

AFRICAN DEVELOPMENT BANK GROUP



PROPOSAL TO STRENGTHEN BANK PRESENCE IN ZIMBABWE

REGIONAL DEPARTMENT SOUTH 1 (ORSA)

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ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
AWF	African Water Facility
COMESA	Common Market for Eastern and Southern Africa
FSF	Fragile States Facility
IFI	International Financial Institution
IG	Inclusive Government
MDTF	Multi-Donor Trust Fund
MIC	Middle Income Country
MMU	Zim-Fund Management Unit
ORSA	Operations, Region South A
RMC	Regional Member Countries
SADC	Southern African Development Cooperation
SAPP	South African Power Pool
SRF	Special Relief Fund
Zim-Fund	Zimbabwe Multi-Donor Trust Fund
ZWFO	Zimbabwe Field Office

EXECUTIVE SUMMARY

1. This proposal recommends, for Board consideration and approval, the strengthening of the Bank's presence in Zimbabwe by reestablishing the Zimbabwe Field Office (ZWFO). Up to the early 1990s, the Bank operated country offices in a number of Regional Member Countries (RMCs), including Zimbabwe. The Zimbabwe Office was closed down in 1994 as part of the Bank's internal reorganization.

2. At the request of the Zimbabwe Inclusive Government, and with support of the international community, the African Development Bank has been playing a lead role in assisting and advising on re-engagement with the international community and supporting the country's economic recovery. Since March 2009, the Bank has had an extended mission in Harare, which has enabled it to exercise leadership in the reengagement and recovery process with both the Government and the donor community. The Bank has also been providing capacity building support to the Government through the Fragile States Facility (FSF) and has been instrumental in organizing high level debt forums with the aim of building consensus among various stakeholders on the way forward for addressing the country's debt. Recently, the Board approved the establishment of a Zimbabwe Multi-Donor Trust Fund (Zim-Fund) in response to a request by donors in Zimbabwe. The absence of field presence in Zimbabwe has constrained the Bank's ability to effectively assume its role in supporting the country's re-engagement with the international community.

3. Management proposes to strengthen field presence in Zimbabwe to enable the Bank to play a lead role in the country's recovery and reengagement. Field presence in Zimbabwe will enable the Bank to:

- (i) be part of the collective donors dialogue in the country and to provide advice and support to the Inclusive Government;
- (ii) administer the Zim-Fund, which was approved by the Board on 31st May 2010;
- (iii) engage in analytical work and policy advice to the Government of Zimbabwe to ensure that it continues on the path of reforms and re-engagement with the international community

4. The Field Office which will operate under the Director of Regional Department South 1 (ORSA) will initially have a staff complement of two (2) international staff and two (2) local support staff. The Zim-Fund Management Unit will have six (6) international staff and five (5) locally recruited support staff. The ZWFO staffing configuration will be revisited once the country's relationship with the Bank is normalized.

5. For an immediate presence on the ground, ZWFO will initially be located in temporary shared premises before moving to its own premises.¹ It is estimated that the cost of strengthening ZWFO would amount to about UA 1, 122,550 in 2010 and UA 2, 027, 446 in 2011. In 2010, the

¹The process of identifying a temporary location is underway and it is expected that ZWFO will be in temporary offices until 30 June 2011.

Bank will directly incur UA 559,692 while UA 562, 858 will be from the Zim-Fund (see details in annex II). The expenses for 2011 will be included in the Bank Group budget for 2011.

6. The Board is invited to approve the strengthening of the Zimbabwe Field Office.

1. INTRODUCTION

1.1 This proposal recommends, for Board consideration and approval, the strengthening of Bank presence in Zimbabwe by reestablishing the Zimbabwe Field Office (ZWFO). Up to the early 1990s, the Bank operated country offices in a number of Regional Member Countries (RMCs), including Zimbabwe. The Zimbabwe Office was closed in 1994 as part of the Bank's internal reorganization.

1.2 Shortly after its formation in February 2009, the Inclusive Government (IG), with the backing of Southern African Development Community (SADC), requested the Bank to take a lead role in assisting Zimbabwe on re-engagement with the international community. The request came soon after the country's prolonged economic and political crisis, which posed serious threat to peace and stability in Zimbabwe and the region. As a premier African development institution, the Bank is well placed to take up this challenge, as well as provide knowledge and advisory services necessary for economic recovery and sustained development. However, the absence of field presence in Zimbabwe has constrained the Bank's ability to effectively assume its role in supporting the country's re-engagement with the international community and recovery. Accordingly, Management proposes the strengthening of ZWFO in order for it to play the expected role.

1.3 This proposal is organized as follows. Section 2 provides the rationale for strengthening ZWFO; examines the strengths and opportunities, as well as the challenges to be addressed in the strengthening of the office, and proposes the sequencing of events and staffing. The conclusions and recommendations are presented in section 3.

2. STRENGTHENING THE ZIMBABWE FIELD OFFICE

2.1 RATIONALE

2.1.1 The rationale for strengthening the Field Office in Zimbabwe is threefold. *First*, to be part of the collective dialogue in the country and to provide advice and support to the Inclusive Government to reengage with the international community, the Bank needs an appropriate presence in Zimbabwe. Since March 2009, the Bank has had a team of staff in Harare as an extended mission to facilitate dialogue with the IG and the international community. This has enabled the Bank to exercise leadership in the re-engagement process by engaging with both the government and development partners, as well as civil society and the private sector. Besides coordinating important meetings as part of the Bank's leadership in the re-engagement process, the extended mission is also coordinating the Banks' capacity building support from the Fragile States Facility (FSF). Although the extended mission has filled an important gap in the Bank's reengagement with Zimbabwe, its current set-up and structure is not ideal for increased Bank involvement in the country.

2.1.2 Second, in the context of the Bank's leadership role in Zimbabwe, on 31 May 2010, the Board approved the proposal for the Bank to manage the Zim-Fund (see Box 1). This was in response to a request by the "Fishmongers" group of donors in Zimbabwe for the Bank to take over the management of the Multi-Donor Trust Fund (MDTF) from the World Bank. This is a demonstration of the confidence many development partners have in the Bank with respect to the leadership role it is playing in the re-engagement process. The Zim-Fund could go a long way towards mobilizing resources required to rehabilitate critical infrastructure, especially in the power and water sectors. In order for the Bank to effectively manage the Zim-Fund, the Bank needs to strengthen its presence on the ground. In the absence of an immediate presence in the country, the Bank faces a reputational risk to deliver on the Zim-Fund mandate.

2.1.3 Third, to facilitate the process of re-engagement with donors, the Bank will need a strong presence on the ground to provide timely and credible advice and assistance to the Government on aid and arrears clearance issues. This in turn requires a strong program of analytical work. To build much needed consensus on arrears clearance and normalization of financial relations with International Financial Institutions (IFIs), the Bank as part of its knowledge work, produced the *Zimbabwe Re-engagement Framework Report* outlining various options for arrears clearance. To further strengthen its leadership in infrastructure, the Bank has initiated work on a flagship analytical work in the sector. In addition, the Government and development partners are collaborating on a number of exercises to assess fiduciary weaknesses and risks with a view to setting out and agreeing on mitigating measures that can form part of Government owned reform program. These will lay the foundation for increased donor activity in the country in the near future. Enhancing the Bank's presence in the country will provide a significant step forward for Bank's participation in important analytical and advisory initiatives.

2.1.4 The need to strengthen Bank presence in Zimbabwe was recognized by a fourteen-member delegation of the Board of Directors following their visit to Zimbabwe in February 2010. The Board Members recommended to Management to strengthen the Bank's presence in Harare to take over from the extended mission². In their report, the Executive Directors emphasized the importance of an enhanced presence by the Bank in Harare to enable it to effectively play its privileged role as honest broker in addition to the advisory and capacity building functions.

² Zimbabwe- Report on Boards' consultative mission ADF/BD/IF/201/78

Box 1: The Zimbabwe Multi-Donor Trust Fund (Zim-Fund)

The proposal for the establishment of the Zimbabwe Multi-Donor Trust Fund (Zim-Fund) was approved by the Board on the 31st May 2010. The purpose of the Zim-Fund is to contribute to early recovery and development efforts in Zimbabwe by mobilizing donor resources and promoting donor coordination. The Bank will be the administrator of the Fund. The rationale for the Bank to manage the Zim-Fund, as requested by donors, is provided by the strategy for enhanced engagement in fragile states and the operational guidelines for the FSF which were approved by the Board in 2008. The Bank will not be a donor to the Zim-Fund.

The administration of the fund would be in accordance with African Development Bank Policies and Procedures and it would become operational once contributions reach US \$40 million. Priority sectors of intervention are power and water.

A one-tier governance structure is proposed for the Zim-Fund: a Program Oversight Committee (POC) supported by a Zim-Fund Management Unit (MMU) based in Harare. The POC will have representatives of both donors and government and is responsible for the overall strategic direction of the fund. In its role as Zim-Fund administrator, the Bank's responsibilities would include: overall management of funds; preparation and supervision of projects ; and establishment of the MMU. The Bank would recover the full cost of administering the Zim-Fund in accordance with the Bank's Policy. The Zim-Fund shall be effective for a period of five years from its effective date, with a possibility of extension at the request of the Government of Zimbabwe and by mutual agreement of the Bank and at least two donors.

2.2 STRENGTHS AND OPPORTUNITIES

2.2.1. *Promoting Regional Integration.* Zimbabwe is an influential country in the Southern Africa region and its poor economic and political performance has spillover effects on the region. The country's strategic location within SADC is such that its stability is imperative for the development of the region. With its strong natural resource base, literate population, tourist attractions, a relatively strong private sector and a manufacturing base, Zimbabwe can be a strong base of diversified development for the region. Therefore the strengthening of its economy will have a significant effect on the region as a whole. Zimbabwe is also an active member of SADC and the Common Market of Eastern and Southern Africa (COMESA). Given the Bank's focus on promoting regional integration, a field office in Harare would play a key role in facilitating regional projects in collaboration with the Bank's Regional Integration Department and sector departments, as well as other actors on the ground. The location of Zimbabwe in the center of southern Africa puts it in a position to serve as the land-bridge connecting South Africa and Zambia, DRC, Malawi and East Africa. Zimbabwe is also an important participant in the Southern Africa Power Pool (SAPP) with links to and between neighboring countries, South Africa, Mozambique, Zambia, Namibia, Botswana, and the DRC.

2.2.2 Knowledge Work. Within the context of the Bank's lead role in assisting and advising on re-engagement with the international community, the Government has requested Bank's technical expertise and knowledge services to orientate the economy on a more productive and sustainable growth path. For this reason, the Bank is deepening and broadening its analytical knowledge base, which has been depleted during the decade-long economic and political crisis, by undertaking economic and sector work in areas critical for enhancing competitiveness and public sector effectiveness. As part of support to the reengagement process, the Bank has been carrying out, in close consultation with the Government and the donor community, analytical work on arrears clearance and has been deepening intelligence on the country's macro and micro foundations. As already indicated in 2.1.3, the Bank is also currently engaged in the preparation a flagship report on infrastructure and analysis of growth patterns to provide the basis for future interventions post arrears clearance.

2.3 CHALLENGES

2.3.1 Re-engaging Zimbabwe with the International Community. The country has been isolated from much of the international community, including International Financial Institutions (IFIs), and will need support to re-engage. This isolation is unsustainable given the important role the international community can play in reversing the economic deterioration and bring to a halt the sharply increasing poverty levels. Emerging from a long-drawn out crisis, the Government does not have the resources required for a full recovery and sustained growth. Early action on arrears clearance is required to pave the way for a sustained and broad-based recovery. Lack of progress on arrears clearance will constrain public spending on economic and social programs and risks further increasing poverty levels. Strong support for a fast recovery could lead to a large peace dividend and help strengthen political stability in the country. The support of the international community, including the Bank, is thus imperative. However, because of concerns about governance and the country's arrears with IFIs, the level of donor support to the country's economic recovery remains limited, and focused largely on humanitarian assistance.

2.3.2 Consistent with the expressed desire of SADC, the Bank is assisting the Government to re-engage with the international community. As already indicated, the Bank has since March 2009 maintained an extended mission in the country to spearhead dialogue in the re-engagement process with Zimbabwe. As a lead agency, the Bank is expected to play advisory and capacity building functions, all of which require an appropriate presence in the country. As the re-engagement matures, the Bank is expected to play a greater role in the coordination and implementation of investments, initially through the Zim-Fund and eventually through FSF's Pillar I resources under Supplemental Support Window once an arrears clearance plan is agreed upon between the Government and the Bank. To undertake such responsibilities, the Bank will need to strengthen significantly its presence on the ground.

2.3.3 Arrears Clearance. A major challenge in Zimbabwe is the unsustainable external debt burden, including arrears, which impedes new donor assistance. Early action on arrears clearance is required to pave the way for broad based recovery and sustained economic growth. As part of its efforts, the Bank has been working with the authorities to re-engage with IFIs and prepare an arrears clearance and debt relief strategy. At the invitation of the Government of Zimbabwe, the Bank facilitated and supported two High Level Debt Forums in Harare in February and March 2010, with the aim of building consensus among various stakeholders on the way forward for addressing the country's debt overhang arrears. The Government has approved a 'home-grown hybrid' debt resolution strategy that combines elements of traditional debt initiatives and mineral resource pledging. Given the complex and sensitive nature of issues surrounding arrears clearance and the country's reengagement with the international community, the Bank as a lead agency, must be present on the ground to engage with diverse stakeholders including the three arms of the Inclusive Government, donors, the private sector, civil society, IFIs and regional entities.

2.3.4 Preparing for Proper Implementation of Bank Projects. The AfDB suspended operations in Zimbabwe in 2002 because of accumulation of arrears to the Bank. Re-engagement began in 2009 with an allocation of US\$6 million from the Fragile States Facility (FSF), Euro 2 million from the African Water Facility, and US\$3 million from the Special Relief Fund of the Bank. As mentioned previously, the Bank closed its office in xxx. Because of our long absence from the country and the types of limited interventions that we have undertaken, Zimbabwe has limited understanding of Bank rules and procedures and no recent experience in preparing and implementing Bank operations. This could lead to delays in project implementation once Bank operations are scaled up in the country- the strengthening of the country office in Harare would assist with preparing the ground work for proper implementation of Bank projects.

2.4 THE PROPOSAL FOR STRENGTHENING ZWFO

2.4.1 On the strength of the rationale highlighted in section 2.1 above, Management proposes to strengthen our office in Harare, Zimbabwe. The Field Office will operate under the Regional Department, South 1 (ORSA).

Sequencing

2.4.2 The key milestones for the sequence of the strengthening of ZWFO are presented in Table1 below. For an immediate presence on the ground, Management proposes that the Bank initially locate in temporary shared premises while searching for its own offices.

Table 1: Strengthening of ZWFO - Key Milestones

Activity	Date/Period				
Presentation of Proposal to the Board	July 2010				
Negotiation of Host Country Agreement		Aug-Sep 2010			
Signing of Host Country Agreement			Sep 2010		
Deployment of International Staff				Sep-Nov 2010	
Relocation to permanent Bank premises					July 2011

Staffing of ZWFO

2.4.3 Management proposes a level of staffing and skill mix that is consistent with the Bank's immediate priorities; enhanced dialogue, re-engagement, arrears clearance and expeditious execution of projects under the Zim-Fund. Staffing will be accomplished with a combination of internal staff transfers and international/local recruitment. The initial staffing of ZWFO would consist of two (2) international staff and two (2) locally hired short term support staff. The Zim-Fund Management Unit will comprise of six (6) international staff and five (5) locally-hired short-term support staff. Employment related expenses for staff attached to the Zim-Fund Management Unit will be paid from Zim-Fund resources. The initial proposal of the international and locally recruited staff of ZWFO is shown in Table 2 below.

2.4.4 Under the supervision of the Regional Director, the Resident Representative will be the official representative of the Bank in Zimbabwe and will facilitate contacts between the Bank, Government, the donor community and other stakeholders. The Resident Representative will also be charged with the day-to-day functioning of the Field Office. On the other hand, the Head of the Zim-Fund Unit will be responsible for the implementation of the Fund and will report directly to the Vice President, ORVP.

Table 2: Proposed Staffing for ZWFO

International Staff	Staff No.	Local Staff	Staff No.
Bank			
Resident Representative	1	Secretary- ResRep	1
Country Economist	1	Driver- Res Rep	1
Zim-Fund Staff			
Head of Zim-Fund Unit	1	Team Assistant	1
Sector experts	2	Secretary	1
Procurement Specialist	1	Driver	2
Accountant/Disbursement Officer	1	Office Assistant/Messenger	1
Country Program Officer	1		

2.4.5 The proposed staff complement for ZWFO reflects the fact that, in the initial years and until the country normalizes its relationship with the Bank and the international community, focus will be on capacity building support through the FSF and interventions through the Zim-Fund. The staffing profile will change in the coming years as the situation on the ground changes and the portfolio of the Bank changes with arrears clearance. Such changes will be reflected in the Bank Group overall budget for 2011 and subsequent years. It should be highlighted that to date, most development partners in Zimbabwe have continued to maintain relatively strong presence in Zimbabwe in spite of their reduced level of development assistance to the country. Table 3 shows the current staff complement of selected development partners with a field presence in Zimbabwe.

Table 3: Comparative Staffing Profiles

Institution	International Staff	Local staff	Total
World Bank	4	20	24
UNDP	8	70	78
USAID	14	66	80
AusAid	2	3	5

Cost Estimates and Overall Budget

2.4.6 In line with the sequencing of actions for the strengthening of ZWFO outlined in 2.3.2 above, two separate budgets are being proposed for 2010 and 2011. The 2010 budget will comprise expenses related to the temporary location in shared premises and staff related costs, while the 2011 budget will include additional costs related to relocation to Bank's own premises besides staff and general expenses. The details of the budget are presented in Annex II. It is estimated that the initial costs of ZWFO will be UA 1, 122,550 in 2010 and UA 2, 027,446 in 2011. The total sum of UA 1,122,550 for 2010 is made up of an initial one-off start up investment of UA 630,400, operating expenses of UA 72, 074 and staff costs of UA 420, 076. Of this total, the Bank will directly incur UA 559, 692 and UA 562, 858 will be charged to the Zim-Fund. The sharing of the general expenses will be recalculated once the Zim-Fund is operational. The Bank related expenses will be fully accommodated within the Bank approved budget for 2010 while those for 2011 will be included in the Bank Group overall budget for 2011. It is worth noting that since March 2009 the extended mission has incurred costs estimated at UA 566, 294.

3. CONCLUSIONS AND RECOMMENDATIONS

3.1 Conclusions

3.1.1 The proposal to strengthen the Field Office in Zimbabwe is in line with the current decentralization policy of the Bank which authorizes Management to open representative offices in selected RMCs. It is consistent with recommendations of the Zimbabwe Country Brief which

was approved by the Board on 15 February 2010. It is also in line with Board members recommendation to Management following their mission to Harare in February 2010.

3.1.2 A strengthened field office in Zimbabwe will greatly enhance the Bank's capacity to play a lead role in the collective dialogue in Zimbabwe and to provide advice and support to the Inclusive Government to ensure that Zimbabwe continues on the path of reforms and reengagement with the international community. The office will also facilitate the delivery of the Multi-Donor Trust Fund, the Zim-Fund, which was approved by the Board on 31 May 2010.

3.2 Recommendations

3.2.1 Management invites the Board of Directors to approve the strengthening of the field office in Harare, Zimbabwe on the terms and conditions as set out herein.

Annex I: Bank Program for Zimbabwe (2009-2010)

Theme/Type of Activity	Description/Objective	Amount (US\$)	Window
Capacity Building Activities			
Water and Sanitation	To support rehabilitation of critical water and sanitation infrastructure	3,200,000	AWF
Debt Management and Arrears clearance	<ul style="list-style-type: none"> - Support of Debt Sustainability Management workshops - Establish a Debt Management Office (DMO) 	1,055,397	FSF
Infrastructure	<ul style="list-style-type: none"> - Infrastructure scoping missions, road conditions surveys, infrastructure needs assessments - Infrastructure Flagship report and infrastructure report 	700.000 JPY 14,033,200	FSF/ Japanese grant
Statistics capacity	Support to the Statistical Office	925,629	FSF
Public Financial management	Purchase of computers and network to for the Public Financial Management System (PFMS)	2,784,029	FSF
Emergency Relief			
Emergency Relief	<ul style="list-style-type: none"> - Humanitarian assistance for the provisioning of agricultural inputs & extension services for vulnerable smallholder farmers. - Humanitarian assistance to support efforts to prevent and contain further spread of cholera 	3,000,000.00	SRF

Annex II: Budget for Strengthening the Zimbabwe Field Office (ZWFO) – 2010-11

(A) Initial One-off Investments			
	UA	Annual Expenditure	
		2010	2011*
Capital Investment			
1. Civil Works	200,000	50,000	150,000
2. Technical Installations	100,000		100,000
3. Furniture	100,000	63,000	37,000
4. Technical equipment	48,000	29,400	18,600
5. Vehicles	70,000	70,000	
6. IT and Telecom	173,000	50,000	123,000
7. Security Installation (CCTV, alarm, access control and security enhancement)	78,000	8,000	70,000
8. Resettlement + Installation allowance (BANK)	90,000	90,000	
9. Resettlement + Installation allowance (Zim-Fund)	270,000	270,000	
Total (A)	1,129,000	630,400	498,600
(B) Other expenses (Annual Operating Expenses)			
1. Accommodation (660 m2 at 8.0UA/m2/month)	89,760	26,400	63,360
2. Utilities Office (Water, security)	21,552	7,174	14,378
3. Regular maintenance (Genset, elevators, cleaning, etc.)	112,000	12,000	100,000
4. Security Guard	60,000	10,000	50,000
5. VSAT and IT equipment maintenance	17,380	7,500	9,880
6. Printing, publishing and reproduction	10,000	3,000	7,000
7. Office supplies and stationery	10,000	3,000	7,000
8. Other miscellaneous expenses	20,000	3,000	17,000
Total (B)	340,692	72,074	268,618
(C) Staff Cost			
Bank Staff			
1. Salaries		62,791	188,373
2. Benefits		34,960	104,880
3. Other Employee Expenses		22,800	68,400
4. Staff training		6,667	20,000
<i>Sub-total: Bank Staff</i>		127,218	381,653
Zim-Fund Staff			
1. Salaries		147,570	442,711
2. Benefits		87,937	263,812
3. Other Employee Expenses		57,351	172,052
<i>Sub-total: Zim-Fund Staff</i>		292,858	878,575
Total (C)		420,076	1,260,228
Overall Total (A+B+C)		1,122,550	2,027,446
Overall Total - Bank		559,692	1,148,871
Overall Total - Zim-Fund		562,858	878,575

* These expenses will be included in the Bank Group overall budget for 2011.