub-projects in need of restructuring and debt rescheduling. GOZ should also be commended for facilitating the performance of ZDB and the sub-projects by assuming the foreign exchange risk of the LOC during a period when the domestic currency was depreciating rapidly in response to ESAP measures.

#### 4.8 Bank Group Performance

The Bank Group was adequately involved and played a useful role during project formulation. Thereafter, as may be inferred from the PCR (para. 4.4.4), the involvement of the Bank was inadequate, particularly during the initial stages of the project, and the satisfactory performance of the line of credit appears to have been in spite of the role played by the Bank Group. Following the appraisal mission in March 1989, the first supervision mission took place in November 1992, more than two years after loan effectiveness and after disbursement had been completed. The Bank did not therefore put itself in a position to respond promptly to operational problems that arose during implementation. Although another supervision mission and two follow-up missions took place during the following 15 months, the fact that the undisbursed balance was not cancelled until the end of 1994 suggests that these missions were not thorough or effective.

## 5. PROJECT SUSTAINABILITY

5.1 From the preceding analysis, ZDB and its sub-projects are evidently sustainable and the benefits derived from the line of credit should continue even after the loan has been fully repaid. An important factor underlying the satisfactory performance of the project is the fact that adequate preparatory work was done before appraisal and that the rationale and goals of the project were largely part and parcel of the development priorities and objectives of Zimbabwe.

5.2 As regards the sub-projects, good performance was due to enduring factors such as reliance on domestic resources and the prior track records of established ongoing concerns. The only advantage they no longer enjoy is the foreign exchange risk cover provided by GOZ during the implementation of the line of credit. This situation should produce little adverse effect as most sub-projects have already liquidated their loans and the magnitude of the currency depreciations of the structural adjustment period are not likely to be repeated in the foreseeable future.

5.3 ZDB is sustainable as a financial institution on account of the performance of the sub-projects as well as its careful project selection and efficient financial management, as indicated earlier in this report. It is continually developing new products and periodically updating its internal management arrangements to handle them in order to protect its position in an increasingly competitive financial sector. In the process, however, ZDB appears to be moving increasingly away from its development role as it places its emphasis on services which are increasingly being provided by other financial institutions including commercial banks. For instance, it began recently to engage in short-term trade financing. Its performing the special functions of a development finance institution more than other financial institutions in future is therefore doubtful unless appropriate concessionary funds are made available to enable it re-orient its focus towards financing emerging small and medium-scale enterprises and engaging in entrepreneurship development.

## 6. PERFORMANCE RATINGS

6.1 On the whole, implementation performance and Bank performance rates are satisfactory, as can be seen in Appendices 4 and 5. However, ZDB failed to utilize the TAF facility as intended; while the Bank's main failing was the absence of supervision missions during implementation and the ineffectiveness of the missions that took place as reflected by their failure to resolve operational problems promptly.

6.2 Considering the primary objective of the LOC, the project outcome (see Appendix 6) rates also as satisfactory as it has enabled the industrial sector to survive and sustain its operations. The institutional strength as well as its orientation to cope with the challenges of the changes in the economy and the financial sector have contributed to the satisfactory performance of ZDB as a strong financial institution. However, its developmental role is being compromised as it is less involved in the development of emerging enterprises.

## 7. CONCLUSIONS AND RECOMMENDATIONS

### 7.1 Overall Assessment

The first line of credit to ZDB performed very satisfactorily on the whole in meeting its primary objective of availing the needed foreign exchange to the on-going enterprises. It has had positive impact on Zimbabwe's national economy, particularly through its appreciable impact on the industrial sector. Its concentration on the rehabilitation and modernization of existing enterprises was consistent with the immediate national priorities of the time, even though such concentration would be inappropriate at this time. In spite of this emphasis, emerging entrepreneurs and green-field projects would have received more attention and performed better if the TAF grant had been utilized as planned.

### 7.2 Feedback and Recommendations

The lessons and recommendations emerging from this IPPAR are consistent with those of the PCR. The most important ones are outlined below.

#### Feedback (Lessons):

- (i) During periods of rapid and fundamental policy changes, it is important to find ways of coping successfully with the associated transitional problems including foreign exchange risk (paras. 3.6.2, 3.6.3, 4.2.5).
- (ii) Project goals and objectives should be rooted in identified national priorities and objectives with due attention to avoid linking unrelated objectives. This facilitates project implementation and enhances project outcome and sustainability (paras. 2.1.4, 2.4.1, 5.1).
- (iii) Project outcome benefits from adequate preparatory work, which should include a pre-appraisal mission as is the case with the present LOC (para. 2.3.1). Likewise, the outcome of the TAF grant was not as intended due to inadequate preparatory work (para. 3.1.2).

#### Recommendations:

- (iv) There should be supervision missions during disbursement as they would enable unforeseen operational problems to be identified and resolved promptly (para. 3.7.1).
- (v) In order to ensure the success of sub-projects promoted by emerging entrepreneurs, it is necessary that the appropriate utilization of a TAF grant must be ascertained before or alongside the utilization of the LOC earmarked for the purpose. Other sub-projects should not be affected by such conditions as was initially the case under this line of credit (para. 3.1.2)

- (vi) The currencies of disbursement should be agreed during loan negotiation so as to avert future delays arising from mismatches between Bank and borrower currency preferences (para. 3.2.1).
- (vii) The decision to cancel part of an approved loan should be taken promptly as delay is expensive to the borrower on account of continuing commitment charges. This implies that the problems that might lead to cancellation should be identified and decided early (para. 3.2.2).

### 7.3 Follow-up Action

7.3.1 Regarding GOZ and ZDB, follow-up actions suggested by the findings of the mission are as indicated below:

- (i) ZDB should identify and publicize what it requires to be able to play a more effective development role in future;
- (ii) GOZ should take a decision on the desired future role of ZDB in the financial sector;

7.3.2 Follow-up actions by the Bank should include the following:

- (i) The Bank should ensure that the balance of the TAF grant is used fully and in accordance with its intended purpose; the deadline for utilization should be extended, if necessary;
- (ii) The Bank should identify the causes of the shortcoming of supervision missions in general and those relating to disbursement in particular, and address them decisively.

**ZIMBABWE:PROJECT PERFORMANCE AUDIT - FIRST LINE OF CREDIT**  
**SELECTED ECONOMIC INDICATORS, 1991 - 1996**

	1991	1992	1993	1994	1995	1996
<b>Total Population (million)</b>	9.7	10.4	10.8	11.2	11.5	11.9
<b>National Income</b>						
GDP @ market prices (US\$ million)	6002	5625	5757	5970	6637	7433
Real GDP Growth (factor cost, %)	3.6	-6.8	4.2	5.3	-3.2	8.1
Per capita GDP (US\$)	616	540	534	535	576	624
Gross National Savings/GDP (%)	16.4	12.0	13.8	13.1	13.0	16.0
Gross National Investment/GDP (%)	25.5	27.0	19.2	18.4	18.5	18.2
<b>External Sector</b>						
Debt Service Ratio (%)	23.5	30.0	30.0	25.0	19.7	18.1
External Debt/GDP (%)	57.6	72.9	75.4	76.0	69.5	63.4
Reserves (months of imports)	2.1	2.0	4.1	3.3	4.2	3.8
Current Account Balance/GDP (%)	-9.1	-15.0	-5.4	-5.3	-5.5	-2.2
Overall Balance/GDP (%)	-2.1	-2.3	3.1	4.5	3.2	0.3

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Source: Reserve Bank of Zimbabwe

APPENDIX 2

ZIMBABWE: PROJECT PERFORMANCE AUDIT - FIRST LINE OF CREDIT TO ZDB  
RETROSPECTIVE LOGICAL FRAMEWORK MATRIX

COUNTRY : ZIMBABWE  
 PROJECT : IST LOC TO ZDB  
 DATE OF PCR : JUNE 1994  
 DATE OF IPPAR : APRIL 1997  
 EVALUATION TEAM : G. YIRGA-HALL and G. OKURUME

NARRATIVE SUMMARY	OBSERVABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS & RISKS
<b>GOALS</b> 1.1. Bring about sustainable higher economic growth rates;	1.1.1 contribution to GDP; 1.1.2 new jobs created; 1.1.3 a sustainable industrial sector.	-Appraisal report; - Ministry of Industry and Reserve Bank of Zimbabwe reports; -ZDB and sub-project reports	-No major risk envisaged Remark: This holds true since the foreign exchange risk was born by the Government.
<b>OBJECTIVES</b> 2.1. Rehabilitate, modernize and expand existing enterprises; 2.2. Promote entrepreneurial development	2.1.1 Trend of ZDB portfolio; 2.1.2 Sub-projects financed; 2.1.3 Amount of assistance to emerging entrepreneurs.	-ZDB reports; -supervision missions; -PCR mission.	-enabling macroeconomic environment; -stable import prices; Remark: The situation has changed following liberalization of the economy
<b>OUTPUT</b> 3.1. Sub-projects implemented; 3.2. Emerging entrepreneurs assisted Remark: This was not realized as planned)	3.1.1 Size, composition and trend of ZDB portfolio; 3.1.2 Number of emerging entrepreneurs assisted	-ZDB reports; -supervision missions; -PCR mission.	-local currency financing available; -efficient market outlets.
<b>INPUTS</b> 4.1. Amount of foreign exchange mobilized; 4.2. Foreign exchange disbursed to sub-projects; 4.3. Assistance to emerging entrepreneurs Remark: This assistance was not provided as planned	4.1.1 ADB financing (UA million) LOC: Appraisal: 10.0 Actual: 7.9 TAF Grant: Appraisal: 0.461 Actual: still being used.	-Progress reports; -financial/ disbursement statements	-efficient suppliers and contractors; -timely disbursement by ADB and ZDB. Remark: It was reported that some delays in disbursement occurred during implementation

ZIMBABWE:PROJECT PERFORMANCE AUDIT - FIRST LINE OF CREDIT  
IMPLEMENTATION PERFORMANCE RATING

No.	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1.	Adherence to time schedule	2	TAF grant came into use very late and remains largely unused.
2.	Adherence to cost schedule	3	No cost overrun problems arose at any level in the use of the LOC.
3.	Compliance with covenants	3	Cross-effectiveness had to be removed to facilitate the use of the LOC.
4.	Adequacy of supervision & reporting	3	No problem was reported regarding the use of the LOC; but appropriate periodic reporting is needed for the use of TAF Grant.
5.	Satisfactory operations	3	Problems only with the few green-field projects
	Overall assessment of implementation performance	2.80	Satisfactory

ZIMBABWE:PROJECT PERFORMANCE AUDIT - FIRST LINE OF CREDIT  
BANK PERFORMANCE RATING

No.	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1.	At identification	3	Bank was fully involved regarding the LOC; but the need for the TAF Grant seems to be introduced at late stage.
2.	At preparation of project	3	Bank was fully involved regarding the LOC; but the mechanism of utilization of the TAF Grant did not seem to have been well prepared.
3.	At appraisal	3	Project rationale should have been more realistic and should not have linked the LOC and the TAF Grant for effectiveness and utilization.
4.	At supervision	1	No missions during disbursement and later missions were ineffective.
	Overall Assessment of Bank Performance	2.50	Satisfactory

ZIMBABWE:PROJECT PERFORMANCE AUDIT - FIRST LINE OF CREDIT  
PROJECT OUTCOME

No.	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1.	<b>Relevance and Achievement of Objectives</b>	<b>3.33</b>	The primary objective of providing foreign exchange to on-going enterprises has been achieved; but the objective of the TAF Grant has not been achieved
i.	Macroeconomic Policy	4	Supportive of industrial sector and sustainable.
ii.	Sector Policy	4	Fully consistent with national development goals.
iii.	Financial	3	Adequate provision made.
iv.	Poverty Alleviation & Social and Gender	3	Have contributed to save several jobs.
v.	Environmental	3	Environmental issues were incidental.
vi.	Private Sector Development	3	Positive but the intended assistance to emerging entrepreneurs was not realized fully.
2.	<b>Institutional Development</b>	<b>3.67</b>	ZDB is a well organized and effective institution
i.	Institutional framework	4	well established and sound.
ii.	Financial and MIS	4	Effective for much of its current needs.
iii.	Staffing by qualified persons and Training	3	Qualified personnel sustained through training.
3.	<b>Sustainability</b>	<b>2.88</b>	This is achieved due to ZDB's capability to compete with the other financial institutions; however, it needs to raise concessionary financing to effectively play its development role.
i.	Continued Borrower commitment	3	ZDB is committed to continue to provide its services to the public but its development effort needs more commitment.
ii.	Policy Environment	3	has continued to be enabling and stable for established enterprises; but appropriate environment should be provided for emerging businesses.

iii.	Institutional Framework	3	Sustainable as it has evolved in response to the financial market environment; but its sustainability as a development bank is doubtful if not assisted through concessionary financing and other means.
iv.	Technical Viability & Staffing	4	Sustainable as appropriate training and incentives are provided
v.	Financial Viability	4	Sustainable as it is capable of competing in the financial market.
vi.	Economic Viability	3	more effort is required to play its development role and assisting emerging enterprise.
vii.	Environmental Viability	3	Sustainable as awareness exist.
viii.	O & M facilitation (availability of recurrent funding, foreign exchange)	3	Sustainable as ZDB's resource mobilization and debt collection efforts are remarkable. But more effort is required to raise concessionary financing to assist emerging businesses.
4	<b>Economic Internal Rate Return</b>	1	No rate of return was calculated at Appraisal and PCR; and was not possible to determine it for this PPAR due to lack of historical data on sub-projects
	<b>Overall Assessment of Outcome</b>	<b>2.75</b>	<b>Satisfactory</b>

ZIMBABWE:PROJECT PERFORMANCE AUDIT - FIRST LINE OF CREDIT  
RECOMMENDATIONS AND FOLLOW-UP MATRIX

MAIN FINDINGS & CONCLUSIONS	RECOMMENDATIONS	FOLLOW-UP ACTIONS	RESPONSIBILITY
<p><b>Formulation &amp; Project Rationale</b> 1. Project rationale had linked unrelated objectives.</p>	<p>1.1 Project rationale should be well formulated to avoid non-compatible objectives and conditionalities.</p>	<p>1.1.1 Ensure that future LOCs are well formulated to address to priorities.</p>	<p>ADB (Operations Departments)</p>
<p><b>Project Implementation</b> 2. Delays in disbursement and reimbursement as well as lack of effective supervision have been reported.</p>	<p>2.1 Projects should be visited and issues effectively resolved during implementation.</p>	<p>2.1.1 Ensure that supervision missions are conducted and issues are resolved on time.  2.1.2 Assess the causes of supervision shortcomings in the up-coming Study on the Review of the Supervision Process.</p>	<p>ADB (Operations Departments) ADB (OPEV)</p>
<p><b>Compliance with Loan Conditions &amp; Covenants</b> 3. Conditionalities had to be revised in order to de-link the utilization of LOC and the TAF Grant.</p>	<p>3.1 Conditionalities should be relevant and achievable.</p>	<p>3.1.1 Ensure that future LOCs are subjected to relevant and achievable conditions.</p>	<p>ADB (Operations Departments)</p>

<p><b>Performance Evaluation &amp; Project Outcome</b></p> <p>4. (a) Performance and outcome were highly satisfactory as the LOC met the primary objective.</p> <p>Under the circumstance the role of GOZ in giving ZDB and sub-projects an enabling environment, notably by absorbing the foreign exchange risk of LOCs, should be emulated. Similarly for ZDB's close relationship with sub-projects.</p> <p>(b) It appears that the TAF Grant was included with the LOC without appropriate preparatory work and mechanism to utilize it.</p>	<p>4.1 (a) Appropriate risk sharing formula must be developed to protect promoters at times of drastic economic policy changes imposed by Government.</p> <p>(b) Adequate preparatory work is required prior to including TAF grant for entrepreneurship development or institutional building.</p>	<p>4.1.1 (a1) Continue to ensure that sub-projects are adequately assisted to cope with the transitional effects of fundamental policy changes.</p> <p>(a2) See to it that future Impact Assessment Studies on LOCs come up with appropriate solution relating to risks resulting from drastic policy changes.</p> <p>(b1) Ensure that the TAF Grant is used for the intended purposes.</p> <p>(b2) Ensure that such future assistance are well prepared.</p>	<p>GOZ and ZDB ADB (OPEV) ADB (Operations Department) (ADB (Operations Departments)</p>
<p><b>Sustainability</b></p> <p>5. ZDB has become competitive to successfully sustain its operations in the exiting competitive financial markets. However its assistance to emerging <del>businesses is rather compromised due to</del> the costly nature of such assistance. The sustainability of its development role is therefore likely to be in danger.</p>	<p>5.1 ZDB should be assisted through concessionary financing and other appropriate facilities in order to provide the required attention and care to small and medium scale enterprises and emerging entrepreneurs.</p>	<p>5.1.1 ZDB's requirements for a greater development role should be identified and supplied.</p>	<p>GOZ, ZDB, ADB</p>