

**ESTABLISHMENT OF A PROGRAMMATIC  
MULTI-DONOR TRUST FUND FOR ZIMBABWE**

**Southern Africa Country Department 2  
Africa Region**

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## ABBREVIATIONS AND ACRONYMS

A-MDTF	Analytical Multi-Donor Trust Fund
AfDB	African Development Bank
AIDS	Acquired Immuno-Deficiency Syndrome
BP	Bank Procedures
FMFA	Financial Management Framework Agreement
FPA	Fiduciary Principles Accord
GDP	Gross Domestic Product
GPA	Global Political Agreement
HIV	Human Immuno-Deficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
ISN	Interim Strategy Note
LICUS TF	Low Income Countries Under Stress Trust Fund
MDC	Movement for Democratic Change
M&E	Monitoring and Evaluation
NGO	Non-Governmental Organization
OP	Operational Policy
PCC	Program Coordination Committee
PFM	Public Financial Management
POC	Policy Oversight Committee
RBZ	Reserve Bank of Zimbabwe
SPF	State- and Peace- Building Fund
STERP	Short Term Emergency Recovery Programme
STERP-PSC	Program Steering Committee
STERP-TWG	Technical Working Group
STERP-SC	Steering Committee
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
ZANU-PF	Zimbabwe African National Union-Patriotic Front
ZERP	Zimbabwe Emergency Recovery Program
Zim-MDTF	Programmatic Multi-Donor Trust Fund for Zimbabwe

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# ESTABLISHMENT OF A PROGRAMMATIC MULTI-DONOR TRUST FUND FOR ZIMBABWE

## I. INTRODUCTION

1. On September 15, 2008, a Global Political Agreement (GPA) was signed between the ruling Zimbabwe African National Union-Patriotic Front (ZANU-PF) and the two arms of the opposition, Movement for Democratic Change (MDC). Five months later a government inclusive of these three parties was formed with the swearing in of Mr. Morgan Tsvangirai as Prime Minister on February 11, 2009, and of a new Cabinet on February 13, 2009.

2. Following the GPA, the Bank was requested in October 2008, to start preparing a multi-donor trust fund for Zimbabwe (Zim-MDTF) as a follow-up to the on-going Analytical MDTF (A-MDTF). Since then, numerous consultations have been held on the Zim-MDTF framework with donor and UN partners, and since March 2009, with the government. The Bank has now been asked to set up the Zim-MDTF so that it can be ready to channel support for recovery and development activities as and when warranted.

3. The Zim-MDTF builds on the Accra Agenda for Action and the Paris Declaration on Aid Effectiveness and has been developed in the context of the *Partnership Framework for Crisis and Post-Crisis Situations* between the United Nations and the World Bank.<sup>1</sup> It is based on the recognition that strengthened collaboration between the United Nations Development Group and the World Bank is critical for increasing both the speed and the effectiveness of executing and implementing interventions to address priority crisis and post-crisis needs, and for enhancing opportunities for collaboration and support to national authorities to manage international assistance for crisis and post-crisis recovery.

4. The trust fund has been prepared in the context of the ongoing dialogue between the government and potential donors to the Zim-MDTF which is anchored in the *Principles for Good International Engagement in Fragile States and Situations* of the Organization for Economic Development and Cooperation, a process which in Zimbabwe is led by the European Commission.

5. *Purpose and structure of this paper.* This paper proposes the establishment of the programmatic multi-donor trust fund in support of Zimbabwe's recovery and development efforts, and describes the features of the programmatic trust fund. Since Zimbabwe has been in arrears to the Bank since 2000, Board approval is required for the

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<sup>1</sup> See *United Nations-World Bank Partnership Framework for Crisis and Post-Crisis Situations* and *United Nations Development Group-World Bank Post-Crisis Operational Annex*, both signed on October 24, 2008.

establishment of Bank-administered trust funds that would provide assistance to Zimbabwe.<sup>2</sup>

6. Following this introduction, Section II briefly reviews recent economic developments, summarizes donor engagement and coordination since the signing of the GPA, and outlines the rationale for Bank involvement. Sections III and IV set out the features and governance structure of the proposed trust fund. Section V discusses implementation modalities. The final two sections identify risks and mitigation measures and outline next steps.

## II. RECENT DEVELOPMENTS

### A. RECENT ECONOMIC DEVELOPMENTS

7. For the better part of the past decade, Zimbabwe remained in a prolonged and severe economic crisis, including a rapidly depreciating national currency along with an inflation rate that reached 231 million percent year-on-year in July 2008, and accelerated even further thereafter. Economic disruptions and a significant deterioration in the business climate led to a cumulative decline of the Gross Domestic Product (GDP) of over 40 percent during the period 2000-08. Frequent power and water cuts, deteriorating infrastructure, shortages of fuel, food, consumer goods and foreign exchange, and large-scale emigration of skilled workers contributed to sharp output declines in all sectors. As a result, poverty and unemployment have risen sharply.

8. There has been a severe decline in the provision of basic services, and the HIV/AIDS prevalence rate remains high at 16 percent. Cholera has been endemic in Zimbabwe since August 2008, with high fatality rates.<sup>3</sup> Poor water and sanitation have been a major factor, as well as the limited capacity of government to treat patients promptly. Moreover, Zimbabwe had a food deficit of about 1.2 million tons coming out of the 2007/08 cropping season.

9. The prolonged political crisis had a negative impact on governance systems at both national and local levels. Institutional and technical capacity has been severely eroded due to lack of resources, poor conditions of service and the brain drain that occurred at both central government and local authority levels. The rule of law, including the enforcement of contracts, an independent judiciary and respect for property rights, has been compromised. The decline in governance has contributed to the complex crisis that confronts Zimbabwe today. Sustainable recovery will very much depend on the extent to which once-functioning public management institutions are revived and the governance environment is improved. In recognition of these challenges, the government, through the GPA and the Short Term Emergency Recovery Programme (STERP, see below), has committed itself to observing the rule of law.

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<sup>2</sup> BP 14.40 (*Trust Funds*), paragraph 4, footnote 8 states that “Executive Directors approve any proposal for a Bank-administered trust fund where... [the Bank] would provide assistance ... to a member not in good standing with the Bank...”

<sup>3</sup> Though death rates have recently declined, as of May 2009, the cumulative death toll exceeded 4,200.

10. The new government presented a new budget to parliament on March 18, 2009 and launched the STERP a day later. The STERP is an “emergency short term stabilisation programme whose key goals are to stabilize the macro and micro-economy, recover high levels of savings, investment and growth, and lay the basis of a more transformative mid-term to long-term economic programme that will turn Zimbabwe into a progressive developmental State.”<sup>4</sup> Government further prioritized activities in early April 2009 in a 100 day plan which covers five clusters: economic, infrastructure, social, rights, and security.<sup>5</sup>

11. With the 2009 budget, the government introduced changes in its economic management, including the public financial management system. It formalized the use of multiple foreign currencies, adopted cash budgets, and liberalized the foreign exchange market. The government also halted all quasi-fiscal activities of the Reserve Bank of Zimbabwe which had been the main driver of monetary expansion and hyperinflation. As a result of these measures, inflation has dropped sharply.

12. The policy measures announced in the STERP and the 2009 budget are helping to improve the business environment and the confidence of the private sector. The US\$100 monthly allowance the new government is paying to civil servants has helped re-establish education and health services. During a rapid assessment of the public financial management system in March 2009, it was found that the computerized system needed to be reconfigured and strengthened in certain respects in order to support the current operational requirements of government<sup>6</sup>. The Bank has been requested by the Minister of Finance to provide urgent technical assistance to support the reconfiguration and strengthening of its Public Financial Management (PFM) system, and has already started to prepare for this.

## **B. DONOR ENGAGEMENT AND COORDINATION**

13. Following the signing of the GPA and the formation of the new government, the donor community met in Washington on March 20, 2009 to review the prevailing situation<sup>7</sup>. The group commended the reform efforts launched by the new government and the progress achieved to date, and indicated a willingness to provide recovery and

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<sup>4</sup> Government of Zimbabwe Short Term Economic Recovery Programme, March 2009. The STERP costing is estimated at US\$8.4 billion and covers the period March-December 2009. It is largely unfunded.

<sup>5</sup> The chair for each cluster is as follows: Economic Cluster: Ministry for Economic Planning and Investment Promotion; Social: Ministry of Local Government, Rural and Urban Development; Infrastructure: Ministry of Public Works; Rights: Ministry of Justice and Legal Affairs; and Security: Ministry of Defense.

<sup>6</sup> Key aspects of the PFM system that urgently require attention include the following: (i) the basic financial controls, accounting and reporting system for the Consolidated Revenue Fund need to be adjusted to accommodate the fundamental changes; and (ii) the system to receive, control and account for donor funds through the National Development Fund needs to be computerized using the existing SAP software.

<sup>7</sup> The meeting was attended by representatives from Australia, Canada, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States, the European Commission, the European Union Council Secretariat, African Development Bank, International Monetary Fund, United Nations and World Bank.

development support provided the government takes additional steps to demonstrate its commitment to reform<sup>8</sup>. At the same time large scale humanitarian assistance has continued, constituting 15-20 percent of GDP, and at the Washington meeting, the donor community agreed to continue support for humanitarian aid and enlarge the scope of its assistance.

14. For years, there was no active coordination forum of government and the donor community because of strained relations between them. Following its formation, the new government set up a *STERP Steering Committee* (STERP-SC) composed of representatives of government and international partners.<sup>9</sup> Its primary function is to harmonize efforts in support of Zimbabwe's recovery.

15. In addition to the STERP-SC, two government-donor coordinating bodies have been created. The *STERP Program Steering Committee* (STERP-PSC) supports the five Council of Ministers clusters and the quarterly meeting of Development partners with the Prime Minister. On the technical level, *STERP Technical Working Groups* (STERP-TWGs) convene on specific issues and programs and are responsible for situation analyses, policy discussions, and identification of priorities. The PSC monitors progress in implementation and reviews reports submitted by the technical working groups.

16. As for the donor community itself, there are both formal and informal coordinating bodies. For instance, the UN Resident Coordinator/Humanitarian Coordinator and a rotating donor co-chair monthly donor coordination meetings. Thematic group meetings also take place, especially in the health sector. The policy committee of the A-MDTF, which comprises all contributing partners<sup>10</sup> as well as the UN, helps to coordinate analytical and advisory activities supported by the donor community. This group has actively engaged in discussions on the design of the Zim-MDTF, and the African Development Bank (AfDB) has participated in A-MDTF discussions since its officials resumed visits to Harare in February 2009.

### C. RATIONALE FOR BANK INVOLVEMENT

17. Zimbabwe went into arrears with the Bank in 2000. Despite the curtailing of its various programs, the World Bank maintained its field presence, albeit with a reduced staffing, to continue information gathering and analysis, and consultations with the donor

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<sup>8</sup> That meeting's communiqué gave as examples of these steps: "the immediate release of all political prisoners, the end of farm seizures, the cessation of politically-motivated violence, the establishment of a credible and transparent Central Bank team, an end to harassment and intimidation of the media, and a commitment to credible elections in a timely manner".

<sup>9</sup> The membership of the STERP Steering Committee is currently made up of four government agencies: Ministry of Finance (chair), Office of the Prime Minister, Ministry of Planning and Investment Promotion, and Reserve Bank of Zimbabwe, and five representatives from Donor community (African Development Bank, Department for International Development, European Commission, United Nations Development Programme, and World Bank).

<sup>10</sup> Australia, Canada, Denmark, the European Commission, Germany, the Netherlands, Norway, Sweden, the United Kingdom, the United States, and the World Bank (through a LICUS Trust Fund grant).

community, in readiness for eventual re-engagement<sup>11</sup>. After a low-level dialogue in the ensuing years, the Bank prepared a one-year Interim Strategy Note (ISN) in August 2005, with the objective of closing knowledge gaps and facilitating dialogue. A second ISN covering FY08-09, which runs from July 2007 to June 2009, has strengthened Bank operational readiness to re-engage quickly in Zimbabwe when conditions warrant. Key outcomes for this second ISN have been enhanced country knowledge, improved capacity, and increased harmonization with the donor community. The Zim-MDTF has been designed within the context of the objectives of the ISN, which indicates that an MDTF framework would be prepared in readiness for activation when the time is deemed right.

18. In order to support the objectives and themes of the second ISN, the donor community and the Bank established the A-MDTF, the predecessor of the proposed Zim-MDTF, in mid-2008, to generate knowledge in priority areas, and to provide a forum for coordinated support for knowledge building.<sup>12</sup> So far, the donor community has contributed over US\$6.2 million, of which US\$3.7 million has been committed. Currently, sixteen studies are at different stages of preparation. Even though analytical activities could also be financed under the Zim-MDTF, its primary focus will be on financing investments in economic and social recovery as well as technical assistance. At the same time, the A-MDTF has been a central pillar of the Bank's current strategy for Zimbabwe and will, therefore, run parallel to the Zim-MDTF until its resources have been fully expended.

19. The A-MDTF has encountered various problems during the initial phase of implementation; progress has been slow, which has been due in part to limited availability of Bank staff on the ground. In addition, it took some time for all partners to work together smoothly, reach a common understanding of priority areas of focus, and approve proposed activities following the agreed procedure; and for Bank staff to process these activities internally.<sup>13</sup> The process has picked up momentum over the past several months due to increased Bank staff involvement, and the management of technical assistance requests is being contracted out to pre-identified consulting firms to further accelerate implementation.

20. The governing body of the A-MDTF asked the Technical Review Groups within the A-MDTF to prepare a draft Zimbabwe Emergency Recovery Program (ZERP). The draft document summarizes the status of knowledge and policy options in key areas to enhance knowledge among the donor community.<sup>14</sup> ZERP has provided a platform for dialogue among stakeholders around what challenges Zimbabwe faces and how they could be tackled. The ZERP was made available to government and non-government

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<sup>11</sup> The World Bank Harare Country Office has been functioning under a part-time Country Manager for the past five years, with 1-2 local technical staff and support staff. In the past year, it has added two international and two local technical staff.

<sup>12</sup> See *Zimbabwe – Interim Strategy Note FY08-09*, IDA/R2007-0082/3, April 12, 2007, paragraph 49.

<sup>13</sup> See paragraph 57(a) on how lessons from the A-MDTF have been incorporated into the design of the Zim-MDTF.

<sup>14</sup> The ZERP covered five broad areas, aligned with the themes of the A-MDTF: stabilization, social protection, infrastructure, agricultural recovery, and basic services.

stakeholders, including the government team working on STERP, to broaden discussions on the identification of immediate investment requirements.

21. The government and the international community have asked the Bank to prepare a broader programmatic MDTF which can support priority recovery activities once conditions warrant. Such a facility will play a critical role in coordinating the donor community's future development assistance, and in building capacity within Government after a long period in which donor programs have been executed independently of government systems. The proposed trust fund responds to this request, and has been endorsed by government, the donor community, and the UN both at meetings in Harare and at the March 20, 2009 meeting in Washington.

### III. THE MULTI-DONOR TRUST FUND FOR ZIMBABWE

22. The overall *objective* of the Zim-MDTF is to contribute to the recovery and development effort in Zimbabwe. The Zim-MDTF would also foster donor coordination. Critical to the achievement of these goals are: financial and technical support to activities that are consistent with the government's recovery priorities; mobilization of pooled donor resources based on a common understanding of the country's recovery needs, linked to effective coordination with other related activities funded outside the trust fund; and efficient monitoring and evaluation of outputs and impact. The Zim-MDTF draws on lessons learned from predecessor MDTFs, including A-MDTF (see Box 1).

23. *Flexibility* will be an essential element of the Zim-MDTF. It would be implemented in a dynamic environment, and priorities may shift over time. Activities would be grounded in the STERP and 100 day action plan in the short term. In the longer term, Zim-MDTF activities would be guided by a government-led national transition plan that would come out of any eventual joint needs assessment carried out by government and partners; such an assessment would determine the country's recovery and developmental needs for a transition period using existing global agreements for cooperation.<sup>15</sup>

24. Initial *areas of support* would include the provision of basic social services, infrastructure rehabilitation, social protection, agricultural recovery, and institution and capacity development (such as for public financial management). The UN system and the donor community have already been providing support in these areas, and the Zim-MDTF would build on these efforts.

25. The trust fund would follow the provisions of OP 8.00 (*Rapid Response to Crises and Emergencies*) and finance investment and technical assistance projects. These

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<sup>15</sup> See in particular, *Joint Declaration on Post-Crisis Assessments and Recovery Planning*, European Commission, United Nations Development Group, and World Bank, signed on September 2008.

projects would need to be included in the government's recovery or development programs and fall within the Bank's core competencies.<sup>16</sup>

#### Box 1. Lessons from Post-Crisis Multi-Donor Trust Funds

Multi-donor trust funds (MDTFs) are an integral part of many post-crisis transitions. They are intended to provide resources for recovery and reconstruction to the intended beneficiaries as efficiently and effectively as possible. MDTFs reduce transaction costs by achieving economies of scale in the administration, planning and overall management of the funds and by harmonizing rules and procedures for disbursing and using the funds. Other benefits of MDTFs include alignment of activities with national priorities and activities of other actors involved in the rehabilitation and reconstruction effort, improved coordination among development partners, resource mobilization, and risk sharing among development partners. Numerous lessons have been drawn from designing and implementing MDTFs over the past several years which have guided the preparation of the Zim-MDTF. Some of these lessons include the following.

- It is essential that complex MDTFs are managed by a dedicated secretariat with an adequate number of experienced staff with the right skills mix. The specialists need to be mobilized and deployed quickly and an operational manual should be prepared as soon as the design elements are clear to accelerate implementation start-up.
- MDTFs should seek a balance between quick-disbursing visible results activities and “invisible” policy and capacity-building activities. A shared understanding should be developed regarding the importance of investing early in fiduciary systems and capacity.
- A clear communications strategy needs to be implemented from the outset to inform government, development partners and the public at-large about the trust fund's objectives and accomplishments and to manage expectations about the time, scale and impact of implementation.
- Critical elements that must explicitly be taken into account include:
  - political milestones and associated risks (events mandated in peace agreement, planned or unforeseen leadership changes, election campaigns and votes, etc.);
  - operational issues both cross-cutting and project-specific (procurement, cash flow and financial management, contract management, monitoring and evaluation, arrangements for implementing agencies, monitoring agents);
  - existing capacity in country and adopting implementation arrangements based on the current situation on the ground; and
  - enabling environment for implementation (staff working conditions, communications strategies, office support, mechanisms for responsive support from headquarters).

26. The *size* of the Zim-MDTF would depend on development partners' willingness to contribute to it over time; it, thus, cannot be determined at this moment<sup>17</sup>. It is

<sup>16</sup> The Bank does not, for example, finance negotiations of peace accords, the organization of elections, peacekeeping operations, expenditures incurred by a recipient for military purposes, and the disarmament of combatants. It generally refrains from financing the construction and management of refugee camps, the provision of humanitarian aid (for instance, the distribution of food, medicine, water, and household utensils to refugees and internally displaced persons), search and rescue operations, and the evacuation or resettlement of displaced persons. See *Legal Opinion on Peace-Building, Security, and Relief Issues under the Bank's Policy Framework for Rapid Response to Crises and Emergencies*, March 22, 2007, and *Activities within World Bank Core Competencies in the Context of Crises and Emergencies: A Good Practice and Guidance Note*, Operational Policy and Country Services, August 14, 2008. For activities outside the Bank's mandate the UN may consider establishing a UN-administered window consistent with *United Nations Development Group-World Bank Post-Crisis Operational Annex*.

expected that the Zim-MDTF will initially finance mostly smaller-scale activities until larger sums are available<sup>18</sup>. In this regard, it should be noted that the Zim-MDTF is only one of the funding options available to development partners. This makes effective coordination and the tracking of aid flows by government that much more important. It also underlines the importance of donor coordination and harmonization to which the Zim-MDTF structure would contribute.

27. Individual grants financed out of the MDTF would be made for each project under grant agreements to be entered into between the Bank as administrator of the Zim-MDTF and the recipient concerned. *Recipients* of grants could include (a) Government of Zimbabwe, (b) UN agencies<sup>19</sup>; and (c) government-owned legal entities, and (d) non-government legal entities (including civil society organizations and the private sector), international organizations, international NGOs and other public or private entities acceptable to the Bank. In the long run, *government execution* is expected to be the norm for the trust fund as it seeks to maximize coherence with the broader recovery and reconstruction effort and (re-)build effective and transparent state capacity and institutions. However, when speed is of the essence and/or government capacity is insufficient, the Zim-MDTF would finance activities by *other recipients* upon request by the government. In all such situations, projects would incorporate appropriate capacity-building measures to enable a timely transfer of implementation responsibilities to government entities.

28. *Bank execution* of analytical and advisory activities could also be financed under the MDTF<sup>20</sup>. In exceptional circumstances, Bank execution on behalf of government would be allowed under the Zim-MDTF in accordance with the requirements of OP 8.00.

29. The preparation and implementation of projects financed under the Zim-MDTF would be guided by an *operational manual* developed by the Bank which would address procedures for, among others, project appraisal and approval, procurement, financial and progress reporting, accounting and auditing, safeguards, and monitoring and evaluation.<sup>21</sup>

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<sup>17</sup> It is expected that US\$1 million will be contributed to Zim-MDTF either through the LICUS TF or the State- and Peace-Building Fund.

<sup>18</sup> As discussed on paragraph 18, the A-MDTF will run in parallel focusing on activities already underway, until its resources have been expended. Depending on the appropriateness, new technical and advisory activities may shift to Zim-MDTF once it is up and running.

<sup>19</sup> UN Agencies which have signed the *Fiduciary Principles Accord (FPA)* among the World Bank Group and various United Nations Organizations (December, 2008), would receive grants under the framework created by the FPA. The FPA is a central element of the UN-WB Partnership Framework for Crisis and Post-Crisis Situations. It created a new model for cooperation and fiduciary assurance that is centered on shared principles, allowing each signatory to rely on its own fiduciary and safeguards policies and procedures. *World Bank and United Nations Fiduciary Principles Accord for Crisis and Emergency Situations*, September 19, 2008, SecM2008-0404. UN Agencies which have signed the Financial Management Framework Agreement (FMFA) dated March 10, 2006 (the framework agreed between the Bank and the UN that preceded the FPA), but have not yet signed the FPA, would receive grants following this earlier framework, which provide for the application of Bank procurement rules but the UN agency's financial management rules. UN agencies which have signed neither agreement would receive grants following the Bank's normal policies applicable to recipient-executed grants.

<sup>20</sup> Refer to Paragraph 18 regarding the implementation period of A-MDTF.

<sup>21</sup> Except for FPA grants, which would be governed by the UN Agency's own policies and procedures.

The design of individual projects would build on lessons from post-crisis operations elsewhere, including the need for: realism regarding objectives and results; adequate attention to simple institutional and implementation arrangements; and sufficient preparation and supervision budgets. The manual would be reviewed periodically by the Secretariat during implementation and would be revised, as necessary, to ensure both speed and accountability.

30. *Duration.* The Zim-MDTF will become effective as soon as the Administration Agreement with the first donor has been signed. The trust fund's end disbursement date is set for December 31, 2014, unless otherwise agreed upon by contributing development partners and the Bank in consultation with government.

31. As a multi-donor trust fund, the Zim-MDTF would co-mingle all *donor contributions*. The administration of the funds would be in accordance with World Bank trust fund policies and procedures. Contributions to the Zim-MDTF would be held in trust by the Bank and, pending disbursement, invested in accordance with the Bank's practices on investment of Bank-administered funds. Income earned on those funds would be credited to the Zim-MDTF. The Bank would disclose information on the trust fund in accordance with its policy on disclosure of information. Upon closing, the Bank would return any remaining balance to the development partners on a *pro rata* basis based on each donor's paid contribution.

32. The Bank would recover the full cost of administering the Zim-MDTF in accordance with the Bank's *cost recovery* policy set forth in the Trust Fund Management Framework.<sup>22</sup> The total incremental cost incurred by the Bank would depend on the eventual size and duration of the trust fund and cannot yet be determined. The Bank's internal guidelines on fee structure and cost recovery procedures would be followed.

#### IV. GOVERNANCE STRUCTURE

33. A *two-tier governance structure* is proposed for the Zim-MDTF: a Policy Oversight Committee and a Program Coordination Committee, supported by a Secretariat based in Harare. The effectiveness of the governance structure would be assessed after 6-12 months of operation. In its role as Zim-MDTF administrator, the Bank would be responsible for, among others: overall management of funds; technical oversight and quality control for Bank-appraised and -supervised projects; and establishment of the Secretariat.

34. The *Policy Oversight Committee* (POC) would: (i) ensure the alignment of the Zim-MDTF work program with the government's recovery and development programs; (ii) determine priority areas for funding under the trust fund and allocate indicative funding amounts to these areas; (iii) oversee the implementation of the Zim-MDTF; and (iv) seek to raise additional financing as required.

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<sup>22</sup> See *A Management Framework for World Bank-Administered Trust Funds*, R/2007-0198 and IDA R/2007-0247, October 9, 2007.

35. Members of the POC would include government representatives, contributors to the Zim-MDTF, the UN Resident Coordinator/Humanitarian Coordinator, and the World Bank. Other entities may be invited to join the POC upon decision by its members<sup>23</sup>. Furthermore, the POC may invite as observers other local or international partners.

36. There would be two co-chairs: government, and a donor with a contribution of over US\$2 million (on a rotational basis). The POC would meet on a quarterly basis or as needed. It would receive reports on resource utilization and activities supported by the Zim-MDTF from the Secretariat. The POC, via the Secretariat, would inform the STERP-SC of decisions made by the POC regarding priority areas for funding and resource allocation, and on progress of activities. All Zim-MDTF supported activities would have to be consistent with the government's recovery and development programs. Decisions would be reached by consensus among government and contributing development partners.

37. A *Program Coordination Committee* (PCC) would screen project concepts for funding eligibility, and endorse the concept and proposed implementing agency for each project. Following appraisal of recipient-executed projects, the PCC would be briefed on the results. For projects to be executed by UN agencies that have signed the Fiduciary Principles Accord, the PCC would approve the appraised activities and associated budgets. The process would aim to ensure consistency with: (i) the priority areas as determined by the POC; (ii) government policies in the particular sector; and (iii) the Zim-MDTF objectives. The PCC would also identify coordination needs with activities in the respective sector(s) that are similar to the ones proposed.

38. PCC membership would include representatives from government, contributing development partners (on a rotational basis), the UN, and the World Bank<sup>24</sup>. The PCC may invite other participants to its deliberations, such as other contributing development partners, members from the STERP clusters, and the ministry under which a proposed project falls. The PCC would be co-chaired by a government representative and the Zim-MDTF Program Manager. The PCC would meet as frequently as required. It would inform the STERP-PSC via the Secretariat on the status of activities under the Zim-MDTF. Decisions would be reached by consensus among government and contributing development partners on the PCC.

39. The *Secretariat* would support the POC and PCC and facilitate the smooth functioning of these bodies and of the trust fund. It would, among others: prepare implementation progress reports; manage the processing of project concepts and proposals; coordinate the appraisal and processing of appraised projects<sup>25</sup>; and handle logistics for POC and PCC meetings and prepare minutes. The Secretariat would also

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<sup>23</sup> There are on-going discussions with AfDB to include it in Zim-MDTF Governance Structure, once AfDB establishes a permanent presence in Zimbabwe.

<sup>24</sup> There are on-going discussions with AfDB to include it in Zim-MDTF Governance Structure, once AfDB establishes a permanent presence in Zimbabwe.

<sup>25</sup> For projects financed under the FPA, the Secretariat would carry out overall coordination of the processing of these projects, but not their appraisal, which would be handled directly by the UN agency concerned.

work with the government to ensure that the activities proposed under the Zim-MDTF are aligned with and included in the government's plans, and to strengthen the government's coordination function.

40. In addition, the Secretariat would: provide technical support to recipients and project proponents; help ensure consistency of projects with applicable Bank policies and procedures and oversee the implementation of projects (with the exception of those governed by the FPA); monitor reporting compliance for projects implemented under the FPA and submit these reports to the PCC; and develop and implement a system for monitoring and evaluating Zim-MDTF implementation (see below) as well as a comprehensive communications and outreach strategy.

## V. IMPLEMENTATION MODALITIES

### A. PROJECT PROCESSING

41. Processing modalities for recipient executed projects are summarized in Table 1.

**Table 1: Processing Modalities for Recipient-executed Projects**

Step	Recipient Execution
Endorsement of concept for funding	PCC
Preparation	Recipient
Appraisal	Bank
Post-appraisal briefing to PCC	Recipient and Bank
Authorization to negotiate	Bank
Negotiations	Recipient and Bank
Approval	Bank management

Step	Recipient Execution (FPA)
Endorsement of concept for funding	PCC
Preparation	UN agency
Appraisal	UN agency
Approval	PCC
Authorization to negotiate	Bank
Negotiations	UN agency and Bank

### B. FIDUCIARY AND SAFEGUARDS ARRANGEMENTS

42. The resources from the Zim-MDTF would be provided to recipients on a grant basis. With the exception of grants to UN agencies signatories to the FPA, all recipient-executed activities financed from the Zim-MDTF would be carried out in accordance with applicable Bank policies and procedures.<sup>26</sup>

<sup>26</sup> UN agencies signatories to the Financial Management Framework Agreement but not the FPA would be subject to the Bank's procurement rules, but their own financial management regulations and rules.

43. Under the *Fiduciary Principles Accord*, each FPA signatory agency would undertake activities with financing from grants it receives under the Zim-MDTF using its own policies and procedures for financial management, procurement, and safeguards. Such grants would be made in accordance with the FPA. This agreement would reflect the modalities for implementation, including the reporting requirements, the process for handling serious issues (including fraud and corruption), and remedies.

44. *Procurement*. The procurement of goods, works and consultant services financed out of the proceeds of the Zim-MDTF for recipient-executed projects governed by the Bank's procurement policies<sup>27</sup> would be carried out in accordance with the "Guidelines: Procurement under IBRD Loans and IDA Credits" and "Guidelines for Selection and Employment of Consultants by World Bank Borrowers", all published by the Bank in May 2004 and revised in October 2006. Streamlined procurement methods would be applied consistent with the Bank's rapid response framework under OP 8.00. Further, the provisions of AMS 15.00 (*Selection and Use of Consultants by the World Bank for Operational Purposes*) would apply to all Bank-executed contracts for consulting assignments, as well as of AMS 15.10 (*Corporate Procurement*) should the Bank execute activities on behalf of government.

45. *Financial management and disbursement*. The Bank undertook a PFM assessment in March 2009 to provide a financial management framework for recipient-executed projects governed by the Bank's financial management policies<sup>28</sup> to be implemented under the Zim-MDTF. The overall risk rating is *substantial*. Key requirements for project financial management systems, fund flows and disbursement arrangements have been identified and would be included in the operational manual. These arrangements would allow the use of government systems and procedures for financial management to the extent possible. Focused technical assistance in this regard will also be delivered in the short term to the Ministry of Finance.

46. As required under recipient-executed trust fund operations, each grant agreement with a recipient for a project governed by the Bank's financial management policies would require the recipient to maintain an adequate financial management system, prepare financial statements in accordance with acceptable accounting standards, and have the financial statements audited in accordance with acceptable standards and by an independent auditor acceptable to the Bank, in accordance with OP 10.02 (*Financial Management*).

47. *Procurement and financial management assessments and manuals*. For recipient executed projects governed by the Bank's procurement and financial management policies, a procurement assessment as well as a financial management assessment would be carried out by the Bank as part of appraisal. The assessments would contain adequate mitigation measures for the identified risks. As necessary, recipients would prepare simple procurement and financial management manuals for Bank review. These manuals

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<sup>27</sup> Projects financed under the FPA would be subject to the UN agency's own fiduciary rules.

<sup>28</sup> Projects financed under the FPA or the predecessor FMFA would be subject to the UN Agency's own financial management rules.

would reflect good procurement and financial management systems and practices and adequately address governance and fraud and corruption issues in the procedures and accountability systems for the utilization of funds from the Zim-MDTF.

48. *Environmental and social safeguards.* An environmental and social screening and assessment framework for the Zim-MDTF is being prepared<sup>29</sup>. This framework would provide safeguards guidelines for all recipient-executed projects governed by the Bank's safeguards policies<sup>30</sup> with regard to project design and implementation and the planning of mitigation measures. In these cases, the Bank would conduct an environmental screening of individual projects, and the recipients would, as required, carry out an environmental and social assessment, in accordance with OP 4.01 (*Environmental Assessment*) and associated safeguard policies.

### C. ACCOUNTING AND FINANCIAL REPORTING

49. The Bank would maintain separate records and ledger accounts in respect of the contributions deposited by the development partners in the trust fund account and disbursements made there from. Separate records and ledger accounts would be kept for each trust fund.

50. The Bank would furnish to the development partners current financial information relating to the trust fund in United States Dollars with respect to the contribution funds via the World Bank's Trust Funds Donor Center secure website. Within six months after all commitments and liabilities under the Zim-MDTF have been satisfied and the trust fund has been closed, the final financial information relating to it in United States Dollars with respect to the contribution funds would be made available to development partners via the World Bank's Trust Funds Donor Center secure website.

51. The Bank would provide the development partners, within six months following the end of each of the Bank's fiscal years, the annual single audit, comprising (i) a management assertion together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole; and (ii) a combined financial statement for all cash-based trust funds together with the external auditor's opinion thereon. The cost of the single audit would be borne by the Bank.

### D. SUPERVISION

52. The POC would oversee the implementation of the Zim-MDTF as a whole and the performance of the PCC and the Secretariat. Joint missions may take place after completion of the independent mid-term and end-of-program evaluations of the Trust Fund as a whole (see below). The POC may agree to additional missions if the need

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<sup>29</sup> A comprehensive draft has been prepared. It will be discussed with stakeholders prior to adoption once the Zim-MDTF is established.

<sup>30</sup> Projects governed by the FPA would be subject to the UN Agency's own safeguard policies.

arises. Project activities under the Zim-MDTF would be supervised by the respective project team.

## E. REPORTING, MONITORING AND EVALUATION

53. The Secretariat would furnish the Zim-MDTF development partners, on a semi-annual basis, a report describing progress in implementation in the preceding six months. Within six months of the closing date, the Bank would furnish to the development partners a final report on the Zim-MDTF activities.

54. The Secretariat would develop a comprehensive monitoring and evaluation (M&E) framework with key performance indicators that are consistent with the objective and activities contained in the Zim-MDTF. This framework would aid effective decision-making by both the POC and PCC and help determine the overall impact of the trust fund. Since an eventual joint needs assessment would prepare a comprehensive transitional results framework for recovery and reconstruction, the Secretariat would update the M&E framework at that time, as necessary. Furthermore, each recipient would develop a realistic results framework with measureable indicators for the objectives, outputs and outcomes of a project. The Secretariat would provide guidance to recipients to ensure that results are comparable across projects.

55. The Secretariat would commission two independent evaluations of the Zim-MDTF, one prior to mid-term, the other prior to closing. Both evaluations would include a beneficiary assessment to ascertain the trust fund's impact on the ground.

## VI. RISKS AND MITIGATION MEASURES

56. The Zim-MDTF would be implemented in a tenuous political, economic and social environment. Even if operated only on a limited scale, the trust fund and the development partners supporting it face significant risks. At the same time, a multi-donor trust fund can effectively reduce these risks to any one partner since it prescribes a coordinated approach which reflects a consensus among those involved. The main risks and mitigation measures that are external to the Zim-MDTF are identified as follows.<sup>31</sup>

- (a) *Political will to see through macro-economic reform programs: high.* There may be limited scope or willingness given the current political balances to move quickly or substantively on critical economic reforms. Reforms that are not adequately prepared and implemented may worsen the economic and social conditions and lead to civil unrest. Mitigation: The Zim-MDTF would finance individual investment and technical assistance projects, not a macro-economic reform program. Disbursements would be based upon progress in project implementation. Some projects may support economic reforms, for instance through the financing of adequately designed safety net programs to reduce the impact of reform measures.

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<sup>31</sup> A country-level risk assessment was undertaken as part of Zim-MDTF preparation.

- (b) *Political violence during the transition period: substantial.* Given the history of tensions between the ZANU-PF on the one hand, and the then opposition on the other, there is a risk of violence during the transition. If the government remained functional and there was a visible economic recovery, this risk would likely be reduced. Mitigation: In such cases, the Bank would follow the principles of engagement outlined in OP 2.30 (Development Cooperation and Conflict), working closely within its mandate with those entities, such as the UN and bilateral agencies that have responsibility for peacemaking, peace-keeping, security and humanitarian assistance. This could include exercise by the Bank of its contractual remedies, such a suspension of disbursements, if the obligations under its agreements with recipients cannot be met.
- (c) *Lack of consensus on priority areas: moderate.* Once re-engagement commences, the government may not be immediately in a position to reach a consensus on key priority areas. Mitigation: The government has prioritized actions in its 100 day plan, which, together with the STERP, serves as the reference program for Zim-MDTF support. Any eventual joint needs assessment carried out by government and international partners would (re-)define priorities both within and between clusters.
- (d) *External pressure on government to agree too many initiatives: moderate.* Development partners and others may opt to provide support which responds more to their internally defined priorities than to those laid out by government, which may be overwhelmed by a multitude of uncoordinated activities. Mitigation: Government has recently set up coordinating bodies under the STERP to identify priority areas and guide donor coordination. Coordination would be established between these structures and the Zim-MDTF. In addition, the European Commission, the Bank and other interested development partners are working to strengthen the government's aid coordination capacity and set up a system to transparently monitor aid flows.

57. Risks that are in whole or in part subject to the Bank's control include the following.

- (a) *Slow pace of Zim-MDTF set-up and implementation: substantial.* The donor community has voiced their concern about the slow pace of implementation of the A-MDTF (and of Bank-administered multi-donor trust funds elsewhere) and may opt to provide support through other channels. The level of government participation and the pace of donor re-engagement would also determine the speed of implementation. Mitigation: The proposed Zim-MDTF builds on the lessons learned from an independent review of Bank-administered trust funds and other good practice.<sup>32</sup> Its design resolves several issues that have impeded progress under the A-MDTF, in particular on staff availability and the need for a strong Secretariat (see above). In addition to hiring a full time Country Manager

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<sup>32</sup> *Review of Post-Crisis Multi-Donor Trust Funds.* Document of the World Bank, Norway, Canada, Netherlands and United Kingdom. Report No. AAA15-1W. February 2007.

and adding four technical staff in the Country Office, the Bank has already started the recruitment process for two core staff dedicated to the Zim-MDTF. Bank management would also provide close oversight and guidance to the Secretariat. Furthermore, an independent review would be carried out at mid-term to enhance trust fund operations as required.

- (b) *The governance structure and approval process may not be effective: substantial.* The governance structure reflects the views of interested development partners. However, it is considered complex and may delay implementation. Mitigation: The Secretariat would review the governance structure and approval process after 6-12 months of operation and adjust these, as necessary, in agreement with POC members.
- (c) *Higher than expected degradation of capacity: high.* The lack of capacity especially in the public sector may be worse than expected due to significant human capital degradation (economic migration, HIV/AIDS, etc.). This could slow down the implementation of the Zim-MDTF and other recovery programs. Mitigation: As a matter of urgency, institution and capacity assessments of key ministries would be carried out and related activities initiated, including through Zim-MDTF funded projects and an eventual joint needs assessment. UN agencies and other non-government recipients would implement projects when speed is of the essence and/or government capacity is insufficient. The A-MDTF is providing short- to medium-term capacity building support to key ministries. In addition, the Bank's African Diaspora Program would aim to help attract critical skills during the initial re-engagement period.
- (d) *Endemic corruption leads to a misuse of Zim-MDTF funds: substantial.* Informal patronage networks have become central to the allocation of benefits, including via expansion of corruption and state capture. Furthermore, during the hyperinflationary period leading up to 2009, key building blocks of the PFM system in Zimbabwe degenerated. The system is, however, still available for use and is currently being upgraded to a newer version. Furthermore, the centralized system and procedures through the government's national development fund allow for ring-fenced management of donor-funded projects. Mitigation: The Bank undertook a financial management assessment in preparation of the Zim-MDTF which identifies risk mitigation measures and outlines key requirements (in terms of both staffing and systems, such as internal control and auditing) for the financial management and disbursement of government-executed projects. Project designated accounts would be opened at a commercial bank in Zimbabwe acceptable to the Bank. In addition, the Secretariat will have a strong communications and outreach function vis-à-vis national and international stakeholders.

## VII. NEXT STEPS

58. Upon approval of the Zim-MDTF by Executive Directors, the Bank would continue its preparation to operationalize the fund. The preparatory activities include *inter alia*:

- selecting the core Secretariat staff to manage the Zim-MDTF and locating them in the World Bank's country office in Harare;
- concluding negotiation of the Administration Agreements;
- convening the POC and PCC and initiating project identification within the STERP and 100 day action plan framework;
- preparing the operational manual and developing an M&E system; and
- engaging government to develop a plan to build capacity for aid coordination and project implementation.