

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



ZIMBABWE

COUNTRY DIALOGUE PAPER 2007

**REGIONAL DEPARTMENT, SOUTH A – ORSA
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FISCAL YEAR
1 January – 31 December

MONETARY EQUIVALENTS
(March 2007)

1 UA = 1 SDR
1 UA = **1.50472 US\$**
1 UA = **372.13 Z\$**

The CDP is based on discussions held with officials in both the public and private sector institutions¹ during the three CDP preparation and dialogue missions (November 2004, June 2005 and November 2006) , and also incorporates findings from the October 2002 and June 2004 Arrears Clearance missions to the country. In addition, the CDP has benefited from various socio-economic reports of the Government of Zimbabwe (GoZ) and those of other international institutions including the IMF, World Bank and UNDP. The CDP also takes into account the Government's economic and social priorities as articulated in the 2003 National Economic Revival Programme (NERP), various Monetary Policy Statements (December 2003- December 2006), the Macroeconomic Framework 2005-2006, Annual Budget for 2006 and 2007, the 2006 Mid-Term Fiscal Policy Review and the National Economic Development Priority Programme (NEDPP) 2006.

¹ The Ministry of Finance, Ministry of Economic Development; the Reserve Bank of Zimbabwe (RBZ); the Ministry of Agriculture; the Ministry of Lands, Land Reform and Resettlement; the Ministry of Health and Child Care; Ministry of Industry and International Trade; National AIDS Council; the Ministry of Special Affairs Responsible for Anti-Corruption and Anti-Monopolies; the Ministry of Higher and Tertiary Education; the Central Statistical Office and the Confederation of Zimbabwe Industries (CZI). It has also incorporated discussions held with donors present in the country, notably, the UNDP, the World Bank, the USAID and the EU.

LIST OF ABBREVIATIONS

ACP	:	African, Caribbean and Pacific countries
AfDB	:	African Development Bank
ADF	:	African Development Fund
AIDS	:	Acquired Immune Deficiency Syndrome
AIPPA	:	Access to Information and Protection of Privacy Act
AU	:	African Union
AGOA	:	African Growth and Opportunities Act
ARDA	:	Agricultural Rural and Development Authority
ARVs	:	Anti-RetroViral drugs
ASPEF	:	Agricultural Sector Productivity Enhancement Facility
BEAM	:	Basic Education Assistance Module
BIPA	:	Bilateral Investment Protection Agreements
BOP	:	Balance of Payment
BWI	:	Bretton Woods Institutions
CAP	:	Consolidated Appeal Process
CEDAW	:	Convention on the Elimination of all forms of Discrimination Against Women
COMESA	:	Common Market for Eastern and Southern Africa
CPI	:	Consumer Price Index
CSO	:	Central Statistical Office
CDP	:	Country Dialogue Paper
CSP	:	Country Strategy Paper
CZI	:	Confederation of Zimbabwe Industries
EC	:	European Community
EDF	:	European Development Fund
ELMS	:	Environment Land Management System
EMA	:	Environmental Management Act
ESAP	:	Economic and Structural Adjustment Programme
EPZA	:	Export Processing Zone Authority
EU	:	European Union
ESW	:	Economic and Sector Work
FDI	:	Foreign Direct Investment
GDP	:	Gross Domestic Product
GFS	:	Government Financial Statistics
GMB	:	Grain Marketing Board
GNI	:	Gross National Income
GOZ	:	Government of Zimbabwe
GRA	:	General Resources Account
HDI	:	Human Development Index
HDR	:	Human Development Report
HIPC	:	Highly-Indebted Poor Countries Initiative
HIV	:	Human Immunodeficiency Virus
IBRD	:	International Bank for Reconstruction and Development
ICEU	:	Implementation and Control of Expenditure Unit
IMF	:	International Monetary Fund
IS	:	Interim Strategy
LAMA	:	Legal Age of Majority Act
LICUS	:	Least Income Countries Under Stress
MDGs	:	Millennium Development Goals
MDC	:	Movement for Democratic Change
MERP	:	Millennium Economic Recovery Programme
MOF	:	Ministry of Finance
MOED	:	Ministry of Economic Development

MOHCW	:	Ministry of Health and Child Welfare
MPSLSW	:	Ministry of Public Service, Labour and Social Welfare
MPS	:	Monetary Policy Statement
MTA	:	Money Transfer Agencies
NDC	:	Negotiated Deposit Certificates
NDP	:	National Development Plan
NECF	:	National Economic Consultative Forum
NERP	:	National Economic Recovery Programme
NERP II	:	National Economic Recovery Programme II
NEPAD	:	New Partnership for Africa's Development
NGO	:	Non-Governmental Organisation
NIP	:	National Indicative Programme
NOCZIM	:	National Oil Company of Zimbabwe
NPRSP	:	National Poverty Reduction Strategy Paper
NPV	:	Net Present Value
NRZ	:	National Railways of Zimbabwe
ODA	:	Overseas Development Assistance
PASS	:	Poverty Assessment Study Survey
PAYE	:	Pay-As-You-Earn
PCCF	:	Post-Conflict Country Facility
PFMS	:	Public Finance Management System
PLRP	:	Parastatal and Local Authorities Reorientation Programme
POSA	:	Public Order and Security Act
PPPs	:	Public Private Partnerships
PSFF	:	Productivity Sector Financing Facility
PRGF	:	Poverty Reduction and Growth Facility
PRGF-ESF	:	Poverty Reduction and Growth Facility-Exogenous Shocks Facility
RBZ	:	Reserve Bank of Zimbabwe
RMCs	:	Regional Member Countries
SADC	:	Southern African Development Community
TAF	:	Technical Assistance Facility
TBs	:	Treasury Bills
TNF	:	Tripartite Negotiation Forum
UA	:	Unit of Account
UNAIDS	:	United Nations Joint Response to HIV/AIDS
UNDP	:	United Nations Development Programme
USAID	:	US Agency for International Development
VAT	:	Value Added Tax
VCT	:	Voluntary Counselling and Testing
WB	:	World Bank
WTO	:	World Trade Organisation
ZABG	:	Zimbabwe Allied Banking Group
ZANU-PF	:	Zimbabwe African National Union-Patriotic Front
ZDHS	:	Zimbabwe Demographic and Health Survey
ZESA	:	Zimbabwe Electricity Supply Authority
ZHDR	:	Zimbabwe Human Development Report
ZIA	:	Zimbabwe Investment Authority
ZIC	:	Zimbabwe Investment Centre
ZIMPREST	:	Zimbabwe Programme for Economic and Social Transformation
ZIMRA	:	Zimbabwe Revenue Authority
ZSE	:	Zimbabwe Stock Exchange

EXECUTIVE SUMMARY

I. Introduction

1.1 Zimbabwe has been under sanctions with the Bank Group since 2000 when it started accumulating arrears on its loans repayments. Although the Bank had to suspend all its operations in the country because of sanctions, it has remained engaged through policy and arrears dialogue and provision of humanitarian assistance. This Country Dialogue Papers (CDP) aims to inform the Boards of Directors on recent socio-economic developments in the country as well as propose Bank Group interim strategy for strengthening dialogue on arrears clearance and policy reforms so as to prepare the way for the normalization of relations.

1.2 This CDP for Zimbabwe, in addition to providing an overview of recent developments in the country, highlights challenges facing the Government of Zimbabwe (GOZ) in turning around the economy. The CDP highlights the fact that the country is in its sixth year of recession, facing deteriorating macroeconomic environment, worsening socio-economic and governance conditions. In this context, the CDP also takes note of the strained relationship between GoZ and the Western Governments partly due to concerns over human rights and the rule of law. With regards to external debt arrears, the CDP notes that the GoZ has so far failed to honour past commitments to address the AfDB's arrears and that there is no clear solution to the country's arrears problem, largely due to scarcity of foreign exchange. The report however notes that the GoZ has been making disproportionate payments to its three main creditors with preferred creditor status, the IMF, the World Bank and the AfDB, which is a clear violation of the non-discriminatory debt service clause. The key message emerging from the discussions and analyses is that of a deteriorating socio-economic situation with grim prospects for arrears clearance in the medium-term. Without the necessary political will to make a fundamental change in policy direction based on a comprehensive reform agenda, the country's socio-economic condition would continue to deteriorate.

II. Recent Developments

Over the period, 2000-2006, the Zimbabwe economy experienced a significant downturn characterised by hyperinflation, multiple exchange rates, persistent fiscal deficit, low foreign exchange reserves, falling international terms of trade, negative interest rates and a build-up in external debt arrears. Social indicators have also deteriorated as poverty and income inequality continue to rise exacerbated by massive underemployment, decline in the social welfare system, food insecurity and the impact of the HIV/AIDS pandemic. The purchasing power of the average Zimbabwean is reported to have fallen to levels seen in the 1950s and the formal sector of the economy has significantly shrunk. On political front, the review period has been characterised by a series of political and economic events that contributed to heightened political tensions in the country. At the centre of the political instability were the land redistribution programme and election disputes. On the rule of law, although there has been an overall downward trend in violence associated with farm invasions and political disputes in the recent past compared to the situation in 2000-2003, there are still allegations of non-protection of civil liberties and human rights violations, especially with recent reports of isolated cases of farm invasions and the consequences of the 'operation Murambtsvina.' On corporate governance, some progress has been made in reforming the operations of the financial institutions, but more efforts are needed to restructure and privatise public enterprises.

III. Government Development Agenda

To address some of these macroeconomic, structural and social imbalances, a number of policy blue prints were introduced, namely; the Millennium Economic Recovery Programme (MERP) of 2000, the National Economic Recovery Programme (NERP) of 2003, and the Macroeconomic Framework (NERP II) 2005-2006. The National Economic Development Priority Programme (NEDPP) launched in April 2006 is an action-oriented and results based economic programme expected to implement ‘quick win strategies’ that will restore investor confidence, economic empowerment, rehabilitate and develop infrastructure, reduce both domestic and external debt to sustainable levels, and restore a positive image of the country. However, these programmes are not comprehensive enough to stop the deterioration of the country’s economic and social conditions.

IV. Dialogue with the Donor Community

The country’s relationship with development partners, especially the Western Governments, and the multilateral development banks (MDBs) has remained strained throughout 2000-2006. The on-going political impasse, allegations of human rights violations, inadequate policy reforms and arrears problem continue to deny the country of the much needed development assistance and opportunity to enjoy normalized relationships with the western donor community. Consequently, most of Zimbabwean traditional Western development partners are only engaged in the area of humanitarian assistance while funding for development programmes has virtually dried up, except for development assistance from India and China as a result of Zimbabwe’s ‘look east’ policy.

V. Bank Group Assistance Strategy

The Bank Group Portfolio

5.1 The Bank Group commenced operations in Zimbabwe in 1982 and as of March 31, 2007, the number of approved operations stood at 24, comprising 20 projects and 4 studies. Total commitments, net of cancellations, amounted to UA 497.46 million, of which UA 421.68 million (85%) was from ADB resources and UA75.78 million (15%) from ADF resources. Since the imposition of sanctions, the Bank has only been able to provide the country with humanitarian assistance in response to food crisis in 2002 and 2005.

The Bank Group Interim Strategy

Arrears clearance Strategy

5.2 At the moment, there is no clear solution to the arrears problem as the economy continues to face acute foreign currency shortages, leaving it with very limited options for arrears clearance. As such, Zimbabwe’s arrears to the Bank Group continue to grow and as of 31 March 2007 they had reached UA 231.85 million (equivalent to US\$ 348.87 million). Thus, the Bank’s short term strategy will focus on continued dialogue on policy reforms and arrears clearance with a view to getting the Government to clear ADF arrears and stabilise ADB arrears by paying bills falling due. A long-term solution can only be achieved in the context of a comprehensive joint arrears clearance strategy by the IMF, WB and AfDB underpinned by a strong economic reform programme to facilitate sustainability and full donor re-engagement.

Assistance Strategy

5.3 While efforts are being made to get Zimbabwe clear AFDB arrears, the Bank Group will focus its engagement in the country on non-lending activities in the form of economic and sector work (ESW) and capacity building support through the utilisation of the Middle Income Country (MIC) Trust Fund to enhance the country's pro-poor policy formulation and implementation as well as promoting effort to enhance agricultural productivity.

VI. Conclusion and Recommendations

Conclusions

6.1 The country is facing multiple challenges and the socio-economic situation continues to deteriorate. In a bid to arrest the economic decline and minimize economic hardships, the GoZ launched in April 2006 a National Economic Development Priority Programme (NEDPP) as its short term result-based economic programme, complemented by the 2007 Budget Statement and end 2006 Monetary Policy Statement. However, NEDPP itself offers little guidance on how the Government is going to address the challenges. What is obvious is that the piecemeal approach to resolve these crises has proven to be ineffective and has weakened the GoZ policy credibility. Given the depth of the crises, the Government would need to come up with a credible policy reform package that will be able to address the existing economic and structural bottlenecks and reduce poverty. This will, among others, entail restoring fiscal soundness by controlling expenditure within budgeted levels, correcting exchange rate misalignment and getting rid of the multiple exchange rate and interest rate systems, reduce money supply, phase out quasi fiscal spending, enhance agriculture productivity to reduce food inflation, remove existing price distortions, enhance capacity utilization in the productive sector, improve the provision of social safety nets and support to vulnerable groups as well as tackle governance issues including those related to public service delivery and performance of parastatals. At the same time, the GoZ would need to work with its creditors and the international donor community to come up with a comprehensive strategy for arrears clearance and donor re-engagement.

Recommendations

6.2 The Boards are invited to note the socio-economic and political challenges facing Zimbabwe and the fact that there is no clear solution to the country's arrears problem. The Boards are also invited to endorse the Bank Group interim assistance strategy focusing on economic and sector work and capacity building for promotion of agriculture productivity and the enhancement of pro-poor policy formulation and implementation.

I. INTRODUCTION

1.1 The 1999-2001 Country Strategy Paper (CSP) for Zimbabwe (ADB/BD/WP/99/148 – ADF/BD/WP/99/143), approved by the Boards in November 1999, was the last CSP before sanctions were imposed in May 2000. The Bank Group imposed sanctions on Zimbabwe due to the accumulation of payment arrears on the Bank Group loans, triggered by economic, political, financial and social crises. In such an environment, the Bank Group's operations had to be halted and the undisbursed amounts on previous loans/grants were cancelled. Since then, the Bank Group's engagement in the country has mainly been through dialogue on arrears clearance and policy reforms and humanitarian assistance. So far, the Bank has undertaken five missions in the country for arrears clearance, the last three being consultations for the preparation of the Country Dialogue Paper (CDP). The Bank has also provided humanitarian assistance in response to the food crises in 2002 and 2005.

1.2 Specifically, this CDP for Zimbabwe aims at informing the Boards of Directors of the socio-economic and political developments in Zimbabwe during the period 2000-2006. The key message emerging from this analysis is that of a deteriorating socio-political and economic situation, with resultant increase in economic hardship and poverty. However, in spite of acute foreign exchange shortages, the GoZ has been able to make substantial payments to the IMF to offset its arrears in the General Resources Account (GRA), but only made token payments to the World Bank and AfDB. The disproportionate payment to its three main creditors with preferred creditor status is a contravention of the non-discriminatory debt-servicing clause. In view of the failure of the Government to honour past obligations largely due to scarcity of foreign exchange, there is no clear solution to the country's arrears to the Bank Group, and as such, the prospects of the Bank Group re-engagement with the country in the medium-term appear rather grim.

Box 1: Country Profile

The Republic of Zimbabwe is located in the southern part of Africa. It shares borders with Mozambique in the east, Zambia in the north, Botswana in the southwest, and the Republic of South Africa in the south. It is a landlocked country with a land area of 390,757 square kilometers of which 85% is agricultural land and the remaining comprises national parks, state forests and urban land. The population of Zimbabwe was estimated at 11.8 million inhabitants in 2004, with the population growth rate estimated at an average of 0.3 percent per year over the past five years. It is also estimated that about 3.4 million Zimbabweans are living outside the country. In addition, 35% of the total population live in urban areas whilst the remaining live in rural communal areas.

Zimbabwe became independent in April 1980 when the Lancaster House agreements with Britain brought to an end fifteen years of unilateral declaration of independence by the former white-minority Government of Rhodesia and the armed conflict that it engendered. The Zimbabwe African National Union-Patriotic Front (ZANU-PF), led by President Robert Mugabe, has since been in power. At Independence in 1980, Zimbabwe inherited a dual economy, characterized by a relatively well-developed modern sector and an underdeveloped rural sector that employed about 80% of the labour force. Zimbabwe's economy relies heavily on agricultural crops, such as tobacco, cotton, and sugarcane, and related manufacturing industries, such as textiles and sugar processing. Until recently, most of the productive land was owned by the white minority operating on large-scale commercial farms, while the majority of the population lived on less productive agricultural land. The government started implementing a land redistribution program in 2000 as part of its agrarian reform programme. The redistribution programme was officially concluded in 2004 and the focus now is on assisting the newly resettled farmers put the farms into productive use. Recently, President Mugabe signed the Constitutional Amendment Bill allowing for the re-introduction of a Senate and the consolidation of the land reform programme by removing any legal claims that dispossessed white farmers might have over their previously owned land - confirming current and future acquisition of land for resettlement purposes. The GoZ launched its 99-year lease programme in November 2006.

II. RECENT DEVELOPMENTS

2.1 Background

2.1.1 Zimbabwe is experiencing its worst socio-economic and political crises since it achieved independence in 1980. The nature, causes and effects of these crises are complex and varied. The socio-political crisis has its origins in the colonial legacy of land ownership

and distribution,² the disputed elections and the weakening socio-political governance. A steady decline in living standards in the 1990s coupled with the unresolved land issue and rising unemployment triggered violent riots, the invasion of commercial farms by landless peasants and widespread political unrests. This in turn galvanised the main trade union federation, the Zimbabwe Congress of Trade Unions, into forming a political party, the Movement for Democratic Change (MDC). Although the Zimbabwe African National Union-Patriotic Front (ZANU-PF) won majority seats during the June 2000-parliamentary elections, the MDC also managed to secure 57 seats, making it a strong opponent to ZANU-PF. Shortly after these elections, the Government embarked on the Fast-Track land redistribution process, which has transformed the land ownership structure and socio-economic dynamics in the country.

2.1.2 The current socio-economic crisis also emanated largely from the inherited system of 'colonial economy' and failures of the post-independence reform programmes.³ The crisis was further exacerbated by cost implications of the military interventions in the Democratic Republic of Congo and the farm invasions. These in turn resulted in macroeconomic instability, deterioration in the standards of living and the decline in the formal sector economy.⁴ The impact of the HIV/AIDS pandemic and recurrent drought further exacerbated the crisis. Consequently, by 2000, the country was facing an acute shortage of foreign exchange, unsustainable budget deficit and domestic debt, worsening poverty levels and corruption, widening income inequality, growing parallel market activities and accumulation of repayment arrears on foreign debt.

2.2 Macroeconomic Context

2.2.1 The period under review witnessed a sharp deterioration in productivity in the real sector attributed largely to the sharp fall in agricultural productivity, triggered by the implementation of the fast track land reform program, recurrent droughts and weak macroeconomic environment. As a result, **real Gross Domestic Product (GDP)** growth has been shrinking, recording a cumulative contraction of over 35 percent during 2000-2006. The **agricultural** sector, which used to contribute over 19 percent of GDP, registered a cumulative decline of over 20 percent during this period and its contribution to GDP declined to 16.1 percent in 2005. Meanwhile, the **manufacturing** sector, whose contribution to GDP averaged 18.6 percent, also registered a cumulative decline of over 50 percent, on account of low capacity utilization driven by increased production costs, acute shortages of foreign currency, persistent fuel shortages, and increased competition on the local market, particularly from products from Asia. According to GoZ, GDP growth rate is estimated to decline at a lower rate of 2.5 percent in 2006, compared with the contraction of 3.8 percent in 2005, on account of improved recovery in the agricultural sector.

2.2.2 Public expenditure management has become a real challenge for the country in the recent period, largely due to inadequate expenditure controls. Despite the positive revenue performance resulting from fiscal creep (the impact of inflation on income), public expenditure has continued to outpace revenue and the tax base continues to narrow. In terms of composition, public expenditure is largely skewed towards recurrent spending, with little left for investment activities. Although there was some improvement in the fiscal balance in 2003 from a deficit of 28 percent of GDP in 2000 to a deficit of 0.3 percent due to temporary tightening of fiscal stance, fiscal deficit has persisted (6.3 percent of GDP in 2004, 3.7 percent in 2005) and has largely been financed domestically through issuance of Treasury

² Racial disparity in the landownership.

³ Austerity measures led to massive retrenchment in the civil service, both skilled and unskilled labour; deterioration of social services; massive closure of manufacturing industries; and, general price increases

⁴ Triggering the emergence of a large informal sector

Bills and Bonds. The analysis provided by the IMF in 2005 had put fiscal deficit, including quasi-fiscal expenditures, close to 60 percent of GDP. Recently, the Government has more or less come to the same conclusions reporting an estimated fiscal deficit, including quasi-fiscal expenditure, of 43 percent of GDP in 2006.

2.2.3 Developments in the fiscal front also contributed to the growth of money supply, thus fuelling **inflation**. Since May 2005, the year-on-year inflation has been on an upward trend averaging 1,016 percent in 2006. The year-on-year inflation rate has accelerated from 129.4 percent in April 2005 to 1,729.9 percent in February 2007, on the back of salary increases, shortage of basic commodities and rapid money supply. The increase in domestic credit and money printing for instance to offset the IMF arrears, have contributed to the sharp rise in **money supply** to 1,430 percent in November 2006 up from 520 percent in December 2005. Consistent with the inflation trends, **interest rates** have also been adjusted upwards in line with the Reserve Bank of Zimbabwe (RBZ) interest rate policy. For instance, in October 2006, the RBZ raised accommodation rates from 300 percent to 500 percent for secured lending and from 350 percent to 600 percent for unsecured lending in a bid to slow down monetary expansion. To ease some of the burden of hyperinflation on consumers, the RBZ also rebased the currency in August 2006, by dropping three zeros in the old bank notes and introducing new currency denominations as part of the currency reforms.⁵

2.2.4 With the widening of the savings-investment gap, the deficit in the **external current account** has also persisted. Although both exports and imports have been on a downward trend, imports have been falling at a much slower pace. The impact of recurrent droughts and the effects of an overvalued exchange rate on export viability contributed to a cumulative decline in **exports** of over 45 percent between 2000 and 2005. Given the country's low level of foreign exchange reserves (equivalent to 0.1 months of import cover), the external current account deficit has been financed mainly by accumulating arrears on external debt. In response to the persistent foreign exchange crisis, the RBZ has been tinkering with the exchange rate policy in attempt to arrest the situation. For instance, in early 2004, RBZ introduced tighter foreign exchange regulations to combat speculative activities, a managed float foreign exchange auction system and various other initiatives such as the Homelink and exports retention system.⁶ Then 2005-2006 saw the reintroduction of the **inter-bank foreign exchange market** system, partial control⁷ on daily exchange rate fluctuations and the adjustment of the inter-bank exchange rate by 60 percent to a new official rate of Z\$250 per US\$ (from Z\$101.1/US\$). None of these policies have succeeded in curtailing parallel market operations and restoring exporter's viability. Instead, the premium between the parallel and official rate continues to widen – currently at above Z\$ 2000 mark, and the exchange rate misalignment continues to exert inflationary pressures.

⁵ According to the July 2006 MPS, the price of Z\$1000 under the old system would now cost Z\$1 of the rebalanced bearer cheques

⁶ These measures worked temporarily as they contributed to increased foreign currency inflows through the official channel from US\$301 million in 2003, to US\$1.7 billion in 2004.

⁷ Allowing the market rate to fluctuate only within the bands (0 to +/-2% on the mid rate) based on actual volumes traded in the market.

Debt Situation

2.2.5 Over the past six years, Zimbabwe's external debt situation has remained rather unsustainable.⁸ According to the Debt Sustainability Assessment,⁹ the country's external debt to GDP ratio in net present value (NPV) terms is unsustainable – above the HIPC threshold.¹⁰ The NPV of external debt/GDP is expected to continue to rise from 68.8 percent in 2004, to 80 percent in 2006, whereas, the NPV of external debt/exports is estimated at 263 percent in 2006 up from 254 percent in 2004. Meanwhile, the debt service to export ratio is expected to average 18 percent. Given the current situation, Zimbabwe will continue to accumulate external arrears over the medium term and it is only through some sort of debt rescheduling and arrears clearance could this situation change. With regards to the domestic debt, this is also becoming an emerging problem, not only because of its sheer massive size but also the rate at which the domestic debt is growing. For instance, the domestic debt stock¹¹ has increased sharply, in nominal terms, from just Z\$1.7 billion¹² in December 2004 to Z\$178 billion¹³ at end December 2006, triggered largely by the sharp increase in domestic financing and the rise in the T-Bills rate. In GDP terms, however, the domestic debt appears to be sustainable,¹⁴ mainly on account of negative real interest rates.

Business Climate

2.2.6 The **investment climate** remains rather depressed and concerns related to the rule of law continue to undermine investors' confidence and raise uncertainties over property rights. The country is also facing difficulties in getting overseas investments and lines of credit due to weak business environment and poor credit rating. As a result, **private gross capital formation**, critical for economic growth and job creation, has been on a downward trend. The decline in output in the real sector has in turn resulted in massive job losses, especially with the closure of more than 800 private companies since 2000. The situation has also been exacerbated by the deterioration in infrastructure and the inefficiencies in public utilities. Moreover, there has been little progress in the implementation of Bilateral Investment Protection Agreements (BIPA) affected by the Land Reform Programme. Zimbabwe is also not doing very well as far as the ease of doing business is concerned. The 2004 World Bank's 'Doing Business' Report ranked Zimbabwe 153th out of 175 countries surveyed, behind Namibia (42), Botswana (48), Zambia (102), Malawi (110) and Mozambique (140). With regards to foreign direct investment flows, the UNCTAD's 2006 World Investment Report, reports an increase in FDI inflows to Zimbabwe from US\$9 million in 2004, to US\$ 103 million in 2005, mainly to the mining sector.

Outstanding Macroeconomic Issues

2.2.7 Macroeconomic imbalances remain unabated as inconsistencies in the fiscal and monetary policies persist. Despite numerous policy pronouncements by the GoZ, the country continues to experience hyper-inflation, unsustainable fiscal deficit and external current account deficit, multiple exchange rate and interest rate systems, and unsustainable external

⁸ As at end-October 2006, the external debt had reached US\$4.1 billion, of which US\$ 2.2 billion constitutes arrears.

⁹ 2005 IMF Article IV Consultations Report

¹⁰ Debt Sustainability Assessment Thresholds: Present value of total debt/GDP = 50%; Debt service/exports = 30%; Present value of total debt/export = 150; Present value of total debt/Government revenue = 250

¹¹ The Government's debt stock consists of stocks, treasury bills and central bank advances

¹² The country's August 1, 2006 currency reform exercise resulted in the revaluation of the currency with the removal of three zeros from the old bearer checks and the introduction of a new set of bearer checks. As such, all domestic currency statistics reflect the revalued currency

¹³ 50 percent of domestic debt is made of interest rates on TBs

¹⁴ below the HIPC threshold of 50 percent

debt. These are exacerbated by distortionary pricing system (especially of basic goods and services), acute foreign currency shortages, low capacity utilization in the real sector, weak business climate as well as inefficiencies in service delivery.

2.3 Governance Situation

2.3.1 Political Situation: A series of political and economic events that occurred during the review period have contributed greatly to the heightened political tensions in Zimbabwe. The issue of land and election disputes have been at the centre of the political instability. Specifically, the period under review witnessed two parliamentary elections (2000 and 2005), a Presidential election (2002) and a senatorial election (November 2005). In comparison to the 2000 and 2002 elections, the March 2005 elections and the November 2005 Senatorial elections marked an improvement in the electoral process, with the adoption of the Southern African Development Community (SADC) electoral guidelines and principles. However, the main Opposition party, MDC, and the western governments still denounced the March 2005 elections as not being 'free and fair', though the government is of a contrary opinion. Political tensions are expected to remain high as the country prepares itself for the upcoming 2008 Presidential Elections.

2.3.2 Rule of Law: There has been a downward trend in violence in 2004-2006, compared to the situation in 2000-2003 when there were reports of widespread violence associated with farm invasions and political disputes.¹⁵ This notwithstanding, there are still concerns over infringement of civil liberties, following the enactment of national security laws [Access to Information and Protection of Privacy Act (AIPPA), and the Public Order and Security Act (POSA)]. Moreover, the 2005 '*Operation Restore Order*' campaign by the Government to clean up the cities, left thousands of people homeless and a number of informal sector businesses destroyed. This led to international complaints about violations of human rights¹⁶. The evicted people are still homeless despite the GoZ's plans to build new homes for the displaced under the '*Operation Garikai*'.

2.3.3 Land Redistribution: The review period witnessed a transformation of land ownership structure from predominantly white commercial farmers to the former landless black farmers, with the redistribution of over 80 percent of the farmland. The exercise has however been criticized for cases of multiple-farm ownership and allegations of corruption, and it has also created productivity challenges in the agricultural sector, with only about 44 percent of the land distributed under full utilization.¹⁷ The land redistribution process is now completed and irreversible although there are still isolated reports of farm invasion. The focus is now on implementing the agrarian reforms and empowering newly resettled farmers. To take the land reform process forward, there is a need to reinvigorate the agricultural sector by incorporating a comprehensive system of land titling and rebuilding of the farm extension, irrigation and credit system in the manner that provides increased productivity and employment. In this regard, the 99-year lease programme was launched in November 2006 and the lease certificate is expected to facilitate access to bank credit.

2.3.4 Corruption: According to the World Bank's 2005 assessment of Governance Indicators, governance situation in Zimbabwe is worsening. Under the sub-category 'control

¹⁵ The events in the first quarter of 2007 leading to the beating up of the opposition leader by the police have again raised human rights and the rule of law concerns from the international community and some African leaders.

¹⁶ Report of the Fact-Finding Mission to Zimbabwe to assess the Scope and Impact of Operation Murambatsvina by the UN Special Envoy on Human Settlements Issues in Zimbabwe, July 2005.

¹⁷ About 10.4 million acres of farmland were seized.

of corruption', the index has declined from -0.97 in 2000 to -1.24 in 2005, implying an increase in corruption (see Annex 4). In addition, a recent survey by Transparency International (TI), also ranked Zimbabwe 137 out of 159 countries surveyed – worse than its neighbors Mozambique and Zambia ranked 103 and 120, respectively. Moreover, the country's Corruption Perception Index (CPI) score, ranging from 10 (highly clean) to 0 (highly corrupt), based on perceptions of the degree of corruption by business people, academics and risk analysts, deteriorated to 2.4 in 2006, down from 3.0 in 2000, also reflecting an increase in corruption perception. Corruption in Zimbabwe, largely fuelled by economic hardships and absence of a tight legislative framework, has resulted in loss of public funds. The constraints facing the anti corruption agenda include weak and fragmented anti-corruption policy and legal framework and institutional weaknesses.

2.3.5 Public Service Delivery: The review period witnessed deterioration in the quality of public service delivery due to inadequate funding and loss of qualified staff. Service delivery has also been affected by delays in payments to local authorities. Despite efforts to improve efficiency in service delivery in the country, the on-going fiscal challenges, the brain drain, the impact of HIV/AIDS and the economic and political instability continue to affect the country's capacity to effectively deliver public services. Although there is no supporting data, anecdotal evidence points to a steady erosion of the central and local government service delivery capacities. The erosion of public service capacities has in turn contributed to the deterioration in already low human development indicators. Meanwhile, performance of public enterprises also remains weak. Many of these enterprises are inefficient and mounting deficits point to large underlying quasi-fiscal losses. The Parastatal and Local Authorities Reorientation Programme (PLARP), a Z\$3.0 million programme introduced in 2005 to reform the public enterprises and the local government, has had limited success with only a few parastatals managing to successfully restructure. The recent transformation of the Privatization Agency of Zimbabwe (PAZ) into the State Enterprises Restructuring Agency (SERA) is an indication of the GoZ's preference for a mixture of parastatal restructuring and privatization.

Outstanding Governance Issues

2.3.6 The main outstanding governance issues include the on-going political impasse with the Western governments; poor performance of public enterprises; weak fiscal expenditure controls; high levels of corruption; high administrative controls; weak public service delivery; underutilization of the farmland and lack of clarity on issues related to land tenure rights and ownership; uncertainty over property rights; and, inadequate provision of social safety nets.

III. GOVERNMENT DEVELOPMENT AGENDA

3.1 Key Elements of the Government's Agenda

3.1.1 Over the past six years the Government has introduced several programmes aimed at reviving the economy. These included the National Economic Recovery Programme (NERP) in 2003 and the macroeconomic stabilization measures implemented by the RBZ in 2004 and the 2005-2006 Macro-economic Framework (NERP II), but none has been successful in turning around the economy. In April 2006, the Government launched the **National Economic Development Priority Programme (NEDPP)** as its short-term action oriented and results based programme to bring about economic stability. Specifically, NEDPP focuses on the following objectives: reducing inflation, stabilising the currency, ensuring food security, increasing output and productivity, generation of foreign exchange, enhancement of expenditure and revenue management, removal of price distortions and effective policy coordination and

implementation. Under the NEDPP, the Government seeks to mobilise US\$2.5billion to boost efforts to stabilise the economy, reduce inflation and increase agricultural productivity. The programme is expected to enhance savings and trigger investments inflows into the country. It is expected that NEDPP will be reinforced by a medium-term Economic Development Strategy. The medium-term outlook envisaged by the programme summarized in Table 1, point to an optimistic outlook by 2008, which appears rather ambitious.

Table 1: Macroeconomic Targets 2006 –2008			
Change in %	2006	2007	2008
Real GDP growth rate (%)	-2.5	0.5 -1.0	-
Agriculture	6.4	9.4	16
Mining	-14.4	4.9	15.5
Manufacturing	-7.0	-2.0	3
Construction	0	0	1.0
Tourism	1.0	1.1	1.0
Gross National Savings (% of GDP)	10	15	20
Gross National Investment (% of GDP)	15	20	25
Budget deficit (% of GDP)	43.3	36	2.0
Export growth %	-6.8	-	9.6
Import growth %	-2.1	-	3.6
External Current Account	-8.4	-6.7	-4.9
Inflation (period average)	1,016	350-400	Under 10%
Money Supply	1,430	415-500%	Under 65%

Source: Zimbabwean Authorities

3.2 Assessment of the Agenda

3.2.1 Coherence and realism of the Government Programme: The objectives articulated in the NEDPP are pertinent and well aligned with the long-term macroeconomic objectives espoused in the country's long-term development Vision 2020 as well as the Millennium Development Goals. NEDPP recognizes the importance of agricultural sector and the need to target food security in the realization of the country's Vision. In recognition of the need to accelerate growth and generate employment, NEDPP also highlights its intention to promote savings and enhance investment, boost investors' confidence, stimulate foreign exchange as well as support the development of the SMEs. NEDPP also envisages privatization of parastatals both in order to access capital and foreign exchange and to achieve technological advances. To ensure effectiveness in its operationalisation, like its predecessor, NEDPP also clearly articulates institutional arrangement for coordinating programme implementation. However, the programme is very ambitious – it has ambitious goals and a very tight timeframe. Apart from the fact that NEDPP does not clearly spell out the key national and sectoral long-term targets that are to be achieved, it also falls short of articulating the much needed policy and structural reforms necessary to bring about macroeconomic stability, remove administrative and price controls, improve public service delivery and efficiency in public enterprises, enhance capacity utilization in the real sector and address the growing problem of underemployment.

3.2.2 Increasing Output and Productivity: Improvements in the country's medium term growth performance depends on the fiscal deficit, money supply growth and the national debt being kept at manageable levels, sustained growth in agriculture, manufacturing and mining, greater success in boosting investment, the country's export competitiveness and undertake deliberate efforts to empower the poor. So far, little progress has been made on these variables. Fiscal deficit still remains high and the 2007 national budget has made a provision for a large deficit of 36 percent of GDP for the fiscal year, reflecting rapid monetary growth and hyperinflation and is inconsistent with the RBZ goal of reducing money supply to below

500 percent. Productivity levels remain low despite the massive injection of concessionary resources into the productive sector. Shortages of fuel and acute shortage of foreign exchange continue to affect capacity utilisation in the real sector. Although the GoZ has reported some successes in the provision of farm inputs like fertilizer within the NEDPP's framework, recovery in the agricultural sector is expected to remain slow due partly to underutilization of farmlands, insufficient supply of fertilizers, fuel shortages and the on-going farm disruptions. This notwithstanding, the GoZ's is very optimistic that positive growth of between 0.5 percent and 1.0 percent of GDP would be achieved in 2007. The IMF also projects a slight improvement in real GDP growth, driven largely by expected recovery in the mining sector though magnitudes differ (-4.7 percent in 2007 as against -5.1 percent in 2006).

3.2.3 Combating Inflation: The achievement of macroeconomic stability objective will take much longer than the timeframe envisaged in NEDPP and will require more than what has been stipulated in NEDPP to address the supply side and demand side structural rigidities. Specifically, the GoZ's inflation target of 350-400 percent for 2007 is rather ambitious, given the existing shortages of food, fuel, basic consumer goods, and essential agricultural inputs. Although the RBZ in its end-2006 MPS has elaborated plans to introduce more stringent money control measures to bring down money supply, there are still no clear indications that fiscal spending will ease anytime soon. Given the revenue base and increasing expenditure requirements, it is likely that there will continue to be money supply pressures in the short term due to quasi-fiscal expenditures. Therefore, the Government needs to come up with a strategy that will deal with the fundamentals driving inflation as well as combat inflation expectations. To address the inflation problem, the government would need to gain control over expenditure by prioritizing expenditure and living within its means. Government efforts should therefore be geared towards expenditure rationalization and public assets restructuring and/or sale. The phasing out of quasi-fiscal activities and their incorporation into the national budget would certainly help ease money supply pressures. The subsidy programme for the vulnerable groups should also be well targeted to maximize the impact on the very poor, at the same time minimizing cost on the GoZ. To curtail the growth of broad money, reserve money and domestic debt stock, the GoZ would need to apply more restrictive monetary policy, an aggressive liquidity mopping¹⁸ and an effective domestic debt management. This would need to be accompanied by measures to remove price distortions (including interest rate and exchange rate). The GoZ also needs to tackle food security, foreign exchange shortages, high production cost and capacity utilization problem, if inflation targets are to be met. The proposed price controls and wage freezes within the social contract framework proposed by RBZ will only work if there is political will on all parties concerned.

3.2.4 Currency stabilisation and Foreign Exchange Problem: The operationalization of NEDPP is also being affected by inadequate access to foreign financing and distortionary exchange rate policy. Although the 'Look East' policy has succeeded in securing some resource inflow into the country, the resources that have been mobilized have been insufficient to fully operationalize NEDPP's quick win strategies. Moreover, the existing exchange rate policy is hampering efforts to strengthen exporter's viability to boost the country's foreign exchange earning capacity and improve the country's international competitiveness. In addition, foreign currency shortages and speculative activities continue to fuel parallel market activities, hampering efforts to boost capacity utilization in the real sector as well as limiting the scope for exchange rate flexibility. As such, most of the foreign exchange inflows from the Diaspora get into the country through unofficial channels. Unfortunately, NEDPP does not provide clear answers as to how it is going to address some

¹⁸ Instruments include RBZ Bills, RBZ Financial Bills, Special TBs and open market operations bills

of these challenges. It is therefore quite clear that the Government will have difficulties meeting most of the NEDPP's objectives.

3.3 Challenges and Risks

3.3.1 Zimbabwe is currently facing many challenges and risks in operationalising its turnaround economic programme. Some of these challenges include the restoration of the agricultural productivity, policy reversals, political instability, and the HIV/AIDS pandemic. Exogenous shocks, namely intermittent weather conditions, changes in world trade regime and rising fuel prices, also constitute potential risks.

3.3.2 Restoring agriculture productivity: The main challenge currently facing the country is how to transform the agricultural sector into a vibrant growth sector. Even if there is adequate rainfall, it is unlikely that quick recovery will be achieved in the agriculture sector productivity. In view of the role land plays in an agro-based economy, the success of the country's economic turnaround programme would depend on the success of consolidating the land reform programme into a sustainable agrarian reform programme and the strength of institutions backstopping the agriculture sector and its infrastructure. The recovery of the agricultural sector will require remedying the implementation weaknesses of land reforms, particularly establishing clear property rights to improve security of tenure for all classes of farmers, restoring the incentives and profitability of agriculture, and providing extension and other support to the new farmers. To achieve this, the Government would need to address the issue of underutilization of newly resettled farms, land tenure, access to credit and farm implements. Even with the launch of the 99-day lease programme, the Government still needs to build the confidence of banks to finance bankable farming operations. The mixed messages emanating from recent reports of farm disruptions are clearly harmful in this process.

3.3.3 Weaknesses in Policy Implementation and Policy Reversals: In pursuing its economic policy and development objectives in the new millennium, the GoZ introduced several well articulated economic policies aimed at boosting growth and reducing poverty but implementation weaknesses has meant limited successes. Moreover, policy reversals and inconsistencies, inadequate policy application and weak coordination between monetary and fiscal policies have affected the GoZ's policy credibility and effectiveness. Instead, economic deterioration has persisted and poverty has continued to deepen. The failure of all these different policy regimes to revive the economy is partly attributed to weaknesses in policy implementation, absence of a comprehensive development strategy to provide an anchor for the various policies and inadequate support from the international community. Lack of adequate sectoral policies and strategies to provide a more focused guidance to these programmes and the piecemeal approach also rendered them ineffective. Ensuring the attainment of the required level of policy coherence in the country's macroeconomic framework remains a critical challenge. The degree of policy change required now is much deeper and harder to implement than before. A broader political consensus and a fundamental change in policy are therefore needed to achieve macroeconomic stability and sustained economic growth.

3.3.4 Political and Governance Issues: The Government needs to implement drastic political, social and economic reforms that will arrest the current deteriorating trend and social discontent among Zimbabweans. Lack of sustained progress on internal political dialogue between the main political parties and a general supportive policy environment will continue to be an impediment to the country's economic revival process unless there is a political will to change. The restoration of good governance and the restoration of relations with Western Governments would go a long way towards mitigating the political risk factor. The recent appointment of former Tanzanian President, Benjamin Mkapa to mediate in the

stand-off between Harare and London is certainly a positive step, but more needs to be done by the GoZ to engage its various constituencies in dialogue. To restore business confidence in the country, the Government needs to address the issue of the rule of law, corruption and also guarantee an environment conducive to private sector development.

3.3.5 HIV/AIDS: The HIV/AIDS pandemic poses a significant development challenge as well as a risk to the achievement of the government's agenda, both in terms of human and financial resources. Human resource depletion due to HIV/AIDS is visible in all sectors. To mitigate this, the country would need to mobilize additional resources, both domestically and internationally, to strengthen effective AIDS campaign and improve access to HIV prevention, care and treatment.

3.4 Medium Term Outlook and Policy Recommendations

3.4.1 In the absence of deliberate efforts to address the current socio-political and economic crises, prospects for the country's economic recovery look bleak in the medium term. Despite the fact that real GDP is expected to continue to shrink, though at a much slower rate, inflation is expected to continue to escalate in the short-to-medium term on the back of a weakening domestic currency, commodity shortages, quasi-fiscal expenditures (bailing out of public enterprises) and weak capacity utilisation. The fiscal deficit is also expected to continue to remain a problem exerting upward pressures on the domestic debt. Piecemeal policy approach adopted so far has not been effective in addressing the deep rooted macroeconomic, structural and social imbalances. The deepening economic crisis calls for pragmatic and results oriented economic and structural reforms that would restore macroeconomic stability, external competitiveness, capacity utilization and good corporate and economic governance. Such reforms would include among others, tax and expenditure management reforms; public enterprise and civil service reform; agriculture sector reforms; and the strengthening of private property rights. Specifically, the Government would need to put in place stringent expenditure controls to restore fiscal discipline and strengthen its revenue mobilization efforts.

3.4.2 The GoZ's support to the vulnerable groups should be enhanced, with increased provision of well-targeted social safety nets to the poor, OVCs and those affected by the "Operation Murambatsvina". Restrictive monetary policies, including measures to liberalize exchange rate and interest rates, should also be adopted to bring about equilibrium in the internal and external balance. To attain and sustain positive growth in the medium-term, the Government would need to address the issue of land and agricultural reforms, key in the revival of the core sector of the economy, stimulate supply side responses, restore investor's confidence and increase capacity utilization in the productive sector. On public debt, the Government needs to work on measures to address the external debt arrears and to improve the management of the domestic debt through effective debt restructuring. On the political front, the GoZ needs to make deliberate efforts to dialogue with the international community and resolve the on-going impasse with the Western Governments. Without the necessary political will and a fundamental change in policies, country's economic situation will continue to deteriorate.

IV. DIALOGUE WITH THE DONOR COMMUNITY

4.1 Donor Coordination

Zimbabwe's relations with its major traditional development partners, notably the western countries have remained strained throughout the review period. Following the presidential elections in March 2002, the country was suspended from the Commonwealth,

and Zimbabwe withdrew its membership in 2003. The decision by the Government to move forward with the implementation of the Fast Track Land Reform Programme (2003-2004) following the failure of the 1998 Donors Conference on Land Reform and Resettlement to resolve the land issue,¹⁹ further strained relations with the Western Governments. The country is currently under targeted sanctions from the US and the EU Governments. On donor coordination, UNDP and the World Bank organise semi-annual donor coordination meetings with all main donors where issues pertaining to the political and economic situation are discussed and where possible coordinated interventions are proposed. Donor assistance is currently focused on humanitarian, governance and HIV/AIDS related activities, and the funding is mostly channelled through NGOs and the UN System.

4.2 Relations with Development Partners

4.2.1 **European Union:** Zimbabwe remains one of the few ACP countries, which did not sign the 9TH European Development Fund (EDF) Country Strategy Paper (CSP) and the National Indicative Program (NIP). The Country Strategy programming process, which was completed and agreed upon with the GoZ in July 2001, was interrupted by suspension of cooperation with Zimbabwe on February 18, 2002. The EU, however, continues to provide support in the social sector, targeting projects in direct support of the population (HIV/AIDS, education, micro-projects and decentralised co-operation, democratisation, respect for human rights and the rule of law). EDF 9th is scheduled to expire in 2007. Negotiations for the 10th EDF programming were near finalization by December 2006. A country strategy paper has been agreed upon among government stakeholders.

4.2.2 The **U.S. Agency for International Development (USAID)**'s involvement in Zimbabwe dates back to 1980, when the country gained independence. Cumulative commitments to date amount to US\$892 million. The USAID has been involved in almost all sectors. Despite strained political relations, the United States remains a leading provider of humanitarian assistance to Zimbabwe, providing about \$300 million in humanitarian assistance from 2002-2004, most of which was in the form of food aid. The USAID five-year programme budget is approximately US\$15 million per year, with HIV/AIDS being allocated about 80 percent of the budget in 2005.

4.2.3 The **UNDP**, as a core development partner, has remained actively engaged in Zimbabwe throughout this difficult period, supporting both development and political processes. In the area of poverty reduction, UNDP's focus, among others, has been on supporting the GOZ's efforts in the fight against poverty and has facilitated the preparations of a national MDG Report and the Zimbabwe Human Development Report (ZHDR) in 2004, which articulated the development Vision for the country. The publication of the ZHDR2004 has rekindled debate around HIV/AIDS as a development problem as it has managed to establish strong links between HIV/AIDS and development, and vulnerability and HIV/AIDS. In collaboration with the Ministry of Public Service, Labour and Social Welfare (MPSLSW), UNDP has also funded the Poverty Assessment Survey II, measuring various dimensions of income and human poverty, assessing linkages between poverty, HIV/AIDS and providing relevant database for monitoring progress towards the MDGs. UNDP is also strongly supporting capacity building efforts in the area of governance and human rights.

4.2.4 **IMF:** Zimbabwe has been in continuous arrears with the IMF since February 2001 and has become the only country to protract overdue obligations to the Poverty Reduction and Growth Facility (PRGF). In spite of the closure of the IMF Resident Representative Office in Harare in October 2004, dialogue between the IMF and the GoZ has been ongoing,

¹⁹ The Conference was co-chaired by GOZ and UNDP.

with efforts being made by Zimbabwe to improve its relations with the Fund. In its bid to be current on its arrears, Zimbabwe stepped up its repayment to the Fund in 2005 and by February 2006, it had succeeded in clearing the IMF's General Resources Account (GRA) arrears, bringing down the overdue obligations to SDR 86 million (about US\$119 million). As of end-February 2007, Zimbabwe's arrears with the IMF had reached US\$129 million. Although Harare avoided being expelled from the Fund at the March 2006 IMF Executive Board, the country remained excluded from the list of PRGF-eligible countries.²⁰ The IMF Executive Board met on 23 February 2007 to review Zimbabwe's overdue financial obligations to the Fund and consider the sanctions, including the suspension of voting and related rights, that had been imposed on Zimbabwe with respect to its arrears to the IMF's General Resources Account. The Board decided not to restore Zimbabwe's voting and related rights and not to terminate its ineligibility to use the general resources of the Fund. The Executive Board also expressed deep concern over the deteriorating economic and social conditions and regretted that the authorities had not undertaken the policies recommended by the IMF. The board also noted that Zimbabwe's payments towards settlement of its PRGF-ESF arrears have been minimal and that its arrears to the Trust have further increased. The Board once again urged the GoZ to implement a comprehensive policy package comprising structural reforms, including public enterprise and civil service reforms, strengthened property rights and improvements in governance, and mutually reinforcing policies to address exchange rate misalignment, external current account restrictions and price controls and establish a strong monetary anchor, work towards improving relations with western donors and improve governance. Harare was also urged to resolve its remaining arrears to the PRGF-ESF Trust promptly, and the situation will again be assessed in six months.

4.2.5 The World Bank: The World Bank suspended its lending programme in Zimbabwe in May 2000 due to the country's failure to honor its overdue financial obligations. The country was put in non-accrual status in October 2000, and since then the World Bank's engagement in the country has been limited to policy advice and dialogue, primarily focusing on macroeconomic policy, land reform and contribution to UN-led humanitarian assistance and emergency drought recovery programs. Between 2004 and 2005, the country made two symbolic payments to the World Bank, US\$3 million in 2004 and US\$ 4.5 million in 2005. As of March 2007, Zimbabwe's arrears to the World Bank had reached US\$ 484.8 million. The World Bank is currently preparing its second Interim Strategy (IS) for Zimbabwe following the one approved in 2005.

V. BANK GROUP ASSISTANCE STRATEGY

5.1 The Bank Group's Portfolio and Portfolio Management

5.1.1 As of March 31, 2007, the number of approved operations stood at 24, comprising 20 projects and 4 studies. Total commitments, net of cancellations, amounted to UA 497.46 million, of which UA 421.68 million (85%) was from ADB resources and UA75.78 million (15%) from ADF/TAF resources (see table 2 below). The largest share (26%) of the assistance was provided for multi-sector policy based operations in support of the Government's Economic and Structural Adjustment Programmes. The next largest share (20%) was committed to Industry, Mining and Quarrying, followed by Transport (14%), Agriculture and Rural Development (10%), Water Supply and Sanitation (9%), Power Supply (8%), Communications (7%), Finance (6%) and Social Services (1%).

²⁰ Because GRA and PRGF arrears are subject to separate legal frameworks, the former under the Fund's Article of Agreement and the latter under the PRGF-ESF Trust Instrument- the clearance of GRA arrears has no effect on the application of the Fund's procedures for the treatment of outstanding arrears to the PRGF-ESF Trust.

Table 2: Operations Summary as at 31 March 2007

Operations since: 1982				
Number of operations: 24		Projects: 20	Studies: 4	
Source of financing	Commitments (UA million)	Disbursements (UA million)	Percentage disbursed	Undisbursed (UA Million) Cancelled
ADB	421.68	372.29	88.30%	49.39
ADF	68.25	38.68	56.67%	29.57
TAF	7.53	3.62	49.17%	3.91
Total	497.46	414.59	83.34%	83.52

5.1.2 The overall disbursement rate on the Bank Group Portfolio was 83 percent at the time when sanctions were imposed in May 2000. The remaining undisbursed loans and grant balances totaling UA 83.5 million were subsequently cancelled. Since then, the Bank Group has only been able to provide the country with emergency support in 2002 and 2005.

5.2 Strategies and Instruments for Strengthening Macroeconomic Policy Dialogue and Arrears Clearance

5.2.1 Zimbabwe has a difficult task of resolving its socio-economic challenges, including the mounting external debt arrears. The challenge facing the country in meeting its external debt obligations is quite daunting, with close to US\$ 1 billion arrears owed to the BWIs and the Bank Group. The GoZ has yet to design an arrears clearance plan satisfactory to the Bank Group. Since 2001, the Bank has held five arrears dialogue missions to the country. During the first Arrears Dialogue mission in October 2002, an agreement was reached to cancel several undisbursed loan balances amounting to UA 69.82 million. This was later followed by the cancellation of additional UA13.7 million in March 2004. During the second Arrears Dialogue mission in June 2004, a commitment was made by the GoZ to clear all ADF arrears, amounting to UA2.36 million at that time, by end-December 2004. The GoZ further promised to make quarterly payment of US\$1.5 million thereafter, part of which was to be applied to new ADF bills falling due and the rest to the payment of ADB arrears. The Government was reminded of these promises in the other three subsequent missions undertaken in November 2004, June 2005 and November 2006. By March 2007, the Government had only been able to make a cumulative payment of UA 2.8 million to the Bank.

5.2.2 In view of the non-fulfilment of its repayment obligations to the Bank, the arrears have been growing. As of 31 March, 2007, accumulated arrears with the Bank Group amounted to UA 231.85 million, comprising UA 228.42 million (ADB) and UA 3.43 million (ADF) (see table 3). An overview of the level of the Bank Group's arrears and the repayment projections are provided in table 4. From this schedule, it is quite evident that arrears are large, mainly ADB arrears, with relatively a smaller proportion of ADF arrears.

Table 3: Zimbabwe - Status of Arrears as of 31 March 2007

Window	Net Arrears (UA million)
ADB	228.42
ADF	3.43
Total	231.85

Table 4: Zimbabwe Loan Repayments Schedule from July 2004 to 31 December 2014

(in UA million)

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total	
ADB	Principal	95.69	7.04	14.05	14.05	14.05	12.37	11.91	11.57	10.95	2.79	2.79	0.46	197.73
	Charges	60.34	6.92	10.42	9.45	8.57	7.03	6.01	5.14	4.56	1.15	1.06	0.19	120.85
	Total	156.03	13.96	24.47	23.51	22.62	19.39	17.93	16.71	15.51	3.95	3.85	0.65	318.57
ADF	Principal	1.10	0.24	0.55	0.62	0.75	0.75	0.75	0.75	0.78	0.86	0.90	0.98	9.04
	Charges	1.26	0.13	0.26	0.26	0.25	0.25	0.24	0.24	0.23	0.23	0.22	0.21	3.79
	Total	2.36	0.37	0.82	0.88	1.00	1.00	1.00	0.99	1.02	1.08	1.12	1.19	12.83
Total	Principal	96.79	7.28	14.61	14.67	14.80	13.12	12.67	12.32	11.73	3.65	3.69	1.44	206.77
	Charges	61.60	7.06	10.68	9.71	8.82	7.28	6.25	5.38	4.79	1.38	1.28	0.40	124.63
	Total	158.39	14.33	25.29	24.39	23.62	20.40	18.92	17.70	16.53	5.03	4.97	1.84	331.40

5.2.3 Table 5 presents the status of arrears repayment to the BWIs and the ADB during 2004 - 2006. It is quite clear from this table that the Government has been able to make substantial repayments to the IMF and token payments to the AfDB Group, which is in clear violation of the non-discriminatory debt serving clause. This notwithstanding, the resumption of lending operations in Zimbabwe will be contingent upon clearance of arrears of *all three creditors* (BWIs and AfDB) and successful implementation of a comprehensive reform programme.

Table 5: Comparison of Repayment of Arrears to the BWIs and ADB

(Million of US\$)

	2004	2005	Qrt 1 06	Qrt 2 06	Qrt 3 06	Qrt 4 06	Qrt 1 07	Total Arrears repaid	Total Arrears Outstand ing	Total repayment/ total outstanding
IMF	21.1	163.5	26	0.2	0.1	-	-	210.9	129	163.5
WB	3	4.5	-	-	-	-	-	7.5	484.8	1.5
AfDB	3.5	0.476	-	-	-	-	-	4	349.4	1.1
Total	27.6	168.476	26	0.2	0.1	-	-	222.4	963.2	

Sources: IMF, World Bank and AfDB

Bank Group Interim Assistance Strategy

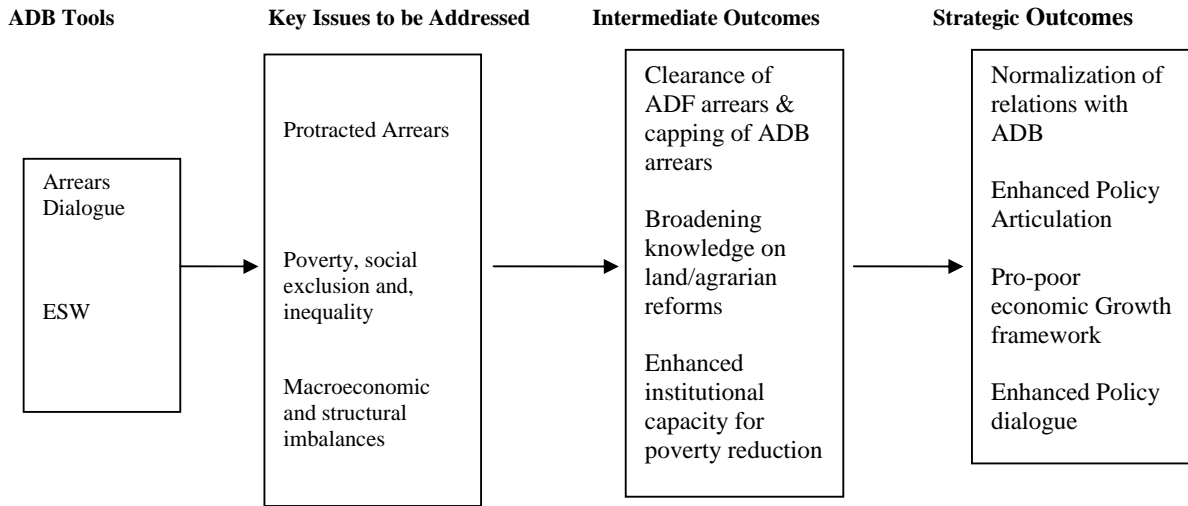
A. Arrears Clearance

5.2.4 There is no clear solution to Zimbabwe's arrears to the Bank Group since the country has very limited options for arrears clearance. The Bank Group policy also does not provide for debt rescheduling or bridge financing and the country does not qualify for the available Bank Group arrears clearance facilities - the HIPC Initiative and Post-Conflict Country Facilities (PCCF). In the Interim, therefore, the Bank will continue to dialogue with Zimbabwe on the need to clear ADF arrears and stabilise ADB arrears by paying bills falling due as from July 2007, and also emphasize on the need to adhere to the non-discriminatory debt servicing clause. The long-term solution can only be achieved in the context of a comprehensive reform programme and joint arrears clearance strategy by the IMF, WB and AfDB that would be agreed to with the Government. Discussions along this line will need to proceed with the BWIs at the senior management level.

B. Assistance Strategy

5.2.5 While efforts are being made to clear arrears, the Bank will continue to engage the Government on policy dialogue. In this respect, the Bank Group will focus on non-lending activities in the form of economic and sector work (ESW), focusing on land/agrarian reforms and poverty reduction. The World Bank’s 2004 Agricultural Sector Assessment Study provides a guide as to what the GoZ needs to do to bring about recovery in the sector, areas for policy and institutional capacity strengthening and resource mobilisation. Specifically, the Study include measures to increase land tenure security and complete the land reform process; provide strong incentives for production and investment in agriculture; implement a broader social protection programme for the vulnerable groups; build a cohesive policy and institutional framework for land administration and management, and for agricultural growth and development and mobilize necessary financial resources to support activities and programmes to promote agricultural recovery and growth²¹. The Bank Group’s proposed ESW would focus on the pillar on rebuilding a cohesive policy and institutional framework for agricultural growth and development. The Bank Group will also engage the Government on policy dialogue on the restoration of macroeconomic stability and poverty reduction. Possible sources of financing for the ESWs are bilateral funds and the MIC Trust Fund. Even though Zimbabwe is a blend country, it has no grant allocation under the ADF X that can be used for this purpose. In executing these activities, the Bank Group would collaborate with the UNDP and the World Bank who are also active in the area of poverty analysis and agrarian reforms. The framework for the proposed interim Bank Group strategy is illustrated in figure 1 below.

Figure 1: Framework for the Proposed Interim Strategy



VI. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

Zimbabwe is facing multiple challenges and the socio-economic situation continues to deteriorate. In its bid to arrest the economic decline and minimize economic hardships, the the GoZ launched in April 2006 a National Economic Development Priority Programme

²¹ 2005 IMF Article IV Consultations Report: ‘Land Reform, Agricultural Policies and Outcomes’

(NEDPP) as its short term result-based economic programme, complemented by end 2006 Monetary Policy Statement and the 2007 Budget Statement. However, NEDPP itself offers little guidance on how the Government is going to address the country's challenges. What is obvious is that the piecemeal approach to resolve the economic crises has proven to be ineffective and has weakened the GoZ policy credibility. Given the depth of the crises, the Government would need to come up with a credible and comprehensive policy reform package to address the economic and structural bottlenecks and poverty reduction. This will, among others, entail adopting prudent fiscal measures by controlling expenditure within budgeted levels, correcting exchange rate misalignment and getting rid of the multiple exchange rate and interest rate systems, reducing money supply, phasing out quasi fiscal spending, enhancing agriculture productivity to reduce food inflation, removing existing price distortions, enhancing capacity utilization in the productive sectors, improving the targeting of social safety nets and support to vulnerable groups as well as tackling governance issues related to public service delivery and poor performance of parastatals. At the same time, the GoZ would need to intensify internal political dialogue and normalize relations with western donors as well as work with its creditors to come up with a comprehensive strategy for arrears clearance.

6.2 Recommendations

The Boards are invited to note the socio-economic and political challenges facing Zimbabwe and the fact that there is no clear message from the Government on its repayment arrears to the Bank Group largely due to foreign exchange scarcity. The Boards are also invited to endorse the Bank Group interim assistance strategy for the country focusing on ESW aimed at enhancing agricultural productivity and pro-poor strategy formulation.

Annex 1: Cross Cutting Issues

1. Poverty and Equity: Poverty in Zimbabwe is positively associated with social exclusion, marginalisation, vulnerability, powerlessness and isolation. Apparent causes of poverty include deterioration of social services and facilities such as health and education, growing unemployment, inadequate access to productive resources like land, credit and technology, low levels arising from hyper inflation environment and its effect on income. Recent trends in the Human Development Index (HDI), which is composed of income per head, education levels and life expectancy, closely mirrors the deterioration in the socio-economic indicators in the country. Specifically, the decline in HDI from 0.525 in 2000 to 0.491 in 2004 reflects the sharp decline in life expectancy resulting from the country's relatively high prevalence of HIV/AIDS and also from the impact of falling per capita income and deteriorating standards of health and education.²² Current trends indicate that poverty is on the increase in both rural and urban areas, with more pronounced poverty levels in female-headed households. According to the Second Poverty Assessment Study Survey (PASS) II, the proportion of households below the Total Consumption Poverty Line (TCPL), had increased from 42 percent to 63 percent in 2003. The increase in poverty was more rapid in urban areas in 2003, while rural areas still had more poor people (71 percent) compared to urban areas (61 percent). The levels of poverty have also been affected by the high level of income inequalities in the country, as measured by the Gini coefficient estimated at 0.57 (2002).

2. Millennium Development Goals (MDGs): The existing social, economic and political challenges facing the country continue to hamper progress that has already been made towards the MDGs. According to PASS II, access to safe drinking water and safe sanitation in the rural areas registered a decline from 75 percent and 58 percent, respectively, in 1999 to 68 percent and 56.6 percent, respectively in 2003. Prospect for achieving the most of the MDGs continue to remain weak, although there was a positive outturn in the area of immunisation against measles (see annex 6). According to the MDG Progress Report 2004 (ZMDGR2004), the country would need to achieve and sustain a real pro-poor growth rate of over 6 percent for the remaining period leading up to 2015, a GDP per capita growth of 5.5 percent, contain the inflation level in the single digit region, and undertake comprehensive agrarian reforms if it is to have any hopes in reducing poverty by half by 2015. Moreover, without access to external financing, the achievement of these sets of outcomes by 2015 would be a big challenge.

3. Gender: Gender inequality is still an area that requires attention in Zimbabwe to promote development and poverty reduction. The deterioration of the economy and the HIV/AIDS pandemic since the 1980's has worsened gender imbalances in the economy, health and education sectors and increased the state of vulnerability of women. Evidence shows that female-headed households are more likely to be poor (72 percent compared to 58 percent in male-headed households). Gaps in access to recourses and employment have created and maintained gender inequalities in both urban and rural areas. The land reform program reserved a 20 percent quota for land resettlement for women, for example, but in reality even that quota has not been filled with only 9-12 percent of women benefiting. Women's livelihood in urban areas, which is almost exclusively based in the informal sector has been threatened by the Operation Murambatsvina in May 2005, which saw the grazing of informal settlements and businesses. While poor men, women and children were affected, women are particularly hit, since they predominate in the informal sector, are less likely to find formal employment and do not own land in rural areas where they could return to. In

²² Global Human Development Report 2005

terms of representation, women's representation in Parliament is still low and with 10 percent way below the 30 percent by 2005 agreed on in the SADC Gender Declaration. In fact, in Zimbabwe is one of the few cases where women's representation in parliament has decreased by 4.7 percent since the 2000 elections.

4. HIV/AIDS: According to UNAIDS, an estimated 1.6 million people were living with HIV and AIDs in 2005, with women aged between 20-39 years being the most affected. Although recent releases of national estimates indicate a declining trend in the prevalence rate from 24.6 percent in 2003, 20.1 percent in 2005 to 18.1 percent in 2006, this rate is still high. The recent reduction in HIV prevalence has been largely attributed to behavioural changes. The HIV/AIDS pandemic has contributed to the decline in life expectancy at birth from 52 years in 1990 to 37.3 years in 2006 as well as raising the dependency rate and the dwindling of social support system. The current population of children orphaned by HIV/AIDS in the country has been estimated at around 980,000,²³ the majority of whom are in the urban areas. And in 2007 alone, it is estimated that 130,000 children will lose one or both parents due to AIDS. According to GoZ reports, 45,000 Zimbabweans were accessing ARV drugs, by November 2006, and its ambitious target was to raise this number to 70,000 by the end of 2006. There is still an estimated 340,000 people in urgent need of the drugs. In its bid to mobilize domestic resources to combat the pandemic, a 3 percent HIV/AIDS levy continues to be applied on personal incomes across the board. Between 2000 and 2004, the Government was able to collect a total of Z\$120 million, and expects to collect Z\$260 million in 2005. Some donor resources are also being directed towards fighting the pandemic.²⁴

5. Health: The health sector has witnessed a reduction in the health budget in real terms, deterioration in health infrastructure, and increasing shortages of essential drugs and equipment. The service delivery in this sector has been further compounded by the HIV/AIDS pandemic and the rising incidence of treatable opportunistic illnesses such as tuberculosis and pneumonia. According to 2005/06 Zimbabwe Demographic and Health Survey report, child under-nutrition has increased (17 percent children) between 1999 and 2005, although child stunting (29 percent children) and wasting (6 percent children) have remained relatively stable. Although improvement in infant mortality has been reported, immunization coverage has been on a decline according to 2005/06 ZDHS. The country's target is to reduce under-five mortality to 27 for every 1000 live births and infant mortality from 59.5 to 22 per 1000 by 2015. Meanwhile, the maternal mortality ratio has registered an increase from 283 deaths per 100,000 live birth in 1995 to 1,100 per 100,000 live births in 2004. The rising poverty levels, poor environments and HIV/AIDS have also triggered the resurgence of Tuberculosis to 628 cases per 100,000 in 2001. The national target is to bring it down to 121 cases per 100,000 people by 2015. Outbreaks of dysentery and cholera signal the need for significant expansion in the overall budget allocation in the health sector budget. The health sector has also been facing human resource depletion due to HIV/AIDS related deaths and brain drain characterized by massive exodus of health personnel in search of better terms of service outside the country. Shortage of nurses to administer vaccines and drugs, including ARVs, has been a major set back in the fight against HIV/AIDS and other communicable diseases.²⁵ Moreover, food insecurity also continues to exert enormous health strain on poor households and the victims of HIV/AIDS.

²³ UNAIDS

²⁴ About US\$ 3 per capita

²⁵ The on-going Demographic Household Survey should shed some light on the status of the health-related MDGs.

6. Education: While Zimbabwe has been regarded highly for making significant strides in education, recent years have witnessed a deterioration in the education standard as the sector continues to be confronted with problems of brain drain, high HIV/AIDS rate among teachers, poorly equipped rural schools and poor access to education in marginalized areas. During the past five years an average of 2.5 million children have been enrolled at primary schools throughout the country, but of the 1.7 million who completed seven years of primary school, only 800,000 have had access to secondary school education.²⁶ Pass rates at both primary and secondary schools are reported to have fallen dramatically, while low salaries, increased workload, lack of adequate infrastructure and teaching aids have affected teachers' morale. According to UNICEF's Humanitarian Action Report 2007, 42 percent of pupils pass their grade 7 exams. Moreover, the textbook/pupil ratio is 1:8 for 2 million primary school-aged children and 1:16 for 1.5 million secondary school children aged 13-18 years. The period under review has also been characterised by increased dropout rates, re-emergence of gender disparity and deterioration of the quality of teaching. Specifically, net attendance has dropped by about 24 percent, from 85 percent to 67 percent for boys and from 86 percent to 63 percent for girls.²⁷ Moreover, population movements triggered by the land reform programme have presented new challenges to the provision of primary education for all children. Although education has consistently received the highest share of resources within the national budget in nominal terms, the resources remain inadequate. In 2004, the sector's budgetary allocation stood at 9.8 percent of GDP and 26.5 percent of total recurrent expenditure. In view of the depletion of human capital base, the GOZ has been putting more resources into the education sector to enhance the human capital base.

7. Support to Vulnerable Groups: The deteriorating socio-economic conditions in the country continue to adversely affect the lives of the vulnerable groups, including Orphans and Vulnerable children (OVCs). The poor quality of public service delivery has increased economic hardship and the suffering of the poor. Although the government has introduced some programmes to help the vulnerable groups like the subsidy programme (i.e. bread and wheat etc), which have managed to keep prices of the selected products affordable. They have not been well targeted and as such they have also been benefiting the rich consumers.

8. Environment: The country continues to be faced with the challenge of rapid urbanization and the state of the environment in Zimbabwe continues to deteriorate in both rural and urban areas. Moreover, in the newly resettled areas, there is evidence of gradual environmental degradation since land clearance for purposes of agriculture and firewood has contributed to extensive deforestation. Regulation and protection of the environment in Zimbabwe comes under the jurisdiction of the Ministry of the Environment and Tourism, the Ministry of Agriculture, the Ministry of Lands and Water Resources, and the Department of Natural Resources. While the figure for the rate of deforestation is unknown, it has been reported that estimates of deforestation indicate that the rate ranges between 100,000–320,000 ha per year, according to ZMDGR2004. It should also be noted that Zimbabwe is signatory to a number of international related conventions and other SADC protocols such as the SADC-Environment Land Management System (ELMS). The Environment Management Act (EMA) of 2002, which provides a framework for mainstreaming environment into national policies and programmes and for implementing appropriate programmes on environment. However, capacity limitations have hampered its effective implementation.

²⁶ Net secondary school enrolment rate in 2000 was 42 percent males and 40 percent female, with completion rates of 82 percent males and 73 percent female. The target is to reach 100 percent for both genders by 2015.

²⁷ The State of the World's Children, 2005

Annex 2: Land and Agricultural Sector Reform

The Government of Zimbabwe embarked on a fast track redistribution programme in July 2000, as a means of addressing poverty and the inequality problem. In late 2000, the UNDP Administrator proposed to the Zimbabwe Government a slowing down of its fast track resettlement programme to fit Zimbabwe's implementation capacity, independent monitoring of the situation in commercial farming areas; the promotion of internal dialogue; and the possible resumption of UNDP technical assistance. But the proposal did not get the Government support. As such, the years 2003-2005 saw a dramatic transformation of land ownership structure from predominately white commercial farmers to landless black farmers, with the redistribution of over 80% of the farmland. Under this programme, land has been allocated to new farmers grouped into A1 and A2 farmers, where type A2 is larger farm size for commercial purposes and A1 for subsistence farming with common ownership of grazing land. In this new system, there still old resettlement farmers, communal farmers and large-scale commercial farmers.

Since the inception of the Fast Track Land Reform Programme, the Government in close collaboration with other relevant stakeholders has resettled 140 698 farmers on 4 137 085 hectares under the A1 model, and another 14 856 farmers on 2 681 642 hectares under the A2 model. To date 6517 farms measuring 10 463 955 hectares have been gazetted for resettlement purposes. The Government is in the process of transferring these farms into State Land as is required by Legislation. To date 2721 farms measuring 4 387 862 hectares has been transferred into State Land as shown in the matrix below: -

Province	A1 Resettlement No. Of		Beneficiaries	A2 Resettlement No. Of		Beneficiaries
	Area (Ha)	Farms		Area (Ha)	Farms	
Manicaland	240	215 427	11 921	211	Manicaland	240
Mashonaland Central	340	568 197	14 939	319	Mashonaland Central	340
Mashonaland East	446	437 269	26 027	370	Mashonaland East	446
Mashonaland West	772	811 033	25 501	665	Mashonaland West	772
Masvingo	219	750 563	26 400	166	Masvingo	219
Matabeleland North	263	520 214	8 311	142	Matabeleland North	263
Matabeleland South	226	383 140	9 839	145	Matabeleland South	226
Midlands	240	451 242	17 760	262	Midlands	240
Total	2740	4 137 085	140 698	2280	Total	2740

Source: Zimbabwean Authorities

Prior to the land redistribution exercise, most of the idle land was found on white owned commercial farms and these were the lands most affected by the fast track programme. Since most of the maize farming was under the communal farms, the land redistribution exercise is said to have actually contributed to an increase in maize hectarage to 1.75 million hectares. However, in spite of this increase in hectarage, the severe drought condition has prevented the country from achieving food self-sufficiency. The recurring drought conditions have reduced the maize harvest to around 600,000 mt, against a national consumption requirement of 1.8 million mt. According to the proponents of land redistribution programme, the success of land reform should be measured in terms of transfer of ownership in the short term, while increased production should be a long-term objective.

On agrarian reforms, the Ministry of Agriculture has now been entrusted with productivity of farmers. The focus of the agrarian reform is now directed towards increasing agricultural productivity through improved provision of extension services and irrigation systems that will mitigate the impact of future droughts. The Agricultural Strategy has adopted covers the following areas: irrigation; mechanization; research and extension; livestock sector; input supply sector; marketing strategy. An Agricultural Policy Framework is also currently being formulated to guide agricultural developments. According to the World Bank, a recovery of the agricultural sector will require remedying the implementation weaknesses of land reforms, particularly establishing clear property rights to improve security of tenure for all classes of farmers, restoring the incentives and profitability of agriculture, and providing extension and other support to new farmers.

The 99 year Lease Agreements

In November 2006, the Government moved into the next phase of land reforms by launching the 99-year land leases to A2 farmers (commercial farms) and Usufruct permits to A1 farmers (small subsistence farmers) to address some of the issues concerning the security of tenure. With these leases and permits, farmers will be able to use land as collateral. It should however be noted that not all A2 and A1 farmers have been issued with these certificates, the process of vetting the farmers is still on-going. Efforts are also underway to improve accessibility to farming inputs i.e. fuel supply and fertilizers, but these are not enough to bring recovery and restore productivity in the agricultural sector.

Annex 3: Issues for Dialogue

Areas for Dialogue	Specifics
<i>Arrears Clearance & Debt management</i>	<ul style="list-style-type: none">• Need to come up with a comprehensive strategy of clearing arrears and managing the public debt• Strategies for improving the debt service capacity
<i>Structural and Economic Policy reforms</i>	<ul style="list-style-type: none">• Macroeconomic stability- exchange rate policy, strong fiscal management, inflation control• Agrarian reforms

Annex 4: Global Perception on Governance in Zimbabwe

48. Worldwide Governance Research Indicators Report

There exists a list of commonly used world indicators on governance. For instance, the 2005 Worldwide Governance Research Indicators Report reviewed six indicators: voice and accountability (measuring various aspects of the political processes, civil liberties and political rights), political stability (measures the perception of the likelihood of a change in government, domestic violence and terrorism), Governance effectiveness (quality of public service provision, bureaucracy, the competence of civil servants, government policy credibility & independence of civil service from political pressures), regulatory quality (incidence of market-unfriendly policies such as price controls or inadequate bank supervision, excessive regulation), the rule of law (effectiveness and predictability of the judiciary, enforceability of contracts, incidence of crime), and, control of corruption (perception of corruption). The table below depicts the percentile rank on each governance indicator, with higher values implying better governance ratings. According to the Report, the governance situation in Zimbabwe worsened between 2000 and 2005, as reflected in the rankings.

Table a: Governance Indicators for Zimbabwe

Governance Indicator	Year	Percentile Rank (0-100)	Estimate (-2.5 to + 2.5)	Standard Deviation	Number of surveys/polls
Voice and Accountability	2005	6.8	-1.65	0.14	9
	2000	14.5	-1.24	0.24	6
Political Stability	2005	7.5	-1.58	0.22	8
	2000	9.0	-1.50	0.29	6
Government Effectiveness	2005	4.3	-1.42	0.15	11
	2000	12.0	-1.10	0.20	7
Regulatory Quality	2005	1.0	-2.20	0.16	10
	2000	4.4	-1.67	0.30	7
Rule of Law	2005	4.3	-1.47	0.14	14
	2000	24.0	-0.79	0.16	11
Control of Corruption	2005	5.4	-1.24	0.15	10
	2000	15.2	-0.97	0.20	9

Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004.²⁸ *Note: The aggregate indicators in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent*

b) Freedom in the World 2006- Ratings Timeline (Political Rights, Civil Liberties, Status):

2000	2001	2002	2003	2004	2005
6,5,PF	6,6,NF	6,6,NF	6,6,NF	7,6,NF	7,6,NF

Source: World Freedom Report 2006, Freedom House

According to the 2006 Report, Zimbabwe's political rights declined further due to increased government repression of the political opposition. As in 2004, Zimbabwe's status remained 'not free'. Note: 1 represents the most free and 7 the least free and PF = partly free and NF = not free.

c) 2006 Index of Economic Freedom

In this report, Zimbabwe is ranked 154 out of 157 countries surveyed, with a score of 4.23. Lower score represents greater freedom from Government interference, whereas higher scores represent less economic freedom a country enjoys. The lowest score by the country was on 'Governance intervention in the economy'.

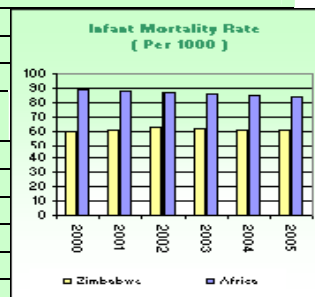
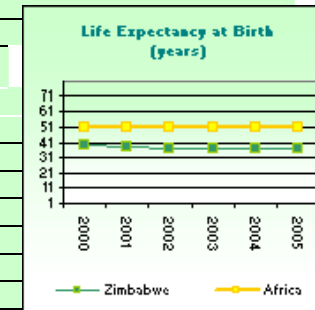
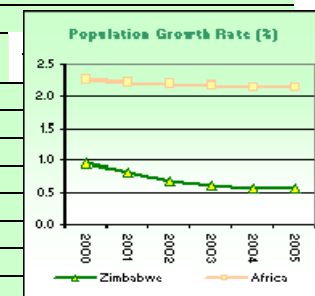
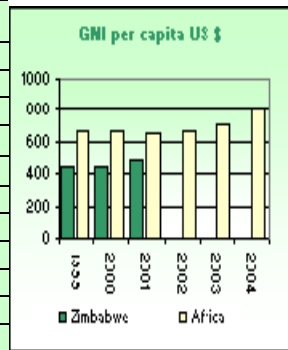
d) Transparency International Perception Index 2000-2006

Country	2002 Country Rank out of 102 countries	2002 CPI Score*	2004 Country Rank out of 146 countries	2004 CPI Score*	2005 Country Rank out of 159 countries	2005 CPI Score*	2006 Country Rank out of 159 countries	2006 CPI Score*
Botswana	24	6.4	31	6.0	32	5.9	37	5.6
South Africa	38	4.8	46	4.6	46	4.5	51	4.6
Namibia	28	5.7	56	4.1	49	4.3	56	4.1
Mauritius	42	4.5	55	4.1	54	4.2	42	5.1
Malawi	68	2.9	92	2.8	100	2.8	109	2.7
Mozambique			93	2.8	101	2.8	103	2.8
Tanzania	75	2.7	96	2.8	96	2.9	98	2.9
Zambia	80	2.6	107	2.6	115	2.6	120	2.6
Zimbabwe	76	2.7	121	2.3	116	2.6	137	2.4
Angola			133	2.0	151	2.0	142	2.2

Explanatory notes: *CPI Score ranges between 10 (highly clean) and 0 (highly corrupt).

Annex 5: COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Zimbabwe	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		391	30 307	80 976	54 658
Total Population (millions)	2006	13.1	924.3	5 253.5	1 211.3
Urban Population (% of Total)	2006	35.7	38.4	43.1	78.0
Population Density (per Km ²)	2006	33.5	30.5	60.6	22.9
GNI per Capita (US \$)	2005	340	955	1 154	26 214
Labor Force Participation – Total (%)	2005	45.6	42.3	45.6	54.6
Labor Force Participation – Female (%)	2005	44.1	41.1	39.7	44.9
Gender –Related Development Index Value	2004	0.483	0.475	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2004	151	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)*	2004	46.0	38.0	32.0	20.0
Demographic Indicators					
Population Growth Rate - Total (%)	2006	0.6	2.1	1.4	0.3
Population Growth Rate - Urban (%)	2006	2.0	3.5	2.6	0.5
Population < 15 years (%)	2006	39.5	41.3	32.4	18.0
Population >= 65 years (%)	2006	3.7	3.4	5.5	15.3
Dependency Ratio (%)	2006	76.2	80.8	57.8	47.8
Sex Ratio (per 100 female)	2006	98.7	99.9	102.7	94.2
Female Population 15-49 years (% of total population)	2006	27.6	26.8	27.1	25.0
Life Expectancy at Birth – Total (years)	2006	37.3	51.4	64.1	76.0
Life Expectancy at Birth – Female (years)	2006	36.4	52.2	65.9	79.7
Crude Birth Rate (per 1,000)	2006	29.3	36.5	22.8	11.0
Crude Death Rate (per 1,000)	2006	23.0	14.9	8.7	10.4
Infant Mortality Rate (per 1,000)	2006	59.5	82.5	59.4	7.5
Child Mortality Rate (per 1,000)	2006	113.9	137.7	89.3	9.4
Total Fertility Rate (per woman)	2006	3.3	4.7	2.8	1.6
Maternal Mortality Rate (per 100,000)	2000	1 100	623	440	13
Women Using Contraception (%)	2000	53.5	26.6	59.0	74.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	16.1	38.2	78.0	287.0
Nurses (per 100,000 people)	2004	72.3	110.7	98.0	782.0
Births attended by Trained Health Personnel (%)	2000	84.0	43.7	56.0	99.0
Access to Safe Water (% of Population)	2004	81.0	62.3	78.0	100.0
Access to Health Services (% of Population)*	2000	85.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2004	53.0	44.2	52.0	100.0
Percent. Of Adults (aged 15-49) Living with HIV/AIDS	2005	19.2	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2004	0.0	0.0	144.0	11.0
Child Immunization Against Tuberculosis (%)	2005	98.0	78.1	82.0	93.0
Child Immunization Against Measles (%)	2005	85.0	68.0	73.0	90.0
Underweight Children (% of children under 5 years)	2003	44.0	39.0	31.0	...
Daily Calorie Supply per Capita	2004	1 978	2 435	2 675	3 285
Public Expenditure on Health (as % of GDP)	2002	4.4	5.6	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2003/04	96.0	96.7	91.0	102.3
Primary School - Female	2003/04	95.0	90.4	105.0	102.0
Secondary School - Total	2003/04	36.0	43.1	88.0	99.5
Secondary School - Female	2003/04	35.0	36.5	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2002/03	50.6	47.5	51.0	82.0
Adult Illiteracy Rate – Total (%)	2006	7.6	43.3	26.6	1.2
Adult Illiteracy Rate – Male (%)	2005	4.8	34.5	19.0	0.8
Adult Illiteracy Rate – Female (%)	2005	11.3	52.4	34.2	1.6
Percentage of GDP Spent on Education	2000	4.7	4.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005	8.3	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000	1.5	0.7	0.40	-0.20
Annual Rate of Reforestation (%)	2000	2.0	10.9
Per Capita CO2 Emissions (metric tons)	2005	1.2	1.0	1.9	12.3



Source : ADB Statistics Division databases; UNAIDS; World Bank Live Database and United Nations Population Division; Country Reports
 Notes: n.a. Not Applicable ; ... Data Not Available. *

Table 1: Millennium Development Goals (MDGs)

MDG Goals and Targets	1990	2001	2005/latest	2015
Goal 1: Eradicate Extreme Poverty and Hunger				
<i>Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day</i>				
1. Population below USD 1 a day (%)	33	56.1	69	18.0
2. Poverty gap ratio at USD 1 a day (%)	9.6			
3. Share of income or consumption held by poorest 20 % (%)	4 (87-98)	4.6		
<i>Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger</i>				
4. Prevalence of child malnutrition (percent of children under 5)	11.5	13.0	13 (95-02)	5.8
5. Population below minimum level of dietary energy consumption (%)	43 (90/91)		44(00/02)	21.5
Goal 2: Achieve universal primary education				
<i>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</i>				
6. Net primary enrolment ratio (% of relevant age group)	86 (90/91)	82.7	96.65	100
7. Percentage of cohort reaching grade 5	94			
8. Youth literacy rate (% ages 15-24)	93.9	97.4	97.6	100
Goal 3: Promote Gender equality and empower women				
<i>Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015</i>				
9. Ratio of girls to boys in primary and secondary education (%)	95.30	95.00		100.0
10. Ratio of young literate females to males (% ages 15-29)	94.60	97.10	97.3	
11. Share of women employed in the non-agricultural sector (%)	15	20		
12. Proportion of seats held by women in the national parliament (%)	11	10	10.0	>30
Goal 4: Reduce child mortality				
<i>Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate</i>				
13. Under-five mortality rate (per 1,000)	80	123	82 ²⁹	27
14. Infant mortality rate (per 1,000 live births)	53	76	59.5	22
15. Immunization against measles (percent of children under 12-months)	87	87 (1995)	85	100
Goal 5: Improve maternal health				
<i>Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio</i>				
16. Maternal mortality ratio (modelled estimate; per 100,000 live births)	570	695 (85-03)	1,100 (2000)	142.5
17. Proportion of births attended by skilled health personnel	69.6	73	79.7	
Goal 6: Combat HIV/AIDS, malaria and other diseases				
<i>Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS</i>				
18. HIV/AIDS prevalence (percent ages 15-49)		24.6(2003)	18.1(2006)	
19. Contraceptive prevalence rate (percent of women ages 15-49)	43.1	53.5		
20. Number of children orphaned by HIV/AIDS		780,000	980,000	
<i>Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases</i>				
21. Prevalence of death associated with malaria				
22. Share of population in malaria risk areas using effective prevention and treatment				
23. Incidence of tuberculosis (per 100,000 people)	210	628	500(2003)	121
24. Tuberculosis cases detected under DOTS (%)		47	42(2003)	
Goal 7: Ensure environmental sustainability				
<i>Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.</i>				
25. Forest area (percent of total land area)	57.5	49.2		
26. Nationally protected areas (percent of total land area)		7.9	12.9	
27. GDP per unit of energy use (PPP USD per kilo oil equivalent)	2.5	3.1		
28. CO2 emissions (metric tons per capita)	1.6	1.2		
29. Proportion of population using solid fuels				
<i>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water</i>				
30. Access to improved water source (percent of population)	77		83(2002)	89.0
<i>Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers</i>				
31. Access to improved sanitation (percent of population)	56		62(2001)	
32. Access to secure tenure (percent of population)				
Goal 8: Develop a global partnership for development				
<i>Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth</i>				
45. Unemployment rate of population ages 15-24 (total)	44.3			
<i>Target 17: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries</i>				
46. Proportion of population with access to affordable essential drugs				
<i>Target 18: In co-operation with the private sector, make available the benefits of new technologies, especially information and communications</i>				
47. Fixed line and mobile telephones (per 1,000 people)				
Telephone mainlines	12.6	50.6	57.8(2003)	
Cellular subscribers	0.2	17.4	51.6	
Internet users	0.0		43.0	
48. Personal computers (per 1000 people)				

Sources: Various sources

²⁹ 2005-2006 ZDHS estimates

Debt

Total External Debt (US\$ million)	3,996	3,940	4,182	4,330	4,320	4,404	4,717
of which external payment Arrears (US\$ million)	377	826	1,413	1,867	2,143	2,434	2,772
Total Domestic debt (Z\$ Million) 2/	162	194	346	637	2,792		
External Debt to GDP ratio (%)	47.0%	45.3%	53.0%	64.4%	67.4%		
Debt service ratio (as % of exports)	22.9%	25.3%	23.5%	18.7%	13.9%		
Domestic Debt to GDP ratio	52.0%	39.4%	36.4%	14.9%	6.3%		

Social Indicators

Life expectancy at birth (in years)	39.9	39.5	39	40.0	37	37	37
Infant mortality rate (per 1,000 live birth)	73	76	76	78.0			
Adult illiteracy rate (% of adult ages 15 and above)	11.3	10.7	10				
HIV/AIDS adult infection rate (% of adult ages 15-49)				24.6	21.6	20	18.1
Population (Million)	11.7	11.7	12	12	12	12	12
Population Growth Rate (%)	0.0	-0.3	-0.3	1.0	1.0	1.0	1.0
Formal Sector Employment ('000)	1,237	1,184	1,174	1,179	1,200	1,296	
Formal Sector Employment Growth Rate	-5.9%	-4.3%	0.0%	0.0%	0.8%	0.8%	

Sources: Zimbabwean Authorities; IMF staff estimates and projections

1/comprises the central government primary balance; subsidies provided by the RBZ

2/ Comprises the adjusted primary balance plus the net interest payments of the central government and the RBZ

3/ Nominal GDP is measured at end-period prices

5/ Foreign currency units are converted into Zimbabwean

6/GDP at world prices using real GDP growth and inflation in trading partner countries (base year: 1996)

7/In 2006, gross official reserves conform to the Fund's reserve template. Until 2005, figures reflect usable reserves.

Table 3a: Central Government Operations, 2000-2006

	2001	2002	2003	2004	2005	2006
	(In millions of Zimbabwe dollars)					
Total revenue	135.9745	304.1699	1374.7492	8176.7	33205.8	417295.83
Tax revenue	128.5447	284.5537	1325.7986	7868	32530.9	404322.27
Income and profits	73.7653	158.3489	734.705	4096	16325.3	232160.98
Customs duties	17.3953	27.1703	92.8698	930	3854.6	42647.74
Excise duties	5.3351	18.7632	94.6114	278.8	1062.1	14136.73
Sales tax / VAT	29.3273	76.2316	382.2864	2377	10546	109705.93
Other taxes	2.7217	4.0397	21.326	186.2	742.9	5670.89
Nontax revenue	7.4298	19.6162	48.9506	308.7	674.9	12973.56
Total expenditure and net lending	188.9331	351.32126	1394.5784	9709.3	36182.4	463343.27
Current expenditure	176.7819	320.73786	1233.2063	7991.3	32487.6	349773.18
Goods and services	99.9145	216.03756	924.33444	5519.6	21153.7	215771.28
Salaries and wages	64.4796	123.9299	527.9778	3657.6	13800	138678.55
Other	35.4349	92.107662	396.35664	1862	7353.7	77092.73
Interest on debt	52.7999	49.4941	69.171094	737.3	5153.8	62255.66
Foreign	11.678	9.1647	3.309194	3.3	52.8	5623.33
Domestic	41.1219	40.3294	65.8619	734	5101	56632.33
Transfers	24.0675	55.2062	239.7008	1734.4	6180.1	71746.24
Capital expenditure	11.5799	25.2078	107.6553	1220.2	3406.2	112450.61
Net lending	0.5713	5.3756	53.7168	139.8	288.6	1119.48
Balance, excluding grants and foreign interest arrears ^{1/}	-52.9586	-47.151362	19.829234	-1532.6	-2976.6	-46047.4
Grants	2.9723	0.6677	6.0901	23	1.2	0.56
Foreign interest arrears	11.4943	8.7928	3.258694	0.3	9.5	-10.8
Balance, including grants and foreign interest arrears ^{1/}	-38.492	-37.690862	-10.48044	-1509.3	-2965.9	-46057.7
Financing	38.492	37.6909	10.4802	1509.4	2965.8	46059.2
Foreign financing	0.7088	-1.4839	0.8546	-2.2	-12	4.8
Borrowing	1.4282	0.2352	0.8879	0.1	-11.1	10.80
Repayments	-0.7194	-1.7191	-0.0333	-2.3	-0.9	-6.0
Domestic financing	37.7832	39.1748	9.6256	1511.6	2977.8	46054.37
Of which: proceeds of asset sales	6.7211	0.45	0	0	0	0

Sources: Zimbabwean authorities

Table 3a: Central Government Operations, 2000-2006

	2001	2002	2003	2004	2005	2006
As % GDP						October
Total revenue	24.1	25.2	23.7	33.8	41.0	27.1
Tax revenue	22.8	23.6	22.8	32.5	40.2	26.2
Income and profits	13.1	13.1	12.6	16.9	20.2	14.4
Customs duties	3.1	2.3	1.6	3.8	4.8	3.2
Other domestic	6.6	8.2	8.6	11.7	15.3	8.5
Nontax Revenue	1.3	1.6	0.8	1.3	0.8	1.0
Total expenditure	33.5	29.2	24.0	40.1	44.7	31.5
Current expenditure	31.3	26.6	21.2	33.0	40.1	25.1
Goods and services	17.7	17.9	15.9	22.8	26.1	14.5
Salaries and wages	11.4	10.3	9.1	15.1	17.1	10.2
Other	6.3	7.6	6.8	7.7	9.1	4.3
Interest on debt	9.4	4.1	1.2	3.0	6.4	6.0
Foreign	2.1	0.8	0.1	0.0	0.1	0.0
Domestic	7.3	3.3	1.1	3.0	6.3	6.0
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	4.3	4.6	4.1	7.2	7.6	4.7
Capital expenditure	2.1	2.1	1.9	5.0	4.2	6.3
Net lending	0.1	0.4	0.9	0.6	0.4	0.1
Balance, excluding grants ^{1/}	-9.4	-3.9	-0.3	-6.3	-3.7	-4.4
Memorandum item:						
GDP at market prices						
(Z\$ billions)	564.6399	1205.1205	5810.2526	24200	80931.8	840000

Sources: Zimbabwean authorities

Table 3b: Budget Financing in 2006 (thousands Z\$)

	2006
GRANTS	554.1
FINANCING	46,048,376.90
Foreign	-5,992.40
Financing (net)	-
Borrowings	-
Repayments	-5,992.40
	-
Total Domestic	46,054,369.30
Financing	-
Domestic	46,054,369.30
Borrowing (Net)	-
Sale of assets	-
	-
DEFICIT	-
Deficit	-46,047,445.90
(Excluding grants)	-
	-
Deficit (including grants)	-46,046,891.80
	-
TOTAL	-
FINANCING	48,613,516.30

Source: Ministry of Finance

Table 4a: Balance of Payments, 2000-2006**Annex 9**

(in millions of US Dollars; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005 est	2006 proj
Current account balance (exc official transfers)	(39)	(81)	(214)	(344)	(520)	(595)	(543)
Trade balance	293	323	(19)	(108)	(409)	(392.2)	(456.8)
Exports fob	2200	2114	1802	1670	1580	1602	1506
imports fob	(1907)	(1791)	(1821)	(1778)	(1989)	(1994)	(1963)
of which: emergency food imports	(62)	(68)	(337)	(206)	(161)	(347)	
Non-food	(1846)	(1724)	(1580)	(1573)	(1828)	(1656)	
Nonfactor services	(164)	(185)	(181)	(216)	(107)	(169.0)	1.2
Receipts	331	256	217	185	317	310	346
Payments	(495)	(441)	(398)	(401)	(424)	(479)	(345)
Investment income	(359)	(333)	(242)	(190)	(208)	(197)	(204)
Interest	(142)	(149)	(123)	(114)	(99)	(99)	(109)
receipts	26	10	10	10	7	2	3
payments	(168)	(159)	(133)	(124)	(106)	(100)	112
Others (net)	(217)	(184)	(119)	(76)	(109)	(99)	(95)
Private transfers (net)	191	114	228	169	204	163	116
Capital account (incl official transfers)	(227)	(386)	(317)	(209)	(244)	3	298
Official transfers (net)	53	40	38	38	24	27	60
Direct Investment (net)	16	0	23	4	9	102	50
Portfolio investment (net)	(1)	(68)	(2)	4	2	(12)	12
Long term capital (net)	(155)	(285)	(281)	(228)	(221)	(204)	(126)
Short-term capital (net)	(140)	(73)	(94)	(27)	(57)	90	303
Erros and omissions	130	292	74	79	432	291	0
Overall balance	(53)	(188)	(371)	(497)	(312)	(139)	(245)
Financing	53	188	371	497	312	139	245
Gross official reserves (-increase)	25	6	1	9	0		(16)
Arrears (-decrease)	218	292	570	443	240	57	248
Net use of fund resources	(70)	(86)	(86)	(65)	(23)	(7)	0
Net other liabilities	(106)	(41)	(30)	98	21	92	10
Change in DMBs Reserves*	(14)	17	(84)	12	74	(4)	4
Memorandum items:							
Gross Official Reserves(US\$m) - At 50%	511.0	492.0	492.0	515.0	192.0	213.0	373.0
Import Cover (months) - At 50% (Goods only)	4.1	3.3	2.8	2.8	0.9	1.3	2.7
Gross Official Reserves(US\$m) - At 100%	590.0	814.0	814.0	830.0	272.0	296.0	478.0
Import Cover (months) - At 100% (Goods & Services)	3.8	4.5	3.4	3.2	0.9	1.3	2.5
Usable Reserves (US\$m)*	--	--	--	--	111.9	41.7	47.2
Gross DMBs Reserves	70.0	322.0	322.0	300.0	315.0	180.0	150.0
Other Liabilities	235.0	126.0	17.0	17.0	241.0	329.0	222.0
Extra-ordinary Financing (Arrears)	0.0	0.0	0.0	0.0	0.0	0.0	109.0
Of which: Private Sector	0.0	0.0	0.0	0.0	0.0	0.0	15.0
Current account /GDP(%)-Exc. Grants (Revised GDP)	-5.0%	-4.3%	-4.7%	-1.9%	-8.9%	-5.7%	0.7%
GDP (US\$) market prices	6446.3	6837.8	7152.9	8706.3	8956.9	6274.1	5963.6
Export Growth (%)	5.2%	20.9%	15.5%	11.9%	-2.4%	-21.6%	0.5%
Import Growth (%)	-15.1%	17.6%	19.7%	5.6%	18.1%	-23.9%	-17.1%

SOURCE: RBZ/Ministry of Finance and Economic Development* **Sign reversal - decline(+); buildup (-)**

Grants based on current negotiations with the donor community. Major donor are, the EU and UN agencies such as UNICEF and UNFPA

No Scheduled repurchases to the IMF for 2006 and Beyond.

All external payment arrears are assumed to be cleared in 2006.

Table 4b: International Reserves, 2000-2006

(In millions of U.S. dollars, unless otherwise indicated, end of period)

	2000	2001	2002	2003	2004	2005	2006 Sept '06
Total gross reserves 2/	288	121	128	131	255	114.7	170.1
Gold	45	55	37	39.2	1	9	6.9
IMF reserve tranche position	0	0	0	0	0	0	0
SDRs	0	0	0	0	0	0	0
Foreign exchange	243	66	92	92	254	106	163.2
Total foreign monetary liabilities	380	321	353	422.1	451	357	345.4
IMF liabilities	281	262	276	302.7	294	128	123.0
Other short-term liabilities 3/	100	59	77	119.4	157	228	222.4
Net reserve	-97	-200	-225	-291	-196	-242	-175.3
Usable Reserves	22.1	16	15	15.6	24.8	43.2	69.6
Memorandum items:							
Gross reserves (in months of imports of goods, f.o.b)	1.4	0.7	0.8	0.9	1.3	0.3	
Gold (in millions of fine troy ounces)	0.47	0.19	0.11	0.11			

Source: Reserve Bank of Zimbabwe.

Table 5a: External Debt Outstanding (MLT&ST)

	2000	2001	2002	2003	2004	2005	2006
0. Ext Debt Outstanding (MLT&ST)	3,996	3,940	4,182	4,330	4,320	4,404	4,717
Total Arrears	377	826	1413	1867	2143	2434	2772
<i>o/w: Arrears on Debt Service</i>	249	750	1,228	1,633	1,969	2,320	2,656
<i>Arrears to suppliers</i>	128	76	185	234	174	113	116
rescheduled debt (cumulative)							
I. Ext Debt (MLT&ST, exc arrears, eoy)	3,620	3,114	2,769	2,462	2,165	1,970	1,945
MLT DEBT	3,322	2,947	2,586	2,293	2,031	1,820	1,597
Bilateral creditors	1,159	1,108	1,019	931	845	760	628
Multilateral institutions (incl IMF)	1,704	1,494	1,300	1,150	1,017	904	820
IMF	284	190	98	41	7	0	0
concessional	702	667	639	615	581	560	538
non-concessional	719	636	563	494	429	344	282
IBRD	416	367	327	288	255	212	177
ADB	232	210	189	167	146	122	102
Others	71	59	48	38	27	9	3
Private creditors	458	345	266	213	169	156	150
Government (excl IMF)	2,359	2,153	1,967	1,792	1,628	1,504	1,344
Bilateral creditors	858	790	726	653	588	532	440
Multilateral institutions (excl IMF)	1,202	1,114	1,035	963	886	818	751
concessional (excl IMF)	702	667	639	615	581	560	538
non-concessional (excl IMF)	501	446	396	348	305	258	213
IBRD	300	265	234	204	179	150	123
ADB	201	181	162	143	125	107	89
Others (excl IMF)	0	0	0	0	0	0	0
Private/commercial creditors	299	249	205	176	154	154	154
Public Enterprises	520	463	415	378	335	268	211
Bilateral creditors	301	273	247	232	211	182	142
Multilateral institutions	218	190	167	146	124	86	69
concessional	0	0	0	0	0	0	0
non-concessional	218	190	167	146	124	86	69
IBRD	116	102	93	84	76	62	54
ADB	31	29	26	24	21	15	12
Others	71	59	48	38	27	9	3
Private/commercial creditors	0	0	0	0	0	0	0
Private Debtors	159	96	61	37	15	2	-4
ST DEBT	298	167	183	169	134	151	347
Public & Publicly Guaranteed	42	13	26	51	73	107	280
Private Sector Non-Guaranteed	256	154	157	118	61	44	67
Total IMF	284	190	98	41	7	0	0
GRA	165	113	59	22	2	0	0
ESAF/PRGF	119	77	39	19	5	0	0
Interest rates on debt							
Bilateral	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Multilateral							
Concessional (IDA terms)	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Non-concessional (IBRD terms)	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Private	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
LIBOR	6.6%	3.7%	1.9%	1.2%	1.6%	4.3%	5.5%
plus 2.2%	8.8%	5.9%	4.1%	3.4%	3.8%	6.5%	7.7%
\$/SDR exchange rate		1.27	1.29	1.40	1.49	1.49	1.50

SOURCE: RBZ/Ministry of Finance and Economic Development

Table 5b: Government External Arrears By Creditor

(in US\$ thousands)

CREDITOR	COUNTRY/INSTITUTION	2006	2006
		Principal	Interest
ADB	AFRICAN DEVELOPMENT BANK	167,606.00	118,464.70
A.D.F	AFRICAN DEVELOPMENT FUND	2,370.00	5,001.70
Absa (RSA)	SOUTH AFRICA	8,050.00	1,992.00
Austria Government	AUSTRIA	2,617.00	617.00
B.N.P. Paris	FRANCE	17,579.00	2,546.00
Badea	BADEA	10,580.00	6,700.70
Banco Ext . De Espania	SPAIN	11,591.00	2,286.00
Banco Ind Belg	BELGIUM	19,126.00	1,470.00
Banque Indosuez	FRANCE	795.00	212.00
Barclays Paris	FRANCE	1,804.00	257.00
BB AG	UK	34,802.00	19,881.00
Belguim Government	BELGIUM	585.00	0.00
C.D.C	UK	10,950.00	2,380.00
CHINA GVT	CHINA	29,715.00	934.00
CHT WEST LB	UK	33,846.00	7,402.00
COFACE	FRANCE	347.00	18.00
Credit De France	FRANCE	259.00	9.00
Credit Lyonnais	FRANCE	16,254.00	3,342.00
Creditanstalt -Bankve	AUSTRIA	8,226.00	2,226.00
E.E.C	EUROPEAN UNION	5,962.00	5,820.70
E.I.B	EUROPEAN INVESTMENT BANK	37,480.00	11,760.70
Eksportfinans	NORWAY	798.00	9.00
Eximbank USA	USA	29,198.00	10,526.00
Finland Government	FINLAND	25,295.00	1,949.00
French Treasury	FRANCE	37,425.00	13,455.00
I.B.R.D	WORLD BANK	155,580.00	64,621.00
I.D.A	WORLD BANK	42,184.00	22,651.70
I.F.A.D	I.F.A.D	10,707.00	7,652.70
ING Bank	NETHERLANDS	11,001.00	4,683.00
Inst. Credito Oficia	SPAIN	6,733.00	2,095.00
japan gvt	JAPAN	30,777.00	13,935.00
K.F.W	GERMANY	116,503.00	35,510.00
Kuwait Fund	KUWAIT	6,931.00	684.00
llyods bank	UK	19,388.00	4,374.00
Medio Credito Cent	ITALY	45,195.00	7,112.00
NDF	NORDIC DEVELPOMENT FUND	1,162.00	967.00
Natwest	UK	18,069.00	2,763.00
Netherlands Government	NETHERLANDS	9,905.00	2,394.00
Nikuv	ISRAEL	1,138.00	42.00
NMB Postbank	NMB Postbank	8,927.00	664.00
NORAD	NETHERLANDS	16,823.00	0.00
NORDBANKEN	SWEDEN	17,567.10	0.00
PTA	PTA	3,148	104.00
SAUDI ARABIA	SAUDI ARABIA	822.00	58.00
Societe Generale	FRANCE	29,981.10	3,618.00
Standard Chart. Bank	UK	3,819.10	112.00
Standard Merchant	UK	3,274.10	90.00
SUMITOMO INTEL	JAPAN	4,434.10	125.00
SWISS BANK	SWITZERLAND	4,614.10	240.00
UBS	SWITZERLAND	11,877.10	1,665.00
UK GVT	UK	11,095.10	661.00
USAID	USA	34,183.10	33,312.00
WEST MECH BANK	UK	4,602.10	170.00
GRAND TOTAL		1,143,700	429,563

SOURCE: Zimbabwe Authorities

Table 5c: Government External Debt Outstanding Excl. Arrears: By Creditor AS 31 OCTOBER 2006

CREDITOR COUNTRY/ INSTITUTION	CREDITOR	2006
AFRICAN DEVELOPMENT BANK	ADB	88,951.00
AFRICAN DEVELOPMENT FUND	A.D.F	36,809.00
SOUTH AFRICA	Absa (RSA)	0.00
AUSTRIA	Austria Government	4,684.00
FRANCE	B.N.P. Paris	60.00
BADEA	Badea	0.00
SPAIN	Banco Ext . De Espania	33.00
FRANCE	Banque Indosuez	332.00
BELGIUM	banco ind belg	2,326.00
FRANCE	Barclays Paris	24.00
UK	BB AG	16,063.00
BELGIUM	Belgium Government	1,677.00
CHINA	China Government	11,970.00
AUSTRIA	Creditanstalt -Bankve	832.00
EUROPEAN UNION	E.E.C	24,745.00
EUROPEAN INVESTMENT BANK	E.I.B	25,649.00
NORWAY	Eksportenians	0.00
USA	Eximbank USA	3,597.00
FINLAND	Finland Government	26,342.00
FRANCE	French Treasury	86,550.00
WORLD BANK	I.B.R.D	140,798.00
WORLD BANK	I.D.A	438,560.00
IFAD	I.F.A.D	18,672.00
NETHERLANDS	ING Bank	5,920.00
SPAIN	Inst. Credito Oficia	12,257.00
JAPAN	Japan Government	42,494.00
GERMANY	K.F.W	212,836.00
KUWAIT	Kuwait Fund	0.00
ITALY	Medio Credito Cent	52,994.00
NORDIC DEVELPOMENT FUND	N.D.F	18,744.00
NETHERLANDS	Netherlands Government	11,066.00
NETHERLANDS	NMB Postbank	436.00
NORWAY	Norad	2,808.00
SWEDEN	Nordbanken	5,610.00
FRANCE	Societe Generale	215.00
SWITZERLAND	UBS	95.00
UK	UK GOVERNMENT	1,025.00
USA	USAID	93,827.00
	TOTAL	1,389,001.00

SOURCE: Zimbabwe Authorities

Table 5d: Domestic Debt (Z\$ millions)

Year/Month	RBZ Overdraft	Treasury Bills	Govt Stocks & Other	Total Domestic
2000	0.45	153.63	8.02	162.10
2001	14.09	163.27	16.71	194.07
2002	4.30	330.57	15.24	350.11
2004	(332.47)	2,336.58	456.56	2,973.14
2005	(2,836.06)	14,032.26	1,853.41	15,885.67
Jan-06	(2,071.24)	12,330.73	1,853.49	14,184.22
Feb-06	(190.17)	12,330.73	1,819.44	14,150.17
Mar-06	(2,206.01)	13,203.15	1,818.18	15,021.33
Apr-06	(2,352.90)	13,194.90	1,730.13	14,925.03
May-06	1,946.88	18,775.26	1,634.93	22,357.07
Jun-06	(502.00)	44,577.79	1,634.93	46,212.72
Jul-06	(2,081.00)	62,317.45	1,634.99	63,952.44
Aug-06	392.94	55,443.45	1,635.00	57,471.39
Sep-06	(13,394.80)	117,766.24	1,634.80	119,401.04
Oct-06	(2,377.00)	98,686.98	1,634.80	100,321.78
Nov-06	12,205.11	125,763.02	1,634.80	139,602.93
Dec-06		174,031.02	1,634.76	175,665.78

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