

Aide Memoire

AusAID/AECF mission to Zimbabwe to Assess the Feasibility of a Zimbabwe Window of the Africa Enterprise Challenge Fund (AECF)

23-28 August 2009

Summary

The mission successfully completed the feasibility assessment of the proposed Zimbabwe Window (ZW) of the Africa Enterprise Challenge Fund (AECF). Criteria considered in the feasibility decision included Government of Zimbabwe support, and donor and potential target industry interest. The ZW will be developed as a multi-donor funded window to provide grants through a competitive process to private sector investments and projects in agribusiness and rural financial services in Zimbabwe. The initial financier of the ZW will be the Government of Australia, which has indicated an investment of AU\$5 million (US\$4.2 million, approximately) to support the initial round of competition under the window. The ZW will operate in accordance with the Africa-wide procedures of the AECF, though with some modest adjustments (to be defined in the project document) in response to the current business environment in Zimbabwe. Assuming the final ZW proposal is approved by the AECF Governing Council and the Government of Australia in October/November 2009, the first competition under it will be launched on 1 January 2010. Other donors will be encouraged to invest in the ZW.

Mission objectives and activities

The purpose of the mission was to assess the feasibility of establishing a Zimbabwe-specific Window of the AECF, and subject to this assessment, to prepare a draft project report. (Details of the objectives, organization and operation of the AECF are in Annex 1.) Criteria for the feasibility assessment include support for the proposed program by the Government of Zimbabwe; donor interest in the proposal, including potentially in funding it at a later stage; and, response to the proposal by agribusiness and rural financial services firms.

Team members and the general program of the feasibility assessment mission are at Annex 2.

The main people met by the mission are listed in Annex 3.

Background

Reactivation of private sector investment in the rural sector in Zimbabwe will have significant development impacts, both on the lives of the rural population and on the national economy. While the policy environment for the private sector is gradually improving and Government is encouraging private investment in rural areas, a main constraint for it is a severe liquidity constraint.

The Government of Australia through AusAID has decided in the context of its development assistance program for Zimbabwe that an injection of capital directly to private sector companies active in rural areas could have a significant and early impact on rural poverty and growth, as well as on the private sector in general. Taking into account the successful experience of the AECF in managing the

competitive allocation of capital into rural Africa, AusAID proposed to that organization the funding of a window limited to Zimbabwe. Such an exclusive focus would encourage early and significant funding for a country and for a sector that urgently need such assistance.

The proposed ZW will operate as an identifiable account within the AECF, with ear-marked funding from donors. It is expected that the first donor will be the Government of Australia, which will make, subject to final government approval, an investment of AU\$5 million in the first instance. This sum should cover a core of awards of the first competition. Should additional funds be available in time, they could finance additional awards in the first round or be used for later rounds. Donors active in Zimbabwe are being encouraged to contribute to the ZW as and when they have funds available, particularly in the coming year or so, to guarantee the viability of the ZW's proposed six-year life.

Zimbabwe companies have competed in the current AECF open round for the first time. Such applications will be entertained in the future but a Zimbabwe-specific window will ensure that more funds are available to meet the significant needs of Zimbabwe and the re-establishment of an active private sector.

Mission findings

(i) Response to the proposed Zimbabwe Window of the AECF. There is a high level of interest among private sector “target” agribusiness and rural financial services industries in the possible establishment of a Zimbabwe Window. The Government of Zimbabwe, represented by the Ministry of Finance, confirmed its strong support for the Window. The current round of the Africa-wide AECF competition has for the first time attracted several proposals from companies active in Zimbabwe. Grant financing to high quality private sector investments and projects in agribusiness and rural financial services – the two target areas of the ZW – will have direct production and employment effects, as well as helping catalyze private sector investment in the rural sector. The Ministry of Finance confirmed that proposed ZW activities are consistent with the Government's goals of increasing rural production and employment, including through a more active private sector involvement.

(ii) Issues raised during discussions. In the course of discussions with private sector parties, donors, Government and others, a number of issues were raised, as well as numerous points of clarification. These have helped the mission define and adjust aspects of the proposed ZW. Concerns included:

- whether tobacco production and processing would be eligible for financing (possibly, provided there is a focus on small farmer production and tobacco is the most viable crop);
- the coordination of the ZW with other relevant donor-funded initiatives such as donor funded farmer extension programs (this coordination will be promoted during the marketing and implementation of the Window); and
- the identification of political and financial risk in funding proposals (to be addressed in the risk assessment of the ZW in the project document and in its operating procedures).

(iii) Possible adjustments for the Zimbabwe Window. The ZW will be administered by the AECF in accordance with the procedures for its Africa-wide activities. However, some adjustments will be implemented for the ZW to take into account the reality of the Zimbabwe situation. Such possible amendments – which will be detailed in the design document – include the minimum size of grant and of the non-reimbursable portion of the grant; some up-front disbursement of funds (instead of reimbursement only); inclusion of funding representatives in ZW selection/award process; strengthening of due diligence procedures; recycling of repaid funds within the ZW; de-emphasizing in the selection process the usual systemic change goal of AECF grants; an Exchange of Letters between the AGRA/AECF and the Government of Zimbabwe on the objectives and *modus operandi* of the ZW; and the establishment of some local representation of AECF to help market and monitor ZW activities.

(iv) Role of Government of Zimbabwe. It is envisaged that there will be an Exchange of Letters between AGRA/AECF and the Government of Zimbabwe represented by the Ministry of Finance that will describe succinctly the role of both parties. AECF will provide funding under its competitive grant procedures, and report periodically to Government on the awards made under the ZW. Government will confirm the priority of the sectoral focus of the ZW; ensure, as needed, AECF access to its financed activities; and provide a contact point within the Finance Ministry for the ZW-financed companies to utilize as needed. By clarifying the basic Government/AECF roles, the Exchange of Letters will facilitate the operation of the ZW from the start, while providing a sufficient framework for the future donor contributions to the Window.

(v) Schedule of the opening of the Zimbabwe Window. The current mission will produce a draft design document (following AusAID Guidelines) for the ZW. This document will be finalized with AusAID input so that it can be circulated to the AECF Governing Council in time for consideration at its meeting on 9 October 2009. The Australian Government will make its funding decision 31 October 2009. Provided these steps are concluded on schedule, publicity/marketing of the first round competition of the ZW will take place in November/December, and the actual competition will be launched on 1 January 2010. Awards made during this first round will be announced by late May 2010. If sufficient additional funding is secured beyond the currently proposed AU\$5 million, a second round of competition under the ZW will take place in the second half of 2010.

(vi) Future funding requirements. The AU\$5 million now proposed by the Australian Government will initiate the first round of ZW competition, financing some 5-8 projects or more if capitalization permits. If additional donor funding is available in time and there are suitable quality proposals, more projects could be financed in the first round. About US\$5 million is required to finance a round of competition. AECF will take the lead in preparing a strategy to finance future rounds of the ZW competition over the coming three years, assuming that the first round demonstrates demand and suitable proposals are available. A number of donors have indicated their general support for considering future funding for the ZW, but there are as yet no concrete funding commitments. The ZW financing strategy should aim at tying in additional funding commitments through April 2010 (which would be needed for a second round) and beyond that date.

Next steps

The mission agreed on the following next steps in the establishment of the AECF Zimbabwe Window:

- *Exchange of Letters.* Letters will be exchanged between the Ministry of Finance and AGRA/AECF to formalize the establishment of the ZW. This will be done by 20 September 2009.
- *Completion of the Zimbabwe Window project document.* The project document will be completed for AECF Governing Council (GC) submission by 25 September; it will be refined/adjusted as needed after the 9 October GC meeting.
- *Financing and initiation of Zimbabwe Window activities.* Assuming that the AECF Governing Council and the Australian Government approve the proposed Zimbabwe Window, all efforts will be made by AECF and the Fund Manager to launch the ZW first round competition on 1 January 2010.
- *Financing strategy for the Zimbabwe Window beyond Round 1.* About US\$5 million is needed to initiate a viably-sized selection round of the ZW. AECF will draw up by 30 September a draft strategy for identifying and committing funds to finance the ZW beyond the first round of competition. This draft strategy will be finalized with input from AusAID and others, and implemented thereafter.

Annex 1: Africa Enterprise Challenge Fund – Key Features

The Africa Enterprise Challenge Fund (AECF) awards donor money on a competitive basis to private companies involved in agribusiness and rural financial services in Africa. AECF was established following the 2006 Commission for Africa as a partnership initiative of the Alliance for a Green Revolution in Africa (AGRA), which is chaired by Kofi Annan. AECF has capital of about US\$40 million, contributed by the British and Dutch Governments, IFAD and CGAP, and an initial period of operation of six years.

The goal of AECF is to accelerate pro-poor growth by increasing employment and incomes, and reducing poverty, especially in rural areas through a focus on agribusiness and rural financial services.

AECF allocates its resources to the private sector through a series of competitions open only to private sector companies. AECF provides grants and 0% interest loans of between US\$250,000 and US\$1.5 million per project; the financed company provides at least the same amount in cash/kind. Funds are disbursed on a reimbursement basis and over a maximum three-year period. Repayment of loans commences once all funds have been disbursed and must be completed within a further three years. The average AECF grant/loan size per project is US\$800,000.

Applications are made on-line (www.aecfafrica.org). There is a two stage application selection process. The initial applications are assessed, scored and ranked by the Fund Manager. The best applications are then presented to the AECF Investment Committee, which is composed of representatives of AGRA and independent assessors. The Investment Committee selects proposed projects that are then asked to prepare detailed business plans, upon which a funding decision is made by the Investment Committee. Criteria considered in selection include applicant capacity, additionality, business case and sustainability, development impact, contribution to systemic change, and innovativeness. It takes about five months from close of application to final selection.

AECF has run three “rounds” of competition since June 2008 – an “early bird” and two full rounds; a fourth round is underway. Through the three completed rounds, there have been more than 1600 website enquires, over 550 full applications, and 23 projects in 12 countries selected for awards totaling some US\$21 million. These projects have an estimated potential 4 million beneficiaries. In the fourth round, over 200 eligible initial applications are competing for five or so awards totaling US\$5 million.

As well as the twice-yearly Africa-wide competitions, AECF has established or is in the processing of establishing separately-financed “windows” for particular objectives. One is the proposed Zimbabwe Window, which will be funded initially by the Government of Australia. Another is a “Research in Use Window” that has been funded by DfID. There are also plans to establish a window to support agribusiness and rural financial services in growth corridors, in line with CAADP Pillar 2.

The AECF head office is in Nairobi. There are “hub” offices in Johannesburg and Accra. The fund manager is KPMG. AECF is managed by AGRA and is included in the AGRA audit/management process.

Annex 2: Team members and program

Team members are Michael Hunt (First Secretary, Australian Embassy, Harare); Andre Dellevoet (Executive Manager, AECF); Corin Mitchell (Senior Consultant, KPMG, the Fund Manager); Edson Mugore (Adviser, Australian Embassy, Harare); and Michael Baxter (Consultant, AusAID).

Mission activities comprised a field trip to visit small-scale farmers and extension agents at Murewa; meetings with private sector, government and donor representatives in Harare; and team discussions. Meetings were held with ten multi- and bi-lateral donors with an interest in supporting the private sector in Zimbabwe (European Union, UK/DfID, Netherlands, Canada, France, Switzerland, Germany, FAO, the World Bank and the IFC). The private sector active in agribusiness and rural finance was met through a series of individual and group meetings. The mission also met with the Ministry of Finance and Agribank (Agricultural Development Bank of Zimbabwe); the mission wrap-up meeting was chaired by the Secretary to the Treasury and joined at the end by the Hon. Minister of Finance.

Annex 3: Main People Met by the Mission

Private sector

Standard Chartered – Louise Evans (Senior Business Development Executive)

Union Project – Michael Dawes (Private Sector Liaison), Shadreck Hungwe (Project Manager)

Zimbabwe Commercial Farmers Union – Phillip Taruyanago (Director)

About 60 representatives of the following 30 companies at a group briefing on the Zimbabwe Window:

- Dairibord
- Shasha Tobacco P/L
- Chidziva Tobacco
- Factel Water Industries
- Northern Farming
- Jacana Capital
- ZFC Ltd
- CPI
- ZFDT
- Crest Breeders Int.
- Oenem Meat Products
- Rift Valley
- Seed Co.
- Windmill
- Microking Finance
- Zimbabwe Farmers Union
- Health and Hygiene (Pvt) Ltd
- Anchor Yeast Pvt Ltd
- Borders Timber Ltd
- Cairns Foods Ltd
- Chelli
- Commercial Farmers Union
- Sandbrite Investments
- Hortico
- Frupac Holdings P/L
- Team Up Farming Ventures Group
- Four Seasons Finance
- Beehives
- Agriseeds
- Fresh Leaf Tobacco

Donors

FAO – Michael Jenrich (Emergency Unit)

World Bank – Mungai Lenniye (Country Manager)

IFC – Saleem Karimjee (Country Representative)

European Union – Dominique Davoux

DfID

Swiss Cooperation

French Cooperation
Netherlands Cooperation
SNV

Government

Ministry of Finance – Hon. Tendayi Biti (Minister), Willard L. Manungo (Secretary to the Treasury), Pfungwa Kunaka (Principal Director (Budgets)), Margireta Makuwaza (Director (Domestic and International Finance))

Agribank – S.M.T. Malaba (CEO), Francis Macheke (Executive Director, Agricultural Development)