

Document of  
the International Development Association  
acting as Administrator of the Interim Trust Fund

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Report No. P-7057-ZIM

MEMORANDUM AND RECOMMENDATION  
OF THE  
MANAGING DIRECTOR  
TO THE  
PRESIDENT OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
ON A  
PROPOSED INTERIM FUND CREDIT  
IN THE AMOUNT OF SDR 8.9 MILLION  
(US\$12.25 MILLION EQUIVALENT)  
TO  
THE REPUBLIC OF ZIMBABWE  
FOR A  
RURAL DISTRICT COUNCIL PILOT CAPITAL DEVELOPMENT PROJECT

May 5, 1997

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**CURRENCY EQUIVALENT**  
 (as of February 1997)  
 Currency Unit = Zimbabwe Dollar (Z\$)  
 US\$1.00 = Z\$ 11

**GLOSSARY OF ACRONYMS AND ABBREVIATIONS**

ARDC	=	Association of Rural District Councils
CAS	=	Country Assistance Strategy
CBCC	=	Capacity Building Coordinating Committee
CBU	=	Capacity Building Unit
CSO	=	Central Statistical Office
DDG	=	District Development Grant
DDL	=	District Development Loan
EIA	=	Environmental Impact Assessment
ERR	=	Economic Rate of Return
GoZ	⇒	Government of Zimbabwe
HRD	=	Human Resources Development
ICB	=	International Competitive Bidding
IDA	=	International Development Association
IEIA	=	Initial Environmental Impact Assessment
IRWSS	=	Integrated Rural Water Supply and Sanitation
ITF	=	Interim Trust Fund
LGDP	=	Local Government Development Project
MET	=	Ministry of Environment and Tourism
MoF	=	Ministry of Finance
MLGRUD	=	Ministry of Local Government Rural and Urban Development
NCB	=	National Competitive Bidding
NGO	=	Non-Governmental Organization
ODA	=	Overseas Development Administration
PA	=	Provincial Administrator
PDC	=	Provincial Development Committee
PDSP	=	Pilot District Support Project
PST	=	Provincial Support Team
PSIP	=	Public Sector Investment Program
RDC	=	Rural District Council
RDDC	=	Rural District Development Committee
RDCCBP	=	Rural District Council Capacity Building Program
SIDA	=	Swedish International Development Agency
TC	=	Technical Co-operation
USAID	=	United States Agency for International Development
UNDP	=	United Nations Development Program
VIDCO	=	Village Development Committee
WADCO	=	Ward Development Committee

**FISCAL YEAR**

1997/98: July 1, 1997 - December 31, 1998  
 1999 and thereafter: January 1 - December 31

Vice President:	Callisto Madavo, AFR
Country Director:	Barbara Kafka, AFC03
Technical Manager:	Jeffrey S. Racki, AFTU1
Task Team Leader:	James Hicks, AFTU1

**RURAL DISTRICT COUNCIL PILOT CAPITAL DEVELOPMENT PROJECT****Credit and Project Summary**

<b>Borrower:</b>	Government of Zimbabwe
<b>Implementing Agency:</b>	Ministry of Local Government, Rural and Urban Development
<b>Beneficiary:</b>	Ministry of Local Government, Rural and Urban Development (MLGRUD), and all 57 Rural District Councils (RDCs)
<b>Poverty:</b>	Not Applicable
<b>Amount:</b>	SDR 8.9 million (US\$12.25 million equivalent)
<b>Terms:</b>	Standard IDA terms with a maturity of 40 years including a 10-year grace period.
<b>Commitment Fee:</b>	Standard
<b>Onlending Terms:</b>	RDCs (for District Development Loans only): Prevailing Public Sector Investment Program onlending rate, currently 13.5% p.a., to be adjusted annually; payable in up to 12 years (for plant and equipment); 25 years (for infrastructure); and 30 years (for community facilities).
<b>Financing Plan:</b>	See Schedule A
<b>Staff Appraisal Report:</b>	16046-ZIM
<b>Map:</b>	IBRD #28388
<b>Project Identification #:</b>	45029

<b>Vice President:</b>	Callisto Madavo, AFR
<b>Country Director:</b>	Barbara Kafka, AFC03
<b>Technical Manager:</b>	Jeffrey S. Racki, AFTU1
<b>Task Team Leader:</b>	James Hicks, AFTU1

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MEMORANDUM AND RECOMMENDATION OF THE MANAGING DIRECTOR TO THE  
PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (THE ASSOCIATION  
ACTING AS ADMINISTRATOR OF THE INTERIM TRUST FUND) ON A PROPOSED CREDIT  
TO THE REPUBLIC OF ZIMBABWE  
FOR A RURAL DISTRICT COUNCIL PILOT CAPITAL DEVELOPMENT PROJECT

1. I submit for your approval the following memorandum and recommendation on a proposed credit to the Republic of Zimbabwe, for SDR 8.9 million (US\$12.25 million equivalent) to help finance a Rural District Council Pilot Capital Development Project. The credit will be at IDA's standard variable interest rate, with a maturity of 40 years, including a 10-year grace period. The proceeds of the credit would be provided as grants and loans to Rural District Councils. Loan maturities would not exceed 12 years (plant and equipment); 25 years (for infrastructure); and 30 years (for community facilities), with interest at the prevailing Public Sector Investment Program onlending rate, currently 13.5% p.a., adjusted annually.
2. **Country/Sector Background.** The Rural District Councils Act was passed in 1988 and became effective, through local elections, in 1993. This Act created 57 Rural District Councils (RDCs) and replaced the former District Councils and Rural Councils. These former Councils were organized along economic and racial lines, with Rural Councils administering predominantly white-owned commercial farm lands and District Councils the indigenous, communal lands. The intention of Government in establishing the RDCs was not only to amalgamate the two types of local authority but also to strengthen the role of local government in rural areas. For the first time in the country's history, there now exists a complete framework of accountable, representative local authorities that may respond more effectively to the country's development needs in general, and to local communities in particular. This presents high potential for efficiency gains (enhanced supply response in local infrastructure and services) and for equity. The overwhelming majority of Zimbabwe's poor (88 percent) live in rural areas, with communal farming areas containing 76 percent of the poor and 82 percent of the very poor. This historic juncture also presents Zimbabwe's first realistic opportunity to pursue a comprehensive decentralization agenda.
3. **Project Rationale.** There are two parts of Zimbabwe's basic development objective: (a) generating more rapid and sustained growth and employment expansion; and (b) expanding indigenous participation in the economy to ensure that the benefits of development are widely shared. To advance both of these parts, especially the second, the Ministry of Local Government, Rural and Urban Development (MLGRUD) launched the RDC Capacity Building Program (RDCCBP) in November 1994. The RDCCBP seeks to enhance the effectiveness of public sector reform at the local government level. Under the umbrella of the interministerial Capacity Building Coordinating Committee (CBCC), bilateral donors have demonstrated exemplary coordination in providing two years of support to the Capacity Building Unit (CBU) in MLGRUD which has carried out a systematic process of consultation with all RDCs and Provinces in designing the RDCCBP. The RDCCBP will focus its assistance as directly as possible on the RDCs with Provincial level oversight. Ministerial input will, in turn, be focused on overall program management and policy reform. The project here presented for approval, the

Rural District Council Pilot Capital Development Project, or RDC Pilot, is part of this larger and longer term RDCCBP Program and was prepared in response to a Government request for the Bank's support in implementation of the overall RDCCBP.

4. **Project Objectives.** Within the context of the government's overall decentralization program, the objective of the RDCCBP is to develop the capacity of all RDCs to plan, implement and manage the sustainable delivery of services that are essential to welfare, growth and development in rural areas. To achieve this objective, the program is explicitly designed to support learning by doing through the combined provision of institutional development support, human resources development inputs, and capital and material resources necessary to provide infrastructure and deliver services. The proposed RDC Pilot would be the first involvement of the Bank with RDCs, and the first substantial support by the Bank for rural infrastructure in Zimbabwe. Initiating Bank support for RDC capacity building and rural infrastructure financing through a pilot operation enables the initial credit to be relatively small, with each individual investment to be financed relatively simple and modest. Thus the RDC Pilot Project may quickly promote operational lessons learned. In addition to the benefits directly derived from the project, the operational lessons learned in combination with the policy component described below should support the effectiveness of other Bank initiatives that comprise the Country Assistance Strategy, including those that support human resource development and those in which intergovernmental coordination of infrastructure delivery is critical (e.g., transport and water resource management).

5. **Project Description.** The RDCCBP is an ongoing Program composed of three components: Institutional Development; Human Resources Development; and Capital Development. The Government has requested Bank support for funding of a part of the Capital Development Component which will begin a five year program of investment in July 1997, corresponding with the beginning of the Government's financial year 1997/98. The entire RDCCBP is described below.

6. The **Institutional Development Component** of the RDCCBP will support improvements in the capacities of RDCs to plan and sustain priority services and facilities. Full funding for this component has been approved by ODA. Provincial Support Teams (PSTs) were deployed for five years beginning in October 1996 in all eight of the provinces that include RDCs. The PSTs will work with RDC and provincial staff and officials to facilitate improvements in planning, implementation and management processes. Support will also be provided to the Capacity Building Unit (CBU) for five years. The CBU, located in MLGRUD and reporting to the CBCC, provides overall program coordination and management. This component of the program will also finance acquisition of basic equipment necessary for particularly the most disadvantaged RDCs to achieve a minimum acceptable level of logistical capacity. Finally, this component includes financing for a baseline and longitudinal impact assessment which will be managed by UNDP and monitor improvements in RDC planning, management and finance as well as impact of capital investments.

7. The **Human Resources Development Component** of the RDCCBP is designed to build capacity to provide continuing human resource development assistance to RDCs and to respond

to specific needs arising in the RDCCBP implementation process. In MLGRUD, assistance will focus on the Manpower Development Section of the Department of Local Authorities Administration. Key activities will include development of a clear RDC Training Policy, establishment of a training needs data base, liaison with other ministries and national training institutions, support to provincial and district training officers and establishment of staff development systems. At the Provincial level this component will assist capacity development of Provincial Manpower Development and Training Officers and support formation of Provincial Training Teams to deliver basic skills and functional training courses for RDCs. These teams will work in close coordination with the PSTs. At the District level this component will identify basic needs and supply required training including Training of Trainers for District Training Teams. At the Sub-district level the component will promote the formation of local networks including government, local government and NGOs to promote community participation in the planning, delivery and maintenance of local development projects.

8. **The Capital Development Component**, a portion of which will be financed by the proposed RDC Pilot Project, is designed to a) provide all 57 RDCs with access to the funds necessary to reequip and reinitiate critical service and infrastructure provision, and b) create incentives for improved RDC performance. This component is critical to ensure that capacity is not built in a resource vacuum, and that RDCs are able to maximize their learning by doing experiences through actual project implementation. The component consists of two types of capital assistance (grants and loans) and of technical assistance for implementation of the Government's decentralization policy (the policy component).

9. **District Development Grants** (US\$ 7.25 million proposed ITF financing) will provide each of the 57 RDCs with up to US\$ 0.25 million for each of the first two years of the project (GoZ FY 1997/98 and 1999<sup>1</sup>) for productive investments in equipment and infrastructure. According to beneficiary surveys, priority areas for investment are roads and water and sanitation, followed by health, education and income generation. In addition, each RDC will be required to devote at least 10 percent of each annual District Development Grant (DDG) allocation to community based projects, in conjunction with the Human Resources Development Component's focus upon sub-district community planning and mobilization. Access to these block grants will be predicated upon RDCs' submission of approved development plans and engagement of qualified senior officials. In FY 2000, performance criteria, to be agreed during the first two years of implementation, will be brought into play to determine the level of block grants each RDC will receive. All aspects of DDG operations will be codified in the Project's Operational Manual. Adoption of the final version of this manual will be a condition of credit effectiveness, and the manual will be incorporated by reference in the credit agreement.

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<sup>1</sup> The Government of Zimbabwe has changed its designation of the fiscal year from July-June, to the calendar year. The transition will be made by extending the fiscal year 97/98 to the 18-month period July 1997 - December 1998. Beginning in 1999, the fiscal year will coincide with the calendar year.

10. **District Development Loans** (US\$ 4.5 million proposed ITF financing) are the second financing mechanism included in the Capital Development Component. The District Development Loans (DDLs) have been designed to meet the needs of the more efficiently managed RDCs which already have demonstrated capacity to manage loans and require larger amounts of development capital than are available through the DDGs. The component will therefore include a relatively modest provision for lending to bankable RDCs in the first two years of program operation. The procedures governing lending under the RDC Pilot Project will build upon systems established within MLGRUD as part of the Bank-financed Urban II Project (Urban Sector and Regional Development Project, Loan No. 3079-ZIM), including the standard borrowing capacity and project appraisal procedures and documentation. Lending will follow terms established for the Public Sector Investment Program (PSIP) as agreed under the Urban II Project. These procedures will be incorporated in the Operational Manual utilizing similar criteria as those already defined for DDGs, with the important addition of the borrowing capacity analysis and documentation.

11. **Decentralization Policy Support** (US\$ 0.50 million proposed ITF financing) is the final element of the Capital Development Component. Over the first two years of RDCCBP operations, critical policies will be developed to sustain implementation of Government's decentralization agenda. Support for this effort will be channeled to the existing CBU and would address the agenda to be defined in the Government's Decentralization Policy Letter.<sup>2</sup> It is anticipated that it will focus largely upon three key areas: (i) international experience in successful (and unsuccessful) inter-governmental fiscal reform and strategies for potential application in the Zimbabwean context; (ii) other areas of intergovernmental relations of importance to fostering local authority autonomy, such as opportunities for increasing private sector participation in the financing and provision of key services and infrastructure; and, (iii) close monitoring of the RDC Pilot implementation process for RDC investment financing will be undertaken. This monitoring will include compliance with the process arrangements agreed with the Bank through the Project Operational Manual, as well as financial audits for all project accounts for fiscal years 1997/98 and 1999.

12. **Project Implementation.** The proposed project would be carried out by the Ministry of Local Government, Rural and Urban Development. At the national level, implementation responsibility will rest with the MLGRUD, and at the local level with RDCs. MLGRUD has established a good track record on implementation of the Bank-financed Urban I (Zimbabwe Urban Development Project, Loan No. 2445-ZIM) and Urban II projects. The CBU in MLGRUD, which coordinates the RDCCBP, is well staffed and highly experienced. It has been in place and functioning for two years, and five years of continuing support are already assured through ODA. This experience will be decentralized to also benefit the Provincial Support Teams. Recruitment of the PSTs has been completed and they have been in place since October 1996. RDC implementation will be supported and closely monitored and evaluated by the Provincial Development Committees and the PSTs funded under the Institutional Development Component. The Human Resources Component also will provide implementation support to the

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<sup>2</sup> A draft of this Letter was discussed at Negotiations.

MLGRUD, Provinces, District and Sub-district institutions (including NGOs promoting community participation in the planning, delivery and maintenance of local development projects).

13. Implementation arrangements for the Capital Development Component financed by the RDC Pilot Project will be detailed in the Project Operational Manual. This Manual will be incorporated in the Credit Agreement and may only be modified with the Bank's consent. It will lay out: RDC eligibility requirements for access to funding from the Capital Development Component's grants and loans; appraisal procedures (including environmental impact assessment, when necessary) for RDC funding requests under RDC annual investment plans; financing and flow of funds arrangements (including onlending terms and conditions when appropriate); and procurement and auditing requirements. Preparation of the draft manual has been facilitated greatly by the experience of the MLGRUD under the Urban I and II projects.

14. The program's monitoring and evaluation system has also been well designed. The Provincial Development Committees, with support from the PSTs, NGOs and the National Association of RDCs, will monitor RDC activities on a continuing basis. Formal semi-annual reports from RDCs to provinces will summarize progress made and problems encountered. The CBU will assemble all monitoring inputs at the national level and annual reviews including all participating donors will be carried out by the CBCC.

15. **Lessons Learned from Previous Bank Experience.** The proposed project would be the Bank's first involvement with RDCs and rural infrastructure in Zimbabwe. However, the Bank has a long track record of support to Urban Councils, beginning with the Urban I (Ln. 2445-ZIM, approved in June 1984) and continuing with the ongoing Urban II project (Ln. 3079-ZIM, expected to be completed in December 1998). A key lesson learned has been that Zimbabwe's local governments have the capacity to respond to incentives and support to improve their performance. In the case of the newly formed RDCs, the current capacity level is fragile and must be strengthened over time. Thus, the proposed operation should consolidate lessons learned for effective incorporation in a more ambitious proposed follow-on project, the Local Government Development Project (LGDP). The policy component noted above should also ensure that international lessons learned from decentralization and strengthening local government are incorporated in the project through workshops and strategic consultant inputs.

16. **Rationale for Bank involvement.** The project supports the Country Assistance Strategy (CAS) that was presented to the Board in January 18, 1994. The CAS focused on four basic areas, including infrastructure to support growth and expand economic participation, and human resource investment and capacity building. The proposed project is designed to support capacity building and infrastructure financing in the newly formed RDCs. A new CAS is to be presented to the Board in late May 1997. The new CAS calls for more selective support of the Government's development goals. One of the key features of the assistance strategy is greater use of pilot operations and adaptable project designs. The proposed project is a strong example of this, a pilot project incorporating innovative procedures to facilitate disbursements and promote learning-by-doing which will provide the Government with important lessons in the process of decentralization. The new CAS also highlights areas of focus for Bank efforts,

including rural development and the development of human capital, both of which are supported in the proposed project.

17. The Bank is well placed to support the Government of Zimbabwe in its broader decentralization efforts. Without the institutional and financial capacities to absorb new responsibilities at the local level, decentralization initiatives may be inefficient from the perspective of service delivery, as well as potentially destabilizing during a period of fiscal retrenchment. The proposed project would provide an opportunity for the Bank to support not only RDC capacity building and infrastructure financing, but also to contribute to the dialogue on decentralization and intergovernmental fiscal policy across sectors and between levels of government in the context of fiscal sustainability.

18. Government already has launched the RDC Capacity Building Program and is committed to its expansion. The effort has attracted significant donor support (UNDP, UK, Netherlands, Sweden), and the Bank has been invited to participate in an on-going effort. The Bank's support to the program is widely viewed as important to its success, primarily for two reasons: (a) to provide investment funding as an incentive for institutional and human resource strengthening (financed by other donors) on a broad and substantial scale; and (b) to bring international best practices to the policy dialogue on decentralization.

19. Given both its long-standing involvement with local governments in Zimbabwe and its broad experience in supporting decentralization throughout the developing world, the Bank is uniquely positioned to play a catalytic role in supporting the emerging decentralization process in Zimbabwe. The commitment of substantial bilateral support for "soft" capacity building activities will allow the Bank funding to be focused upon its most appropriate application: capital investments. At the same time, the wealth of Bank experience in comparable decentralization exercises will assist Government in winnowing out the most efficient courses to be followed in defining Zimbabwe's way forward. In short, the combination in Zimbabwe of central government and local authority commitment, bilateral support and clear focus for application of Bank resources presents a strong rationale for the Bank's involvement.

20. **Agreed Actions.** Assurances were obtained during negotiations that the Capacity Building Unit of the MLGRUD and the Provincial Support Teams will be adequately staffed and supported; that the project will be carried out in accordance with the Project Operational Manual, the content of which was agreed at Negotiations; that the District Development Loans will be onlent to eligible RDCs under the same conditions and terms as funds onlent to Urban Councils in the Urban II project; that a Special Account will be opened and maintained; that procurement will be carried out in accordance with Bank guidelines; and that all accounts will be audited according to procedures acceptable to the Bank. Before credit effectiveness, MLGRUD will present evidence that the RDCs are effectively committed to the program, and that the Project's Operational and Implementation Manuals are mandated by MLGRUD and agreed with the Bank.

21. **Poverty Category.** The proposed project is not a program of targeted poverty interventions. The project would, however, contribute to poverty reduction by enhancing the

quality, quantity, and cost-effectiveness of basic services (e.g., improved transport and access to markets, improved health and education, and access to water and sanitation) in rural areas.

22. **Environmental Aspects.** The project, rated category B, is expected to have neutral or positive environmental impacts. Rural infrastructure investments to be financed (e.g., water supply, sanitation, roads, community facilities) are expected to be quite small, and focused on rehabilitation or expansion of services that generally improve the quality of life, and environment, of the rural population. To ensure that potential environmental impacts are flagged and mitigated in investment planning, a simple checklist of potential impacts and suggested mitigating measures will be included in the Operational Manual, and its completion will be required for funding approval. This checklist was derived from the proceedings of an environmental impact assessment (EIA) workshop sponsored by the Association of Rural District Councils (ARDC), in which Project Officers from 19 RDCs participated. Capacity to utilize this tool appears strong. In addition to those trained by the ARDC, Project Officers for 20 RDCs associated with Zimbabwe's well-respected CAMPFIRE program received EIA training under the sponsorship of USAID, and several hundred natural resource managers in government agencies (including local government officials) received training in project appraisal and environmental assessment under the CIDA-sponsored Zimbabwe Natural Resources Management Programme. Furthermore, the Provincial Support Teams (supported by MLGRUD's project implementation unit) will have the authority to screen proposed investments for environmental impact, with more thorough impact assessments required where necessary.

23. **Program Objective Categories.** This project will support the Bank's overall objective of poverty reduction by helping to promote equitable, efficient and sustainable delivery of essential RDC services. Specific program objective categories include capacity building, policy reforms and the delivery of infrastructure services.

24. **Participatory Approach.** The preparation process and final design of this project were highly participatory, seeking to maximize input and beneficiary ownership. The RDCCBP is a direct outgrowth of an extensive series of policy reforms, analyses and pilot projects undertaken in Zimbabwe over the past seven years. At the core of these actions has been the incremental approach taken by GoZ in articulating its decentralization policy which, for the rural sector, found particular focus through the Forum for Rural Development (1991-94). RDCCBP preparation also benefited from exemplary donor coordination which funded two years of support for the Capacity Building Unit (CBU) in MLGRUD. The CBU in turn carried out a systematic process of consultation with all RDCs and Provinces in designing the program. The project itself is designed to support RDC investment programs that are derived from a series of consultations at the village (VIDCO), ward (WADCO) and provincial levels. In addition, at least 10 percent of each annual District Development Grant is earmarked for community designed and implemented projects, in conjunction with the Human Resources Development Component's focus on sub-district community planning and mobilization.

25. **Project Benefits.** The RDCCBP and the pilot project seek to improve the quality and coverage of rural infrastructure and services throughout the country. The focus on capacity building is intended to make the provision of services more efficient and sustainable, while

building human resources capacity. An important additional potential benefit of the project is strengthening of the local government system to provide greater responsiveness and accountability to constituencies.

26. Significant economic returns are also anticipated to be derived from the physical investments financed under the operation. The design of the project is such that individual investments will not be specified before credit effectiveness, making full cost-benefit analysis impossible at this stage. Instead, the project's *ex ante* economic analysis focuses on the qualitative benefits of the types of investments (i.e., roads and water) that beneficiary surveys suggest will be made. Economic analysis of individual investments will be carried out in accordance with the Operational Manual as part of the process of sub-project appraisal which is required for the funding of specific investments under this project. The economic analysis will require least-cost options for addressing high priority investment needs.

27. **Project Sustainability.** To ensure sustainability of the RDC investments, the RDCs will be required to demonstrate how the operation and maintenance costs associated with a sub-project will be met. Projects will also have to be properly appraised to ensure that the option chosen is the least-cost option, and that it is viable and justifiable. The Operations Manual requires that at least 10 percent of the grants be used to fund projects initiated and implemented entirely or largely by local community groups which will foster a greater sense of ownership among beneficiaries, thus contributing to sustainability. As required by the RDC Act, the district plans from which the sub-projects are derived are based on ward-level plans, which are in turn based on village-level plans. This promotes local level participation, which again enhances sustainability. Finally, the institutional development and human resources development components should strengthen capacity to sustain project benefits.

28. **Risks.** It should be recognized that this project presents significant risks. From the perspective of Zimbabwe's longer-term development, however, the potential risks of this credit operation are commensurate with the potential development benefits. Political commitment to decentralize and strengthen local self-government appears to be strong now, but this may wane over time as political interests that stand to lose from effective decentralization may delay or derail the decentralization process. Both the Government and the Bank will enter uncharted waters under this project, through increasing rural local government responsibilities and accountabilities. The main safeguard for this risk is the project's design as a pilot, with limited duration and credit exposure. It is hoped that through the RDC Pilot Project the Bank may support significant success stories, enhanced capacity in rural areas and legitimate constituencies for change from a "top-down" control environment to one of local empowerment and accountability.

29. For a given investment in a particular RDC, the risks are relatively high that resources will not be managed optimally, particularly in the early years. Mistakes will inevitably be made by RDCs, but the program's design, incorporating lessons learned from the successful Pilot District Support Project funded by ODA during 1989-95, seeks to apply these lessons so that capacity is developed and mistakes are not repeated. Risks should be mitigated by the Provincial Development Committee approval and monitoring process in general, and the presence of

Provincial Support Teams in particular. Risks also should be mitigated over time (assuming that political commitment to decentralization policy is sustained) as lessons are learned and incorporated in the investment planning, implementation, operation and maintenance process.

30. **Recommendation.** I am satisfied that the proposed Interim Fund Credit would comply with Resolution No. 184, adopted by the Board of Governors of the Association on June 26, 1996, establishing the Interim Trust Fund and I recommend that the President approve it.

Gautam S. Kaji  
Managing Director

Washington, D.C.  
May 5, 1997

Attachments

## Zimbabwe

**RURAL DISTRICT COUNCIL PILOT CAPITAL DEVELOPMENT PROJECT****Estimated Costs and Financing Plan**  
(US\$ million)

	Local	Foreign	Total
<b><u>Estimated Project Cost</u></b> <sup>a</sup>			
Policy Support/Consultant Services	0.25	0.25	0.50
District Development Grants	12.83	1.42	14.25
District Development Loans	<u>3.00</u>	<u>2.00</u>	<u>5.00</u>
Base Cost	16.08	3.67	19.75
Total Financing Required <sup>b</sup>	<u>16.08</u>	<u>3.67</u>	<u>19.75</u>
<b><u>Financing Plan</u></b>			
Government (RDCs)	0.50	0.00	0.50
Dutch	2.43	0.57	3.00
SIDA	3.24	0.76	4.00
World Bank	<u>9.91</u>	<u>2.34</u>	<u>12.25</u>
Total	<u>16.08</u>	<u>3.67</u>	<u>19.75</u>

<sup>a</sup> Excludes taxes and duties which RDCs do not pay.

<sup>b</sup> Physical and price contingencies, and interest during construction are irrelevant to this operation which finances a time slice of an investment program.

## Zimbabwe

**RURAL DISTRICT COUNCIL PILOT CAPITAL DEVELOPMENT PROJECT****Economic and Financial Analysis**

- The design of this project does not lend itself to detailed *ex ante* economic and financial analysis because actual investments are not specified before credit effectiveness.
- The thrust of the project is capacity building, and inherent in this approach is the need to allow RDCs to make their own annual investment decisions, given that they conform with the guidelines set out in the Operational Manual.
- As part of the process of sub-project appraisal, economic analysis of individual investments will be carried out in accordance with the Operational Manual, and will require least-cost options for addressing high priority investment needs.
- *Ex ante* economic analysis focused on qualitative and empirical quantitative benefits of the types of investments (i.e., roads and water) that beneficiary surveys suggest will be made.

**Comparable Economic Rates of Return****Roads<sup>a</sup>**

Rehabilitation	22% - 61%	Avg. 39%
Resealing	139% - 239%	Avg. 174%
Regravelling	30% - 72%	Avg. 50%
Low-cost Improvements	236% - 734%	Avg. 485%

**Rural Water Supply**

Community Water and Sanitation <sup>b</sup>	15% - 50%
Rural Water <sup>c</sup>	16%

<sup>a</sup> Implementation Completion Report, Government of Zimbabwe, Second Highway Project, December 21, 1995.

<sup>b</sup> Ghana: Community Water Supply and Sanitation Project, Staff Appraisal Report, Report No. 12406-GH, March 1994.

<sup>c</sup> Malawi: National Water Development Project, Staff Appraisal Report, Report No. 13189-MAI, June 1995.

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<b>Project Composition:</b>	Based on surveys of RDCs' priorities, it is expected that the District Development Grants and Loans will be used primarily to finance roads rehabilitation and water and sewerage investments.
<b>Nature of the Benefits:</b>	
Roads:	The benefits from rehabilitation of rural roads will result from vehicle operating cost savings from reduced road roughness, benefits from savings in road maintenance costs, savings in accident costs, and benefits in terms of avoided higher costs of later reconstruction. Benefits will also be realized from time saving both of passengers and vehicle operators. In addition, improved/new roads will result in increased access of agricultural freight to markets, thereby potentially increasing farmers' incomes. There will be considerable variation between different RDC road investments due to factors such as terrain, level of economic activity, and population served.
Water:	The main direct benefits of providing rural water sources that are closer, more reliable and more plentiful are savings in time and effort collecting water (especially for women), a healthier, more productive rural population due to increase in quantity and quality of water, improved health knowledge, better hygiene practices, and potential long-term medical cost savings through reduction in water-borne diseases. The availability of water could also lead to healthier livestock which are a critical socio-economic and cultural element of rural communities. For example, livestock census statistics in Gokwe district show that the Bungwa borehole funded under the PDSP has improved the general health of the local livestock, increasing the calving rate and increasing the potential off-take rate.
<b>Risk:</b>	It should be recognized that this project presents significant risks. Political commitment to decentralization and strengthening local self-government appears to be strong now, but this may wane over time as political interests that stand to lose from effective decentralization may delay or derail the decentralization process. The main safeguard for this risk is the project's design as a pilot, with limited duration and credit exposure. For a given investment in a particular RDC, the risks are relatively high that resources will not be managed optimally, particularly in the early years. In fact, these risks are inherent to the "learning by doing" process of the RDCCBP, and they should be mitigated by the Provincial Development Committee approval and monitoring process in general, and the presence of Provincial Support Teams in particular. Risks also should be mitigated over time (assuming that political commitment to decentralization policy is sustained) as lessons are learned and incorporated in the investment planning, implementation, operation and maintenance process.
<b>Main Beneficiaries:</b>	All 57 Rural District Councils

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**Financial Summary**

	<b>Implementation Period</b>		<b>Operational Period</b>		
	FY1	FY2	FY1	FY2	FY3
	<i>(US\$ millions)</i>				
<b>Project Costs</b>					
Investment Costs	4.13	7.62			
Recurrent Costs <sup>i</sup>	0.62	1.76	1.94	2.13	2.34
<b>Total</b>	<b>4.75</b>	<b>9.38</b>	<b>1.94</b>	<b>2.13</b>	<b>2.34</b>
	<b>Percentages</b>				
<b>Financing Sources</b>					
World Bank	44.3	61.9			
Netherlands	19.8	9.3			
SIDA	26.5	12.4			
Gov't of Zim.	9.3	16.3	100	100	100
<b>Total</b>	<b>100</b>	<b>100</b>			

<sup>i</sup> Recurrent costs are not financed under this project. The Operational Manual states that any investment to be financed under the project must show operational and maintenance cost projections and assured sources of finance. All O&M costs are therefore considered financed by the Government of Zimbabwe.

## LogFrame and Performance Indicators

Narrative Summary	Performance Indicators	Monitoring and Supervision	Assumptions/Risks
<p><b>POC/CAS:</b></p> <p>Zimbabwe Government achieves efficient and effective decentralization.</p>	<p>More and higher quality services meeting priority needs of local people provided by RDCs; and better quality services meeting priority needs provided by sector ministries.</p>	<p>Baseline and impact assessment surveys, and other documents from RDCs.</p>	<p><b>POC to Mission:</b></p> <p>Positive economic growth.</p>
<p><b>Development Objective:</b></p> <p>Enhanced capacity of RDCs to plan, manage and sustain provision of priority services and facilities in response to client needs.</p>	<p><b>Impact/Outcomes:</b></p> <p>1. Production of mission statements and corporate plans by RDCs. Improved policies and plans in RDCs.</p> <p>e.g., 70% of RDCs produce rolling plans with prioritized and costed projects and programs related to resource availability, based on consultation with clients and integrated with plans of sector ministries at the district level by 1999; 100% by 2001.</p>	<p>Baseline and impact assessment surveys; 6 monthly CBCC, provincial and district review reports</p>	<p><b>Development Objectives to POC:</b></p> <p>Sustained GoZ commitment to RDC capacity building and devolution of decision making.</p> <p>Positive economic growth.</p>

Narrative Summary	Performance Indicators	Monitoring and Supervision	Assumptions/Risks
	<p>2. Improved financial management and local revenue generation.</p> <p>e.g., 70% of RDCs produce annual budgets on time by 1988; 100% by 2000.</p> <p>3. Improved accountability and transparency to rural electorate.</p> <p>e.g., rolling plans reflect priorities identified through village and ward level workshops in 70% of RDCs by 1997 and 100% by 1998.</p> <p>4. More services provided, e.g., number and value of new capital development projects carried out by RDCs increases by 10% annually from 1997 to 2002.</p>		
<p><b>Output:</b></p> <p>1. Improvement in investment planning and appraisal.</p>	<p><b>T.O.R.</b></p> <p>1.1 Volume and timeliness of investment projects approved as satisfying OM standards.</p>	<p>1.1.1 Baseline and impact assessment surveys; 6 monthly CBCC, provincial and district review reports.</p>	<p><b>Output to Development Objectives:</b></p> <p>Institutional, Human Resources Development and Capital Development Components of the RDCCBP are well coordinated.</p>

Narrative Summary	Performance Indicators	Monitoring and Supervision	Assumptions/Risks
<p>2. Infrastructure and community facilities selected, appraised and constructed according to the Operational Manual (OM).</p> <p>3. RDCs more responsive to local priorities.</p> <p>4. Clarified and advanced decentralization process.</p>	<p>2.1 Projects receiving Completion Certificates as per the OM.</p> <p>3.1 Percent of projects deemed to be largely “community-driven”, following the standards specified for the earmarked 10% of DDGs.</p> <p>4.1 Clarification of assignment of RDC responsibilities, local resource mobilization and transparent revenue sharing arrangements.</p>	<p>2.1.1 Baseline and impact assessment surveys; 6 monthly CBCC, provincial and district review reports.</p> <p>3.1.1 Baseline and impact assessment surveys; 6 monthly CBCC, provincial and district review reports.</p> <p>4.1.1 Development and approval of the Government’s Decentralization Policy Document</p>	<p>Progress in GoZ on future financing of local government and implementation of decentralization policy.</p> <p>Adequate RDC recurrent expenditure, through central grants and local revenue base.</p>
<p><b>Components:</b></p> <p>Identification, preparation and appraisal of investment projects</p> <p>Support for the process of decentralization</p>	<p><b>Inputs/Resources:</b></p> <p>District Development Grants to eligible RDCs (\$7.25m)</p> <p>District Development Loans to eligible RDCs (\$4.5m)</p> <p>Consultant support to the decentralization process (\$0.5m)</p> <p>Total: \$12.25</p>	<p>Procurement records and 6 monthly CBCC, provincial and district review reports.</p> <p>Procurement records and 6 monthly CBCC, provincial and district review reports.</p> <p>Procurement records and consultants reports</p>	<p><b>Components to Output:</b></p> <p>RDCs and community-based groups choose to participate in the Pilot Project and fulfill requirements of the Operational Manual</p> <p>Acceptable projects are proposed (i.e., projects with assured sources for recurrent cost financing)</p> <p>Government remains committed to continued decentralization</p>

## Zimbabwe

**RURAL DISTRICT COUNCIL PILOT CAPITAL DEVELOPMENT PROJECT****Procurement and Disbursement****A. Summary of Proposed Procurement Arrangements**  
(US\$ million) <sup>a</sup>

Project Element	Procurement Method				Total Costs
	ICB	NCB	National Shopping	Other <sup>b</sup>	
1. Civil Works and Equipment	-	8.00	1.70	9.55	19.25
	-	(6.00)	(0.57)	(5.18)	(11.75)
2. Consulting Services	-	-	-	0.50	0.50
	-	-	-	(0.50)	(0.50)
<b>TOTAL</b>	-	8.00	1.70	10.05	19.75
	-	<u>(6.00)</u>	<u>(0.57)</u>	<u>(5.68)</u>	<u>(12.25)</u>

<sup>a</sup> Figures in parentheses are the respective amounts financed by the Bank loan.

<sup>b</sup> Includes small works, community participation and Force Account.

**B. Disbursement Arrangements**

Category	Amount (\$ million)	Expenditures to be financed
1. D. D. Grants		
(a) FY 1997/98	2.33	35 percent of amounts of Grants approved
(b) FY 1999	4.92	63 percent of amounts of Grants approved
2. D. D. Loans	4.50	100% of amounts of Loans disbursed
3. Consultants' services and audits	0.50	100 percent
Unallocated		
<b><u>TOTAL</u></b>	<b><u>12.25</u></b>	

Bank FY	Estimated Disbursements	
	1998	1999
	----- (\$ million) -----	
Annual	4.38	7.87
Cumulative	4.38	12.25

## Zimbabwe

**RURAL DISTRICT COUNCIL PILOT CAPITAL DEVELOPMENT PROJECT****Timetable of Key Project Processing Events**

- 
- |     |                                    |  |
|-----|------------------------------------|--|
| (a) | Time taken to prepare the project: | 9 months, February 1996 - November 1997  |
| (b) | Prepared by:                       | The Ministry of Local Government, Urban and Rural Development with Bank Assistance |
| (c) | First Bank mission:                | February 1996  |
| (d) | Appraisal mission departure:       | November 1996  |
| (e) | Negotiations:                      | February 1997  |
| (f) | Planned date of effectiveness:     | June 1997  |
| (g) | List of relevant PCRs and PPARs:   |  |

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Credit No.	Project	PCR Date	PPAR No.
Ln. 2445-ZIM	Zimbabwe Urban Development Project (Urban I)	12/23/94	#15630
Ln. 3079-ZIM	Zimbabwe Urban Sector and Regional Dev't Project (Urban II)*		

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\* Urban II is expected to close in December 1998. A detailed final draft report on lessons learned in Urban II, Transferring Urban II Lessons Learned to the Design of Rural District Councils Capacity Building Project (RDCCBP) and Local Government Development Project (LGDP), has already been completed and was referenced for preparation of this project.

This report is based on the findings of Bank missions that visited Zimbabwe in July/August 1996 and November 1996. The missions comprised James Hicks (Task Team Leader, AFTU1), Claudia Sadoff (Economist, AFTU1), Shobha Shetty (Economist, AFTU1), David DeGroot (Local Government Specialist, Consultant) and Chris Banes (Municipal Engineer, Consultant). Negotiations were held in Harare during February 1997, with the Bank Team comprising James Hicks, Claudia Sadoff, David DeGroot, Chris Banes, Steve Gaginis (Disbursement Officer), Raj Soopramanien (Lawyer), and Colleen Butcher (Local Government Specialist, Bank Resident Mission in Zimbabwe).

**Status of Bank Group Operations in Zimbabwe  
IBRD Loans and IDA Credits in the Operations Portfolio**

Schedule E

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose				Difference between expected and actual		Development Objectives	Implementation Progress
					IBRD	IDA	Cancellations	Undisbursed	Disbursements <sup>a</sup>		
No. of Closed Loans/Credits: 24											
<u>Active Loans</u>											
ZW-PE-35628	C28510	1996	Gov't of Zimbabwe	Enterprise Development		70.00		65.70	3.15	S	S
ZW-PE-3309	L36960	1994	ZESA	Power III	90.00			61.13	59.13	S	S
ZW-PE-3322	C25270	1993	Gov't of Zimbabwe	SAC II		125.00		61.07	63.20	S	U
ZW-PE-3333	C25160	1993	Gov't of Zimbabwe	STI		64.50		35.28	8.15	S	S
ZW-PE-3302	L33390	1991	Gov't of Zimbabwe	Family Health II	25.00			7.30	7.30	S	S
ZW-PE-3286	L32730	1991	Gov't of Zimbabwe	Railways II	38.60			19.92	19.92	S	S
ZW-PE-3287	L31790	1990	Gov't of Zimbabwe	Forest Resources Management	14.50			0.52	0.22	S	S
ZW-PE-3294	L30790	1989	Gov't of Zimbabwe	Urban II	80.00			41.00	41.00	S	S
ZW-PE-3305	L30630	1989	Gov't of Zimbabwe	Agric. Credit and Export	36.30			3.89	3.89	S	S
<b>TOTAL</b>					284.40	259.50	0.00	295.80	205.96		

	<u>Active Loans</u>	<u>Closed Loans</u>	<u>Total</u>
Total disbursed (IBRD and IDA)	241.89	926.98	1168.87
Of which repaid	14.24	374.30	388.54
Total now held by IBRD and IDA	529.66	546.66	1076.32
Amount sold	0.00	70.32	70.32
Of which repaid	0.00	70.32	70.32
Total undisbursed	295.80	0.00	295.80

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

b. Following the FY94 Annual Review of Portfolio Performance (ARPP), a letter-based system was introduced (HS=highly satisfactory, S=satisfactory, U=unsatisfactory, HU=highly unsatisfactory see *Proposed Improvements in Project and Portfolio Performance Rating Methodology* (SecM94-901), August 23, 1994)

Note: Disbursement data is updated at the end of the first week of the month.

# Zimbabwe at a glance

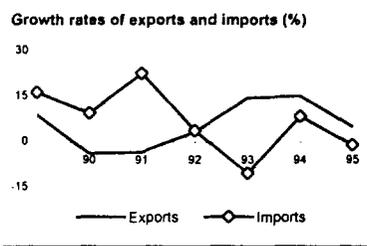
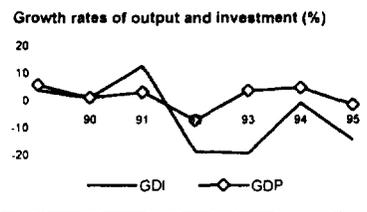
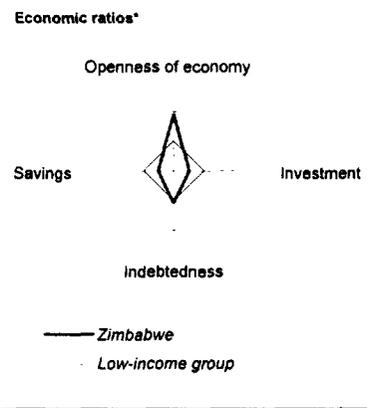
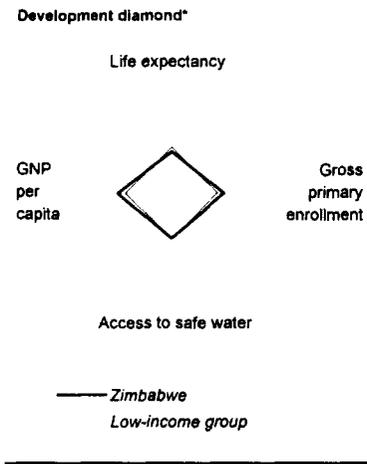
POVERTY and SOCIAL	Sub-Saharan Africa			Low-income
	Zimbabwe	Africa		
Population mid-1995 (millions)	11.0	589	3,188	
GNP per capita 1995 (US\$)	540	490	460	
GNP 1995 (billions US\$)	5.9	289	1,466	
<b>Average annual growth, 1990-95</b>				
Population (%)	2.4	2.8	1.8	
Labor force (%)	2.4	2.8	1.9	
<b>Most recent estimate (latest year available since 1989)</b>				
Poverty: headcount index (% of population)	26	..	..	
Urban population (% of total population)	32	31	29	
Life expectancy at birth (years)	57	52	63	
Infant mortality (per 1,000 live births)	55	92	58	
Child malnutrition (% of children under 5)	16	..	38	
Access to safe water (% of population)	74	47	75	
Illiteracy (% of population age 15+)	15	43	34	
Gross primary enrollment (% of school-age population)	119	71	105	
Male	123	77	112	
Female	114	64	98	

KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1975	1985	1994	1995	
GDP (billions US\$)	3.5	4.5	5.8	6.3	
Gross domestic investment/GDP	26.3	17.2	18.4	15.5	
Exports of goods and non-factor services/GDP	29.5	31.2	39.8	39.0	
Gross domestic savings/GDP	25.1	21.3	18.3	16.5	
Gross national savings/GDP	20.4	21.3	14.0	12.6	
Current account balance/GDP	-6.7	-3.4	-4.5	-3.0	
Interest payments/GDP	0.1	2.8	3.3	3.3	
Total debt/GDP	5.3	53.4	75.4	72.8	
Total debt service/exports	0.7	32.7	..	..	
Present value of debt/GDP	..	..	60.3	..	
Present value of debt/exports	..	..	..	..	
<b>(average annual growth)</b>					
GDP	3.4	2.5	5.2	-1.1	2.9
GNP per capita	0.0	-0.8	-0.2	-3.5	0.2
Exports of goods and nfs	1.9	4.8	15.3	5.0	4.5

STRUCTURE of the ECONOMY				
	1975	1985	1994	1995
<b>(% of GDP)</b>				
Agriculture	17.0	20.2	16.3	16.3
Industry	38.0	30.2	35.4	35.4
Manufacturing	23.5	22.9	26.4	26.4
Services	45.1	49.5	48.3	48.3
Private consumption	62.1	50.1	63.0	65.1
General government consumption	12.8	28.6	18.6	18.5
Imports of goods and non-factor services	30.7	27.1	39.9	38.0
<b>(average annual growth)</b>				
Agriculture	0.2	3.2	3.0	-12.0
Industry	-0.2	2.7	9.9	0.9
Manufacturing	3.1	2.4	10.0	-2.0
Services	5.5	2.5	3.1	1.7
Private consumption	3.8	4.4	-1.1	-1.4
General government consumption	13.2	0.2	3.6	0.8
Gross domestic investment	0.2	-1.5	-0.4	-14.0
Imports of goods and non-factor services	5.6	4.2	8.5	-0.9
Gross national product	3.1	2.0	4.2	-0.8



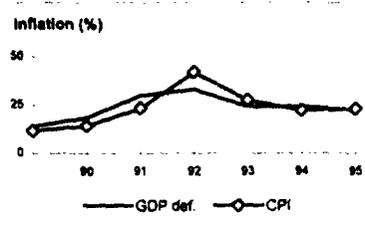
Note: 1995 data are preliminary estimates. Figures in *italics* are for years other than those specified.

\* The diamonds show four key indicators in the country (in *bold*) compared with its income-group average. If data are missing, the diamond will be incomplete.

## Zimbabwe

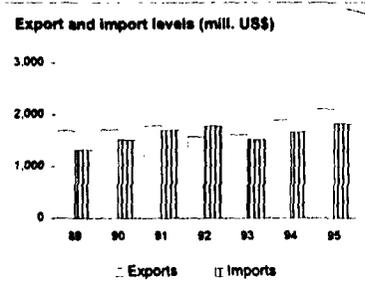
## PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
<b>Domestic prices</b>				
(% change)				
Consumer prices	10.0	14.2	22.3	23.0
Implicit GDP deflator	9.5	7.3	24.2	22.6
<b>Government finance</b>				
(% of GDP)				
Current revenue	..	33.0	29.2	29.1
Current budget balance	..	-5.8	-3.3	-5.0
Overall surplus/deficit	..	-8.9	-11.2	-12.1



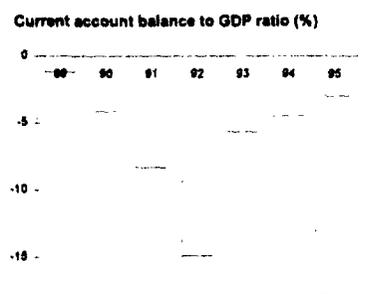
## TRADE

	1975	1985	1994	1995
(millions US\$)				
Total exports (fob)	..	..	1,891	2,104
Tobacco	..	..	425	490
Gold	..	..	252	271
Manufactures	..	..	682	727
Total imports (cif)	..	..	1,665	1,824
Food	..	..	50	51
Fuel and energy	..	..	201	217
Capital goods	..	..	608	725
Export price index (1987=100)	..	..	88	97
Import price index (1987=100)	..	..	108	118
Terms of trade (1987=100)	..	..	81	82



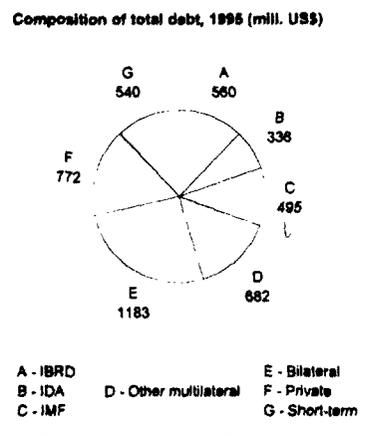
## BALANCE of PAYMENTS

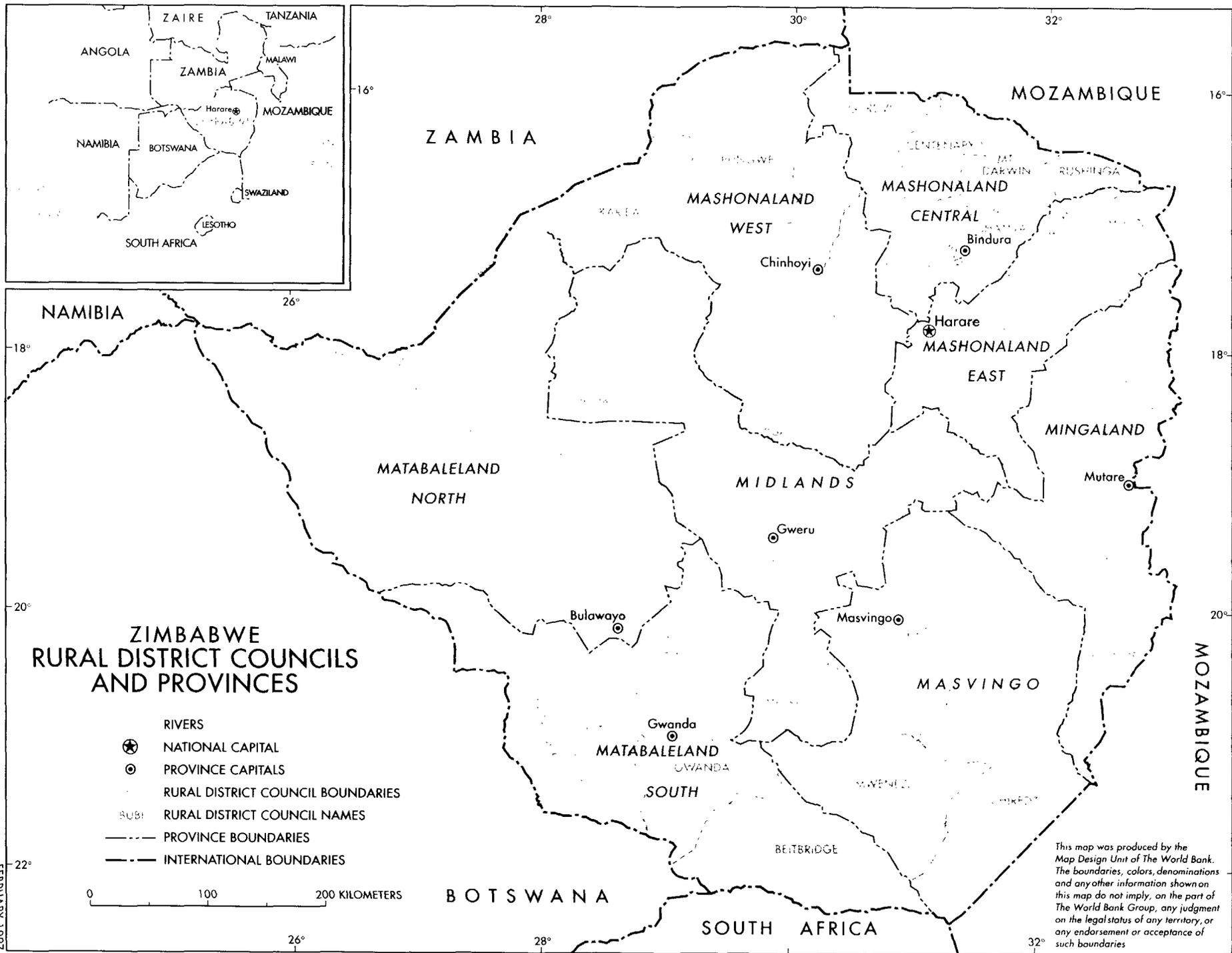
	1975	1985	1994	1995
(millions US\$)				
Exports of goods and non-factor services	1,002	1,229	2,305	2,555
Imports of goods and non-factor services	1,088	1,211	2,311	2,490
Resource balance	-86	18	-6	65
Net factor income	-83	-126	-309	-333
Net current transfers	-84	-45	56	79
Current account balance, before official transfers	-233	-153	-259	-189
Financing items (net)	225	253	421	261
Changes in net reserves	8	-100	-162	-72
<i>Memo:</i>				
Reserves including gold (mill. US\$)	129	345	492	672
Conversion rate (local/US\$)	0.6	1.6	8.1	8.7



## EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US\$)				
Total debt outstanding and disbursed	187	2,415	4,368	4,568
IBRD	19	205	556	560
IDA	0	30	313	336
Total debt service	8	422	608	689
IBRD	5	16	84	94
IDA	0	0	3	3
Composition of net resource flows				
Official grants	0	114	264	220
Official creditors	-6	115	146	117
Private creditors	0	-68	-155	-130
Foreign direct investment	0	3	35	40
Portfolio equity	0	0	50	50
World Bank program				
Commitments	0	10	90	0
Disbursements	0	46	135	47
Principal repayments	5	0	42	48
Net flows	-5	46	93	-1
Interest payments	1	17	46	48
Net transfers	-5	29	47	-49









## IMAGING

Report No.: P  
Type: MOP

7057 ZIM