

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**ZIMBABWE**

**1999-2001 COUNTRY STRATEGY PAPER**

**NB : This document contains errata or corrigenda (see Annexes)**

**COUNTRY DEPARTMENT  
SOUTH REGION**

**OCTOBER 1999**

## **LIST OF ABBREVIATIONS**

ADB	:	African Development Bank
ADF	:	African Development Fund
AFC	:	Agricultural Finance Corporation
CBI	:	Cross Border Initiative
COMESA	:	Common Market for Eastern and Southern Africa
CPI	:	Consumer Price Index
CSO	:	Central Statistical Office
CSP	:	Country Strategy Paper
CZI	:	Confederation of Zimbabwe Industries
DFIs	:	Development Finance Institutions
DS	:	Debt Service
EA	:	Executing Agency
ESAF	:	Enhanced Structural Adjustment Facility
ESAP	:	Economic and Structural Adjustment Programme
FRMU	:	ADB Risk Management Unit
GOZ	:	Government of Zimbabwe
M&LT	:	Medium and long-term loans
MOHCW	:	Ministry of Health and Child Welfare
NECF	:	National Economic Consultative Forum
NEPC	:	National Economic Planning Commission
NGO	:	Non-Government Organisation
NOCZIM	:	National Oil Company of Zimbabwe
NRZ	:	National Railways of Zimbabwe
PAAP	:	Poverty Alleviation Action Plan
PBL	:	Policy Based Loan
PPGDOD	:	Public and Publicly Guaranteed Debt Disbursed and Outstanding
PPGDS	:	Public Debt Service
PSIP	:	Public Sector Investment Programme
PVD	:	Present Value of Debt
RBZ	:	Reserve Bank of Zimbabwe
RHC	:	Rural Health Centre
SADC	:	Southern African Development Community
SAL	:	Structural Adjustment Loan
SDA	:	Social Dimensions of Adjustment
SDF	:	Social Development Fund
SEISA	:	Study on Economic Integration in Southern Africa
ST	:	Short-Term Debt
TAF	:	Technical Assistance Fund
TDOD	:	Total Debt Outstanding and Disbursed
UA	:	Unit of Account
XGS	:	Export of Goods and Services
ZCC	:	Zimbabwe Chambers of Commerce
ZIC	:	Zimbabwe Investment Centre
ZSE	:	Zimbabwe Stock Exchange

### **FISCAL YEAR**

**1 January – 31 December**

### **MONETARY EQUIVALENTS**

(September 1999)

1 UA	=	1 SDR
1 UA	=	1.36986 US dollars
1 UA	=	50.764 Zimbabwe dollars

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## **EXECUTIVE SUMMARY**

### **1. INTRODUCTION**

The present Country Strategy Paper (1999-2001) outlines a strategy for Bank Group interventions in Zimbabwe based on an analysis of the most recent developments in the country, the government reform agenda, development constraints, major challenges and risks and country growth prospects. The paper was prepared following discussions held with the government, the private sector and civil society during a Bank CSP preparation mission in November 1998. The recommended strategy was endorsed by the National Economic Planning Commission during a Bank dialogue mission in October 1999.

### **2. RECENT DEVELOPMENTS**

2.1 The Zimbabwean economy grew by a sluggish 1.6% in 1998 compared to growth rates of 3.2 and 7.6 % registered in 1997 and 1996. The principal factors behind the slow growth have been the lower than expected performances of the major sectors of the economy: agriculture, mining and industry. Key to the poor growth performances was the difficult economic climate that the country experienced in 1997 and 1998 when unsustainable pressures on the balance of payments led to a sharp depreciation of the local currency. The government's unfinished reform agenda since the first adjustment programme, aimed at eliminating structural weaknesses in the economy, was also starkly highlighted. Most significantly, delays in the implementation of key public enterprise and civil service reforms have led to persistently large budget deficits (8 to 10 % of GDP), fuelling inflation and crowding out the private sector from productive investment. Compounded by severe droughts in 1992 and 1995, the net result has been a decline in real per capita income and increasing poverty.

2.2 In response to the downturn and in order to restore macroeconomic stability, in 1997 and 1998, the government introduced a number of selective measures aimed at reducing aggregate demand and tightened monetary and fiscal policies. The government has also successfully negotiated a 14-month Standby Arrangement with the IMF for US\$ 193 million, approved in August 1999, which is expected to bolster foreign reserves and help achieve external viability. Most importantly, in order to provide the basis for more rapid growth and sustainable development, the government has committed itself to the implementation of a second phase of reforms embodied in the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). The ZIMPREST is aimed at deepening the reforms implemented under the first programme and removing the remaining structural weaknesses in the economy. At the time of writing the present document, financial assistance for the programme had been obtained from the IMF through the 14-month Standby Arrangement (SBA) approved in August 1999, and further assistance is expected from the World Bank and the African Development Bank Group. In addition, a number of bilateral and multilateral donors are expected to provide support for the envisaged reforms. However, because of government's failure to retain expenditures within agreed limits, by September 1999 the SBA programme had gone off track and certain donor support programmes had been suspended. Concern has also been raised about the cost of military expenditures on the war in the Democratic Republic of Congo. Dialogue was underway with the IMF on the measures required to bring the programme back on track by the end of the year and determine the extent of military expenditures and its effect on the budget.

### **3. GOVERNMENT DEVELOPMENT AGENDA**

3.1 Under ZIMPREST the government envisages the urgent restoration of macroeconomic stability (low inflation and interest rates, stable exchange rate); facilitating the public and private savings and investment needed to attain growth; pursuing economic empowerment and poverty alleviation by generating the opportunities for employment and encouraging entrepreneurial initiative; investing in human resources development; and providing a safety net for the disadvantaged. Other important initiatives will be the improvement in the quality of democratic institutions; the pursuit of good governance; and the elimination of corruption. To this end the government will design appropriate sector strategies and undertake sector investments that can contribute to rapid economic growth and poverty reduction. Specific targets set by government include : an average growth rate of GDP of 6% per annum; per capita income growth of 3.4% and consumption growth of 4.4% per annum; growth of national output by 8% to 10% per annum during non-drought years; creation of more employment, with a minimum target of 42,200 jobs per annum; achieving investment levels of at least 23% of GDP; an export growth rate of at least 9% per annum in real terms; consistent reduction in the Government budget deficit to under 5% of GDP by the turn of the century; and reduction of the rate of inflation to single digit levels by the year 2000.

3.2 These targets, though ambitious in view of past economic performances, are attainable if the government remains committed to the reform programme and successfully addresses the challenges and risks their achievement will entail. Major challenges include reduction of the government budget deficit, mobilization of adequate resources, poverty alleviation and employment creation. The government will also need to take steps to mitigate the adverse effects of the periodic droughts on growth and poverty. Cross-cutting issues that the government will need to address include a rapidly falling population growth rate due to the AIDS pandemic and a reduction in the fertility rates as a result of the successful family planning campaign, environmental degradation which has lowered agricultural productivity, gender inequalities, lack of transparency and accountability in government operations, and poverty. Risks to the programme include, amongst others, possible backsliding on reform commitments especially in view of the upcoming elections in the year 2000, drought, continued large deficits, failure to deal with the AIDS pandemic, and the prolongation of the Congo war.

### **4. BANK GROUP STRATEGY**

4.1 The last CSP strategy (1996-98) was aimed at supporting the government's economic policy and structural reforms, expansion of the country's infrastructure, investment in the agricultural sector with emphasis on rural poverty alleviation, and expansion of employment activities for new entrants to the labour market. Programme targets and sectoral allocations were not entirely met due to the postponement of a number of projects including the envisaged second structural adjustment loan. The impact of the programme is also hard to gauge given that many of the projects are still at an early stage of implementation, caused by delays in start up. The 1998 Annual Portfolio Review Report (APPR) and the Country Portfolio Review (CPR) have recognised these shortcomings and measures have been instituted to address them in future operations. The overall portfolio performance was rated satisfactory.

4.2 The 1999-2001 strategy will be primarily aimed at supporting the government in the implementation of the second phase of policy and structural reforms outlined in the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). In this light, a structural adjustment loan will be provided to the Government of Zimbabwe to help cover the external financing gap that is expected to arise during the programme period. It is however expected that with the implementation of the programme, the country will be able to phase out its reliance on

external balance of payments assistance by 2002. Though the Bank will continue with specific sector investments as in the past, greater emphasis will be placed on supporting the development of integrated sector strategies through the PBL window. Technical assistance will also be provided to the government in order to strengthen its capacity to plan, implement, co-ordinate and monitor the envisaged reforms and improve its overall macroeconomic management capacities. Specific sector investments will be made in agriculture, transport, public utilities and health and education to complement the government's medium-term sector goals.

4.3 A total of UA 20.50 million has been provisionally allocated to the country from ADF VIII resources, comprising UA 17.4 million for projects and UA 3.1 million from TAF resources. As a blend country, Zimbabwe can also benefit from ADB ordinary resources. An analysis of the country creditworthiness and Bank Group exposure, shows that the country can continue to absorb a reasonable amount of ordinary resources without prejudicing its debt servicing capacity. It is estimated that a total of UA 250 million can be lent to the country from these resources during the period 1999-2001. This also takes into account such factors as the average size of projects financed in the country and the Bank Group total medium-term-lending programme. In addition, the equivalent of 50% of the ADF resources will be allocated to the financing of policy based operations.

4.4 In the private sector, the Bank will seek to contribute to the efforts of the Government of Zimbabwe to promote private enterprise by providing direct assistance to these enterprises. The Bank will also support the government's attempts to encourage private sector participation in the economy through the creation of an enabling environment.

## **5. CONCLUSION**

Over the past two years Zimbabwe has experienced an unprecedented economic downturn that has highlighted the remaining structural weaknesses in the economy and impressed on the authorities the need to implement reforms that can help cushion the economy from future shocks. To achieve this goal the government has adopted and is committed to implementing a reform programme, the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST), which provides a framework for sustained economic growth and poverty reduction. For the country to implement the reforms envisaged therein and realise its medium-term growth potential, continued assistance will be required from the donor community, including the ADB. The strategy outlined above provides a basis for the channelling of Bank Group assistance to the country.

## **1. INTRODUCTION**

1.1 The last CSP for Zimbabwe covering the period 1996-98 (ADB/BD/WP/96/142) was approved by the Boards in November 1996. Updates were subsequently circulated to the Boards for information in November 1997 and August 1999. The present Country Strategy Paper (CSP) outlines a medium-term strategy and lending programme for Bank Group intervention in the country for the period 1999-2001. The proposed strategy is based on an analysis of recent economic developments in Zimbabwe and an assessment of the Government's development agenda, medium-term growth prospects and constraints facing the economy. The status of Bank Group operations and the performance of the Bank's active portfolio are also reviewed and the country creditworthiness and portfolio risk assessed.

1.2 The report draws its information from various sources including: the Zimbabwe Programme For Economic and Social Transformation (1999-2001), (ZIMPREST); the Annual Report of the Reserve Bank of Zimbabwe (1998); the Quarterly Economic and Statistical Review, the Special Programme of Assistance Report on Zimbabwe (SPA June 1999); the 1999 Budget Statement; the 1995 Poverty Assessment Study Survey, Central Statistical Office (CSO) National Accounts (1985-1997) and Quarterly Digest of Statistics and other Government, World Bank and IMF publications. The major elements of the CSP were discussed with the Government of Zimbabwe, the private sector and civil society as represented by the National Economic Consultative Forum (NECF), during Bank missions in November 1998 and October 1999. The sectoral priorities and lending programme have been endorsed by the National Economic Planning Commission (NEPC).

## **2. RECENT DEVELOPMENTS**

### **2.1 Macroeconomic context**

#### **A. Overview and Review of Adjustment Efforts**

2.1.1 Mainly as a result of restrictive government controls across most sectors, during the 1980s, the Zimbabwe economy grew by a moderate annual average of 3.5%. Coupled with a high population growth rate of 3.2%, the net result was a marginal increase in per capita income. This situation was clearly at variance with the Government penultimate goal of poverty reduction and improving the disadvantaged position that the majority of the population had inherited from the colonial era. In effect, from independence the Government had set itself the objective of significantly reducing, if not eliminating poverty by the turn of the century. Recognizing that urgent measures would be needed if this goal were still to be attained, in 1991, the Government of Zimbabwe embarked on a comprehensive first phase Economic and Structural Adjustment Programme (ESAP) with the intention of establishing a market oriented policy environment and the basis for more rapid and sustainable growth. The programme was supported by the IMF, the World Bank, the ADB Group and other multilateral and bilateral donors. Far-reaching reforms were implemented in the areas of trade policy, foreign exchange management, credit policy, deregulation (labour market, agricultural marketing and interest rates) and price liberalization. Reforms were also instituted in fiscal and financial sector policy and management with the aims of reducing the large budget deficit and increasing financial sector competition.

2.1.2 In spite of these measures, the anticipated rapid economic growth failed to materialise<sup>1</sup> due principally to factors such as: (i) the severe droughts experienced in 1992 and 1995; (ii) adverse terms of trade and falling commodity prices and (iii) a persistently high budget deficit that fuelled inflation and dampened private sector initiative. The government was also slow in implementing envisaged civil service and public enterprise reforms. By the end of 1994 it had become clear that the government in addition to being unable to curtail expenditures, due to adverse economic conditions, could not maintain the envisaged pace of policy changes, and the Fund-supported programme went irretrievably off-track in 1995.

2.1.3 Despite the reform setback, in 1996, on the back of a good agricultural sector performance, the economy rebounded and GDP is estimated to have been a healthy 7.3%. However, towards the end of 1997 the Zimbabwe economy was again subjected to severe external and internal pressures that highlighted the underlying structural weaknesses in the economy and resulted in an unprecedented foreign exchange crisis as reserves plummeted to the equivalent of only 0.8 months of import cover. The crisis was in part triggered by the fall in export prices for the country's major commodities and waning market confidence following the Government pronouncements on war veterans' payments and land seizure. Further pressures were exerted on the balance of payments in 1998 following a depreciation of the currencies of neighbouring countries and the continuing deterioration in the terms of trade.

2.1.4 The Government responded to the crisis by tightening monetary and fiscal policy, allowing the exchange rate to depreciate, increasing interest rates and negotiating a 13-month stand-by arrangement with the IMF (SDR 130.7 million) in June 1998<sup>2</sup>. The Authorities also introduced a number of selective measures to curtail demand including tax hikes, expenditure cuts, tightening capital controls, raising import duties and banks' reserve requirements and closure of corporate foreign currency accounts.

2.1.5 Though the above measures resulted in an improvement in some key macroeconomic indicators between 1997 and 1998<sup>3</sup>, most are only temporary and the Government has recognized that there is need for the implementation of a comprehensive programme of reforms in order to achieve and sustain long-term economic growth. The Government has accordingly sought assistance from the donor community to support implementation of a Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) adopted in February 1998. The major elements of ZIMPREST are discussed in Chapter III. At the time of writing the present document, financial assistance for the programme had been obtained from the IMF through a 14-month Standby Arrangement (SBA) approved in August 1999, and further assistance was expected from the World Bank and the African Development Bank Group. In addition, a number of bilateral and multilateral donors are expected to provide support for the envisaged reforms. However, because of government's failure to retain expenditures within agreed limits, by September 1999 the SBA programme agreed to with the IMF had gone off track and certain donor support programmes had been suspended. Concern has also been raised about the cost of military expenditures on the war in the Democratic Republic of Congo. Dialogue was underway with the IMF on the measures required to bring the programme back on

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<sup>1</sup> Real GDP growth averaged around 1.8 % over the period 1991-96.

<sup>2</sup> Only one purchase was made however, under the arrangement, as the Government and the Fund failed to reach agreement on a number of reform areas. The arrangement has since elapsed.

<sup>3</sup> A significant reduction in the budget deficit, a fall in the growth in money supply and a narrowing of the current account deficit.

track by the end of the year and determine the extent of military expenditures and its effect on the budget.

**2.1.6 Production and Growth:** In 1996 Zimbabwe's economy grew by 7.3 % on the back of a good performance of the agricultural sector due to favourable weather. In 1997 continued strong growth had been expected following the 1996 upturn but was subsequently dampened by the socio-economic crises that hit the country during the second half of the year. GDP growth is now officially estimated to have been 3.2% as opposed to the 4.5 - 5% that had been programmed. In 1998 it is estimated that GDP grew by only 1.6% as compared to earlier estimates of 3.7%. Lower than expected performances from the sectors of manufacturing, agriculture and mining were the major factors behind this poor growth performance. Other causes were falling mineral and commodity prices on the world market, deteriorating terms of trade and the depreciation of the Zimbabwe dollar.

2.1.7 Investment has to some extent contributed to efficiency gains in the major sectors and, ultimately, growth, when channelled toward improvement and enhancement of productive and technological capacities. This is most evident in the manufacturing and mining sectors, where substantial investments have been made in new capital intensive techniques after trade and investment liberalization measures were introduced by the Government in the early 90s. The investment rate in Zimbabwe has traditionally attained levels regarded as commensurate with rapid economic growth, averaging around 22-23% of GDP. Savings have however been low principally reflecting the low per capita income, hence the past recourse to external financing to cover the resulting gap.

**2.1.8 Public Finance:** As can be seen from Annex III, Government budgetary expenditures have been high throughout the 1980s and 1990s, averaging 38% of the GDP. This is basically a reflection of the Government's commitment to redressing the inherited inequalities in the country through emphasis on the provision of basic and social services to the majority of the people. These exceptionally large expenditures have however, to some extent been tempered by the equally sizeable revenues (32% of GDP in 1998) that the Government has managed to successfully mobilize, mainly through taxes on incomes and profits but also increasingly from customs receipts and sales tax. Despite this favourable revenue position, the budget deficit remains large and though it has recently fallen from 5.5% in 1997 to an estimated 4.1% of GDP in 1998, remains the key cause of the macro-economic imbalances in the economy and the major constraint to increased private sector investment. The deficit has been mostly financed through domestic borrowings which in a period of high interest rates have crowded out the private sector from the money market and obliged the government to make substantial domestic debt interest payments (22% of total expenditures in 1998). Other factors contributing to the deficit are the inadequacy of expenditure control measures, the heavy civil service wage bill, which alone constitutes 39% of total public expenditures and the substantial losses incurred by the parastatals. A stop payment system is currently being used by the Government to control line Ministries' expenditures.

2.1.9 On the revenue side, reforms laying emphasis on restructuring and modernizing the tax system have been implemented. More reliance is now placed on indirect taxation as opposed to direct taxation for revenue generation. The sales tax has been widened and a withholding tax on Government contracts has brought some parts of the informal sector under the tax system. The Government has also launched a major effort to improve tax registration and collection and preparatory measures to institute appropriate legal and regulatory procedures to establish an Independent Revenue Authority in 2000 and introduce VAT in 2001.

2.1.10 **Money Supply and Inflation:** Prior to the 1997 crisis, growth in the money supply as measured by the broad money definition, M3 (currency in circulation, savings and time deposits)<sup>4</sup>, had been quite substantial, averaging 56.8% during the period 1994-1996. This coupled with government borrowing on the domestic market created inflationary pressures which the Reserve Bank of Zimbabwe (RBZ) periodically attempted to contain. Currently, the RBZ has adopted a tight monetary policy stance to limit growth in the money supply and curb inflation mainly by increasing the reserve requirements of banks and maintaining a high Bank discount rate of over 40%. As a result of the tight monetary stance, money supply (M3) is estimated to have grown by only 14% in 1998 as compared to a 35% increase in 1997. The tight monetary policy has also however had the rather unwelcome effect of increasing interest payments by Government on its domestic debt and the cost of capital for local entrepreneurs.

2.1.11 Inflation in the country has remained stubbornly high, fuelled mainly by increasing food prices but also in part due to the cost-push factors generated by the depreciation of the Zimbabwe dollar. As a result of the recent hikes in the prices of petroleum products and electricity rates, inflation is expected to remain at double-digit levels reaching 38.6% by end 1999 as compared to the 31.5% registered in 1998. The gravity of the situation is highlighted by the latest projections that inflation would reach 70% by October before falling to the year-end target. The authorities have committed themselves to maintaining the monetary anchor as the major instrument for combatting inflationary pressures through RBZ open market operations and a flexible rediscount policy.

2.1.12 **Balance of Payments:** Ordinarily Zimbabwe enjoys a surplus on its trade account. As a result the country has run relatively manageable current account deficits of less than 5% of GDP over the past five years. In 1997 however, the current account position deteriorated sharply to approximately 9.9% of GDP. This was mainly caused by a trade deficit resulting from the fall in world mineral and commodity prices and the depreciation of the Zimbabwe dollar. The deficit also reflected the negative impact on manufactured exports of the relatively high inflation in the economy and cost of capital. On the positive side however, the sharp currency depreciations are expected to countervail these adverse effects as the competitiveness of Zimbabwe products in regional markets improves. Mainly as a result of this countervailing factor, in 1998 the current account deficit narrowed to 5.2% of GDP.

2.1.13 **External Debt:** The external debt position of Zimbabwe is manageable. The country's external debt stock was estimated at the equivalent of 101.5% of the GDP in 1997. The external debt service ratio of the country was 20.8% in 1998 and is projected to fall from 20.8% in 1999

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<sup>4</sup> M1 consists of currency in circulation plus demand deposits. M2 consists of M1 plus savings deposits and time deposit of up to 30 days maturity and M3 consists of M2 plus time deposits of more than 30 days maturity. M1, M2 and M3 include the liabilities of not only commercial banks, but also discount houses and merchant banks, as well as some very limited deposit liabilities of the RBZ. M3 is regarded by the authorities as the best measure of the monetary liabilities of "banking" institutions, given the depth of the Zimbabwean financial sector.

to 19% in 2000 and 16.8% in the year 2001. The factors expected to contribute to the decline include a relatively strong GDP growth as envisaged in the ZIMPREST, a sound balance of payments performance, and the reduction of the budget deficit through a substantial cut in the stock of domestic debt.

## **B. Sector Developments**

2.1.14 Though *agriculture* only contributes between 11% and 14% to the GDP, it dominates the economy through its impact on employment, linkages with the manufacturing industry and contribution to its export earnings. About 70% of the population depends on farming for its livelihood and the sector offers employment to 25% of the labour force. The operators in the sector form two distinct groups, small scale and large-scale farmers. The small-scale farmers are sub-divided into three sub-groups—communal farmers numbering 1 million and occupying 51% of the land; resettlement area farmers occupying 10% of the land and numbering 76,000; and small-scale commercial farmers numbering 8,500 and occupying 4.5% of the land. The large-scale farms are sub-divided into two sub-groups—large-scale private commercial farms numbering 4,850 and occupying 33% of the land; and parastatal large-scale farms numbering 55 and occupying 1.5% of the land. The major activities include crop farming (maize, tobacco, cotton, wheat, sugar, etc.); livestock farming; forestry; and fresh-water fishing.

2.1.15 There are three types of land tenure systems in Zimbabwe – (i) communal land tenure, where land is invested in the President, held in trust for the people and administered by the Chiefs; (ii) freehold tenure, for individually purchased land, comprising large and medium-scale commercial farmers; and (iii) state land. However, the highly unequal distribution of land and the pressures to resettle thousands of families have necessitated a review of the land tenure system so that it can be further streamlined and a more appropriate system devised. In 1994 a Land Tenure Commission was appointed and mandated to carry out this task. Thanks to its efforts, a new land bill has been drafted and is expected to be presented for parliamentary approval by the end of 1999.

2.1.16 As a result of its preponderant influence on other sectors, agriculture has also largely determined overall GDP growth performances. Agricultural output itself is principally determined by climatic conditions with booms being followed by bust years as the weather conditions improve or deteriorate. In 1995, drought resulted in a GDP decline. In 1996 because of good rains agricultural output recorded a substantial growth of 40% and concomitantly, GDP grew by a healthy 7.3%. In the following two years 1997 and 1998 however, due to erratic weather conditions output grew only modestly. Following excessive rains at the start of the year, in 1999 agricultural output is also expected to be moderate.

2.1.17 Major constraints in the sector relate to its dualistic nature, with the average farm size in the small scale sector about one hundredth the size in the large-scale sector; low productivity of the communal and resettlement farms left to the indigenous population; and the recurrent droughts, which affect the communal and resettlement farms most. Other constraints include the weak capacity of the Ministry of Lands and Agriculture to formulate and implement appropriate policies and monitor on-going activities.

2.1.18 The *industrial* sector, comprising manufacturing, construction activity, energy generation and water catchment and supply, accounts for 35% of GDP value added. Zimbabwe has one of the largest, most diversified and integrated manufacturing sectors in sub-saharan Africa and in the Zimbabwe Iron and Steel Corporation (ZISCO), the only integrated sub-

saharan steel producer outside South Africa. Major manufactured products include metal and metal products, processed food, textiles and clothing and chemical products. However, the share of manufacturing in the GDP is estimated to have declined to less than 16% from its customary share of 20% during the 1980's and early 90's. The major factors behind these recent poor performances in the sector have been the depreciation of the Zimbabwe dollar and prohibitively high cost of capital. Other factors include the outdated machinery still being used by some industries and the lack of capacity at central government level to formulate policies for increasing the competitiveness of local industries and innovativeness and raising the quality of goods. Manufacturing output grew by a modest 2% in 1997 as compared to the 23 % growth registered in 1996. In the first 10 months of 1998 manufacturing output actually fell by 4% with metals and metal products and chemicals and petroleum products experiencing the largest declines in output.

2.1.19 Power generation and distribution activities contribute less than 3% of GDP. However, the sub-sector's importance lies in the critical intermediate input its production constitutes to the other sectors of the economy, besides its use in domestic consumption. A particularly thorny problem of the electricity sub-sector has been the underpricing of supplying the service provided. This has meant that the Electricity Corporation, Zimbabwe Electricity Supply Authority (ZESA) has lacked financial viability and has had to largely rely on Government subsidies, which in turn constituted a burden on the central budget. This situation led Government to review its policy and ZESA was restructured in 1998. To achieve financial viability a tariff adjustment formula has been formulated which has enabled the corporation to meet agreed financial performance targets. Price increase in the sector though inevitable have ultimately raised the production costs of local manufacturers and contributed to the rise in the consumer price index.

2.1.20 Zimbabwe has limited water resources, which are characterised by great temporal variations both in rainfall and runoff. Furthermore, very few of the country's rivers are perennial. As such the development of this sector is dominated by construction of dams to capture the runoff. Most of the small and medium sized dams are privately owned, usually by commercial farmers, while the large dams are owned by the Government. The Government sells bulk water to the consumers e.g. municipalities, industries and even commercial farmers, for treatment and distribution.

2.1.21 While the urban population is well served with water supply and sanitation services, most of the existing systems in these areas are ageing and under capacity. Rehabilitation and expansion programmes are therefore required in order to keep up with the demand for services in the urban areas. In the rural areas, there are still many people without adequate water supply and improved sanitation. In order to improve the effectiveness of developments in this sector, the Government has undertaken some sector reforms including preparation of a sector policy and enactment of the Zimbabwe National Water Authority (ZINWA) charged with the provision of developmental and regulatory services, raw water management and clear water supply. The major aim of the Authority is to ensure recovery of the cost of services from users and reduce the need for budget support

2.1.22 Although *mining* activity accounts for only 1.4% of GDP (1997 estimates), the sector contributes 35% of export earnings. The most important minerals include gold, nickel, chrome ore, asbestos and copper. In 1995 and 1996, the sector experienced a considerable boom due to increasing investments in the sector, growth in output and favourable world market prices. However, during 1997 and in the first half of 1998 earnings from the sector decreased due to

falling world mineral prices principally for gold, asbestos and copper. The coming on-stream of the Hartley platinum mine in 1999 was expected to significantly improve the performance of the sector but following the pull out of the major external shareholder and investor after production setbacks, prospects again look dim.

2.1.23 The *transport and communication* network of Zimbabwe is relatively well developed and extensive. The network had been built in large part to cater for the interests of the commercial farmers and the urban centers. The transport sector has expanded rapidly under the Government's drive to link the rural populations to the urban centers and their major markets, and cater for expanded traffic. Urban transport in particular has responded tremendously to the deregulation of controls formerly restricting private operators and commuter services have expanded accordingly. Currently, the sector has serious need for rehabilitation of the ageing transport fleet and some of the road networks.

2.1.24 Zimbabwe's *tourism* industry accounts for roughly 5% of GDP. The activity has been growing at an average of 20% during the past number of years and is expected to emerge as a high-growth, employment creating activity. It is now the third largest foreign exchange earner after agriculture and mining. Foreign exchange revenue is estimated to have amounted to US\$ 239 million in 1996. The sector is currently estimated to employ 83,000 people. Significant strides have been made by the public and private tourism promoters to market Zimbabwe as a destination for both regional, and international tourists by providing competitive tourism packages.

2.1.25 The *social sector*, has traditionally been an area of high priority emphasis, with the government allocating a significantly large proportion of its budget<sup>5</sup> to the provision of social services in view of the disadvantageous position that had been inherited by the indigenous population from the colonial period. Between 1980 and 1989 the country achieved levels of development in the sector that were above the average for developing countries worldwide (c.f. Annex 2). These included a lower infant mortality rate, higher adult literacy rate and higher school enrollment rate than the average. The government continues to maintain these high investment levels however, with the present rates of inflation and general economic downturn, real *per capita* spending in the sectors has been on the decline<sup>6</sup>. In the health sector, the MOHCW has developed a 10-year National Health Strategic Plan (1997 - 2007) that identifies priority areas of intervention. The Ministry subdivided the Plan into Three-Year Rolling Plans, which will be updated every year. Implementation of the Plan is to be progressively aided by a sector-wide approach whereby stakeholders (beneficiaries, government and donors) annually review the sector program and the supporting and financial plans. Zimbabwe is still afflicted by the same preventable problems as it was at independence. The leading causes of morbidity and mortality are respiratory diseases, malaria, diarrhoeal diseases and nutritional deficiencies. The situation has been compounded by the emergence of new diseases such as HIV/AIDS. The UNAIDS reports that 18-22% of all adults are living with HIV/AIDS. As indicated in section 3.1.12, currently, the Government is drafting an AIDS strategy.

## 2.2 Private Sector Business Climate

<sup>5</sup> In what is considered to have been its peak year, in 1992 the education sector received a budget allocation of 9.1% of GDP compared to a world average of 5.1%. Budgetary allocations to health peaked in 1992 at 3% of GDP.

<sup>6</sup> It is estimated that real recurrent per capita expenditure fell by 50% for health care and 32% for primary education between 1990 and 1995.

2.2.1 Private enterprises are active in Zimbabwe in all the major sectors of the economy. In agriculture, large-scale private commercial farms, numbering 4,850, predominate, cultivating 33% of the arable land and producing 55% of total crop output and 70% of livestock production. In industry and mining the vibrancy of the private sector is captured by the 66 companies listed on the ZSE, with a peak market capitalization of US\$ 1.4 billion or 37% of the GDP. Government holdings listed on the ZSE amount to no more than US\$ 143 million or 10% of the total value. These holding are limited to six companies, and only one has a Government ownership exceeding 50% of the total shareholdings.

2.2.2 In the financial sector, the country boasts a well-developed and largely private banking system complemented by a range of near banks, insurance and pension funds, a stock exchange and a range of other market participants. Reforms instituted under the first structural adjustment programme have seen the opening up of the sector and the entry of new financial establishments, increasing competition. However, the proliferation of new financial institutions has not been without its pitfalls. In early 1998 the sector was rocked by the collapse of one of the banking establishments and the discovery of fraudulent practices involving the issuance of fake government guaranteed bills. This prompted the Government to review its banking supervision regulations. Amendments to the Banking Act and Reserve Bank Act have recently been passed by Parliament. The amendments provide for a greater supervisory role for the Reserve Bank and guidelines on prudential lending. The Zimbabwe Stock Exchange (ZSE) is significant and well established with industrial and mining share price indices. However, as a result of waning business confidence during 1998 it is estimated that market capitalization fell by 44% in local currency terms and 75% in US dollar terms during 1998. Net portfolio investment by foreigners, which had picked up following the removal of investment restrictions in 1995, has also slowed.

2.2.3 As regards the Government privatization and divestiture programme, this is behind schedule with only five enterprises so far having been privatized. These include the DairyBoard Zimbabwe Limited, the Delta Corporation, Zimre, the Commercial Bank of Zimbabwe and the Cotton Company of Zimbabwe. The Rainbow Tourism Group was to be floated on the ZSE by November 1 1999. Approval has also been given for the commercialization of the Central Mechanical Department, Government Medical Stores, the Posts and Telecommunications Corporation and the Cold Storage Company. The aim is to privatize 40 enterprises by the year 2000. At present a Privatisation Agency has been established in the President's office to oversee the process of commercialization/privatization of the major Government parastatals. The Agency is in the process of recruiting personnel and was expected to be operational in 1999. Assistance is being provided by the Department for International Development (DFID).

2.2.4 The Government has introduced a number of incentive schemes aimed at enticing private enterprises both domestic and foreign to expand their investments in the economy. These include the reduction of controls on dividend remittances, removal of cumbersome company registration and incorporation procedures, reduction of import tariffs and the creation of export processing zones. The functions and responsibilities of the Zimbabwe Investment Center (ZIC) were also rationalized to enhance its role as primary promoter of private sector investment in the country. However the response from the sector has been slow in materializing due to lack of confidence in Government policies, rampant inflation which has maintained interest rates at prohibitively high levels, uncertainty over taxation and political developments and the continuing overbearing presence of Government through its inefficient parastatals and excessive borrowing in the money market. Unless Government takes resolute action in these

areas as well as implementation of its privatization programme then private sector confidence will remain low and this will inhibit the country's ability to meet its high growth potential and employment targets.

## 2.3 Cross-Cutting Themes

2.3.1 **Poverty:** With an estimated per capita income of US\$ 540, in 1997 Zimbabwe was classified as a low-income developing country. The major social welfare indicators of the country placed it above average in sub-saharan Africa. However recent economic developments in the country have actually resulted in a fall in the real per capita income and a reversal of some of the achievements registered by the country in the sectors of education and health. Poverty in the country is mainly structural, a result of the highly inequitable distribution of wealth (access to land, water and human capital). With a Gini Coefficient of 0.57, Zimbabwe is ranked number 5 in the World after South Africa, Gabon, Sierra Leone and Brazil in terms of income inequality. Other causes of increasing poverty have been identified as the slow rate of growth of the economy and the pattern of this growth, which has had limited spillover in the form of formal sector employment generation. A Social Development Fund (SDF) 1995 poverty assessment study financed by the UNDP has shown that the number of poor households in the country is on the increase. The study estimated that 61% of all households could be classified as living below the poverty consumption line and 45% of the population as constituting the absolute poor or food poor. There are however, wide disparities in regional and urban (39% of households)-rural (75%) poverty profiles. It was also found that households headed by women have a greater incidence of poverty than those headed by males<sup>7</sup>. The country intends to tackle the problem of poverty from two directions: (i) indirect measures involving the reallocation of resources to the social sectors and (ii) through direct interventions under the umbrella of the National Poverty Alleviation Action Plan (PAAP). The PAAP comprises a Community Action Project providing assistance to community projects and targeted programmes to assist the most vulnerable groups. A restructuring of the institutions involved in poverty monitoring and financing of poverty alleviation projects in the country is underway. At the core of the activities will be the Ministry of Public Services, Labour and Social Welfare. The Social Development Fund (SDF) whose operations have benefitted from an ADF SDA loan, will remain as a core and focused resource mobilization unit with other activities subcontracted to Regional Development Councils, NGOs and rural based communities.

2.3.2 **Population:** The 1992 Zimbabwe Population Census estimated the population at 10.4 million with an urban rural distribution of 31% and 69% respectively. The 1998 Inter Censal Demographic Survey estimated the population as having increased to 12 million, 51% of whom were women and 49% men. The current growth rate of the population is estimated at 2.8% per annum, though this is disputed with some estimates putting the figure even lower in view of the increasing mortality rates resulting from the AIDS pandemic. The practice of birth control and family planning is accepted in the urban areas and is gaining ground in the rural areas. The average life expectancy is 49 years and infant mortality is estimated to be 66.6 per 1000 live births.

2.3.3 **Environment:** The country is in the process of formulating a National Environmental Action Plan (NEAP), however deforestation, mal-distribution and misuse of land remain factors that continue to cause serious ecological degradation, with the consequent negative impact on agricultural productivity. Efforts being made to reduce the environmental degradation include

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<sup>7</sup> 72% of female headed households and 58% of male headed households were classified as poor.

tree planting, the establishment of standards for effluents from mining and industrial activities, and the continuing education of people on the need to conserve the environment.

2.3.4 The government continues to make efforts to protect the country's environment in line with its National Conservation Strategy. The government also intends to establish national requirements for Environmental Impact Assessments of projects and environmental strategies for particular sectors, including mining, manufacturing and construction.

2.3.5 **Gender Issues:** Though anti-discriminatory laws have been passed, Zimbabwe still has a poor record in the promotion of women with women continuing to have unequal access to formal sector employment and facing unfavourable inheritance rights. Gender bias is most prevalent in the rural areas mainly due to attitudinal/cultural outlooks of the rural population, however this also is on the decrease. The Government has taken a number of steps to redress the situation. Since 1982, a Labour Relations Act is in force making it punishable by law for an employer not to give equal pay for equal work done by men and women. A Department of Women's Affairs has been established with the responsibility to promote the welfare of women in the country. In 1991 Zimbabwe ratified the Convention adopted by the United Nations in 1979 prohibiting all discrimination against women. There are also a large number of NGOs in the country addressing women's issues and promoting projects which favour women.

2.3.6 The Government is also addressing the gender issue concomitantly with that of the poor through its Social Dimensions of Adjustment Programme (SDA), where women oriented or conceived projects are given first priority in financing. This same trend is to be pursued in the implementation of the Poverty Alleviation Action Plan for which the necessary institutional arrangements are now being created.

**2.3.7 Core Labour Standards:** Since the mid 80s the Government of Zimbabwe has undertaken a number of actions aimed at liberalizing the labour market. The Zimbabwe Labour Relations Act outlines the rights of employees and unfair labour practices. It also specifies the general conditions of employment; termination of employment; wage setting mechanisms; workers' committees and freedom of association and collective bargaining. Wages in Zimbabwe are now effectively determined through collective bargaining. The Minister of Public Service, Labour and Social Welfare however, retains regulatory powers over the labour market. There is a Labour Relations Board and a Labour Relations Tribunal. Zimbabwe has also ratified a number of international labour conventions aimed at ensuring minimum labour standards. However relations between the Government and the main labour union in the country, the Zimbabwe Congress of Trade Unions, have become strained in recent years because of the falling standards of living of most workers due mainly to the inflationary pressures in the economy which have eroded real earnings.

**2.3.8 Economic Integration:** Zimbabwe is a member of COMESA and SADC. It is also a party to the Cross-Border Initiative (CBI) that is cosponsored by the ADB, World Bank, the IMF and the European Union (EU). Recently, a new tariff system was introduced in the context of the Cross Border Initiative (CBI). The country has reaped considerable economic benefits from the economic groupings and the CBI initiative because of its relatively advantageous position in the region where its economic development is second only to that of South Africa. The country has managed to capture a wider market for its goods and the coordination of investments in the energy, telecommunications and transport sectors has brought its economic benefits. This is especially true in the latter sector given the country's landlocked nature. Within SADC, Zimbabwe is coordinator of the agriculture and food security portfolios.

**2.3.9 Stakeholder Participation:** The Government has consented to the process of tripartite consultation with the private sector, civil society and the labour unions through the National Economic Consultative Forum (NECF) which monitors and advises government on macroeconomic developments in the country as well as carrying out studies into specific areas of public concern such as the land reform process and the recent strike actions led by the labour unions. A number of meetings have already been held with all parties participating. However recent developments such as the establishment of an opposition party led by the former Chairman of the trade union movement has raised doubts as to the future of the Forum. A monthly economic bulletin developed with donor assistance is now being published by the government to provide the public with information on macroeconomic developments. It is envisaged to include details of military expenditures in the DRC in the publication. Other developments which have improved the participation of civil society in the country's development include the opening up of the media and telecommunications to private participation; government endorsement of the vision 2020, the processing of which involved civil society, labour and the private sector. Other fora have also been created which are active in representing the views of civil society such as a Poverty Forum and a Human Rights Committee within the Ministry of Home Affairs. A major decentralization exercise is also currently being undertaken by the government to empower local governments and communities to assume responsibility for most public services. The Rural District Council (RDC) Capacity Building Programme is in effect aimed at strengthening rural district councils so that they can plan and effectively deliver services in education, health, water supply and sanitation, housing, roads and commercial development as well as for urban planning and management. Financing is being provided by the World Bank, UNDP and other donors. The ADB will participate by providing technical assistance and/or financing aimed specifically at strengthening the capacities of the RDCs to implement community based poverty alleviation projects.

## **2.4 Major Constraints to Development**

2.4.1 With its substantial natural resource endowments, technological capacities, sophisticated and relatively efficient financial system and stock exchange, Zimbabwe has the potential to achieve a high level of growth. Implementation of the country's reform programme is expected to allow the economy to grow by at least 4.4% over the next three years. More rigorous fiscal and monetary management and speedy sectoral reforms could even possibly see the economy growing by 6% per annum as the productivity of the country's resources is further enhanced. To achieve these objectives however, a number of constraints to development have first to be addressed by the Government.

2.4.2 The major constraint that the country faces is the macroeconomic instability that has prevailed throughout the 1990s. This instability, as it has already been pointed out, has been the result of serious structural deficiencies in the economy. Chief amongst these is the overbearing presence of Government in the productive sectors, which has led to the crowding out of the private sector, restricted growth, fueled inflation and contributed to the recent foreign exchange crisis. This presence of the state needs to be significantly reduced.

2.4.3 Lack of institutional, manpower and technical capacity to formulate policies and implement reforms and the government development agenda in general at national and sectoral levels is another major constraint that will need to be addressed.

2.4.4 Low agricultural productivity and lack of competitiveness in regional and world markets are the other constraints, which the Government will need to tackle if it is to achieve its development objectives. In the former case the Government will need to draw up a clear land reform action plan and implement this as quickly as possible to allow for the efficient use of the country's natural resources. In the latter case, the Government should allow greater participation of the private sector in the provision of the major services which would improve efficiency and competitiveness of Zimbabwean enterprises regionally and internationally. However, government should also ensure that this participation is within the norms and regulatory procedures required to meet the country's developmental goals.

2.4.5 Lastly but not least important is the question of good governance. Government accountability and transparency, respect for the independence of the judicial system, drive against corruption and interaction with civil society need to be considerably improved if the reform programme is to achieve any tangible results. The government will also need to consolidate and complete the on-going decentralization exercise with a view to effectively allowing greater participation of civil society in the development process. Key to this exercise will be the restructuring and reallocation of public expenditures to local governments for the provision of basic services.

### **3. GOVERNMENT DEVELOPMENT AGENDA**

#### **3.1 Key Elements of the Government's Agenda**

##### **A. Macroeconomic and Structural Reforms**

3.1.1 In February 1998, after extensive consultations with civil society, the Government launched its second phase of reforms known as the *Zimbabwe Programme for Economic and Social Transformation* (ZIMPREST). The programme is intended to broaden and deepen the policy reforms already implemented under the 1991-1995 ESAP. The overriding objective of ZIMPREST is poverty alleviation through the restoration of macroeconomic stability.

3.1.2 The Government envisages that the creation of a stable macroeconomic environment will promote poverty alleviation by helping to achieve the following programme objectives: an average growth rate of GDP of 6% per annum; per capita income growth of 3.4% and consumption growth of 4.4% per annum; ii) growth of national output by 8% to 10% per annum during non-drought years; iii) creation of more employment, with a minimum target of 42,200 jobs per annum; achieving investment levels of at least 23% of GDP; an export growth rate of at least 9% per annum in real terms; consistent reduction in the Government budget deficit to under 5% of GDP by the turn of the century<sup>8</sup>; and reduction of the rate of inflation to single digit levels by the year 2000.

3.1.3 The major themes of ZIMPREST are: urgent restoration of macroeconomic stability (low inflation and interest rates, stable exchange rate); facilitating the public and private savings and investment needed to attain growth; pursuing economic empowerment and poverty alleviation by generating the opportunities for employment and encouraging entrepreneurial initiative; investing in human resources development; and providing a safety net for the disadvantaged. Other important initiatives are the improvement in the quality of democratic institutions; the pursuit of good governance; and the elimination of corruption. The government has in its ZIMPREST agenda specifically targeted the promotion of the participation of civil society in the monitoring and evaluation of the programme; improving reporting on public expenditures and fiscal and economic policies; and extending public reporting in annual budget papers, and coverage of reports of the Auditor General.

3.1.4 Key to the implementation of these themes will be the restructuring of government, including completing public enterprise reforms and revitalizing the public sector to focus on core business, achieve greater value for money and enhance responsiveness to community needs. Other areas include the institutionalization of on-going fiscal and financial sector policy and management reforms.

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<sup>8</sup> It is in effect, projected to reduce the budget deficit to 2.4 % of GDP by 2001 through rapid privatization of the major public enterprises and use of the proceeds to pay off Government domestic debt, retrenchment and streamlining of the civil service, substitution of domestic borrowing by external concessional loans and tightened expenditure controls.

3.1.5 In the external sector, though a market determined exchange regime is maintained, the authorities have been slow in implementing trade liberalization measures. The existing trade regime remains restrictive and the number of tariff rates is large (about 30). The Government has undertaken to adhere to the CBI timetable, which calls for the adoption of four tariff rates (zero, 5, 15, and 20%).

## **B. Sectoral Policies**

3.1.6 **Agriculture:** Recognizing that the absence of appropriate land tenure systems has been a major impediment to agricultural development, the government is in the process of formulating a Land Act which will unify all legislation on land. Concomitantly, to enhance the efficiency of resource use, a Land Tax will be instituted by the year 2000 in order to induce farmers to bring underutilized land to the market. During the reform period (1999-2001) and using market mechanisms for land acquisition, commercial farmland will be provided for both the settlement programme (indigenous commercial farmers) and the resettlement programme (communal area dwellers and war veterans). In line with its Agricultural Policy Framework and ZIMPREST, the government also intends to enhance access to and use of water for agricultural purposes, as well as access to land for agricultural, commercial and industrial enterprises. Emphasis will be laid on smallholder development, oriented to increasing agricultural productivity and encouraging higher value production. Access of the smallholder farmers to technology, information, finance and infrastructure is to be facilitated through the establishment of the necessary institutions. It is expected that this will encourage farmers to switch from subsistence to a balanced mix, which includes commercially oriented production.

3.1.7 **Industry:** One of the primary objectives of government in the sector is to ensure that established manufacturers achieve and maintain international competitiveness in terms of quality, price and the ability to meet delivery times and after-sales services. Priority will be given to the promotion of manufactured exports, through the promotion of Export Processing Zones and revamping the Duty Draw Back Scheme and the Inward Processing Rebate Scheme, designed to give exporters access to inputs at world prices. Central to industrial development will be the promotion of small-scale and informal enterprises. To further their development, remaining bureaucratic and regulatory impediments will be removed, relevant information will be disseminated and channels for providing financing will be expanded. A Collective Investment Schemes Act will make provision for the financing of small enterprises. An Industry and Trade Competition Commission will oversee fair competition in the domestic economy and consumer protection.

3.1.8 **Mining:** Large scale investment, particularly in minerals such as platinum and gold will be encouraged, though assistance is also to be provided to small scale miners through extension services, assistance in marketing and provision of finance. A review of the tax and regulatory environment in the sector will also be undertaken in order to ensure that public revenue captures an appropriate share from the exploitation of the country's mineral resources.

3.1.9 **Tourism:** A Tourism Masterplan is to be drawn up to chart the future of the industry on an orderly basis. This will provide the basis for expanding the participation of indigenous operators within the context of overall growth.

3.1.10 **Infrastructure:** A major objective of government is the disenclavement of the rural populace through greater access to basic infrastructure and services. The share of the infrastructure sectors in the recurrent budget is accordingly expected to increase over the

medium-term. Government policy in the transport sector is to rehabilitate the ageing transport fleets. At the same time in the context of the plan to expand agricultural production, it is intended to further expand the road network to meet the requirements of the rural areas and provide access to the major markets. In the energy sector, the government has developed a Least Cost Development Plan (LCDP) for the expansion of generation activities. The government has also undertaken a Tariff Study to improve the precarious financial position in the sector. It has initiated dialogue with development finance institutions and the private sector on the financing of development in the sector and its financial sustenance. Demand for telecommunication services presently far outstrips the supply and the government has conducted a major investment programme in the sector with donor financing to expand services. A lot of people in rural areas still lack the basic services of water supply and sanitation, while in the urban areas, the existing systems require rehabilitation and expansion. These deficiencies need to be addressed. Though the water catchment and distribution activity is still relatively small in terms of its contribution to GDP, its importance derives from its scarcity value and the high investments made in dam construction. With the important development expected in the agricultural sector, dam construction and irrigation infrastructure activities are expected to be high-priority areas for future public investment plans.

3.1.11 The Government also envisages a series of institutional reforms in all the above sectors to create the framework for the private sector eventually assuming full responsibility for the services by 2001, the overall goal being to improve the efficiency with which these services are provided. In the transport sector, in order to eliminate the huge losses that have been incurred by the National Railway of Zimbabwe (NRZ), this latter will be restructured and the Government is currently in the process of concessioning the railways network to the private sector in order to boost services. In the telecommunications sector it is intended to separate the posts and telecommunications services of the Posts and Telecommunications Corporation (PTC) and commercialize the former whilst privatizing the manufacturing services of the latter. The Government is also developing a Water Resources Management Strategy with the aim of achieving sustainable, equitable and economically feasible development through proper use of Zimbabwe's water resources whilst taking in to account the shared international river basins.

3.1.12 **Social sector:** The government will continue to support public sector programmes and private initiatives to fund and provide services in both the education and health sectors. Efforts in the education sector will be directed towards improving capacity utilization and cost reduction; rationalizing central government functions and developing a strategy for decentralization of management; improving curricula; improving access for disadvantaged groups, especially girls and increasing access to information technology. In the health sector the government will increase the health budget from 2% to 2.5% of GDP; rationalize the investment programme for the sector; expand the role of other actors and local government in the provision of services; and implement new policies on cost recovery. The government will seek to achieve equity in health by targeting resources and programmes to the most vulnerable and needy population; maintain the Primary Health Care approach as the leading strategy for health development; identify priority health problems and target resources accordingly. The AIDS scourge has also taken a heavy toll in terms of victims and the burden on the health services of the country. An inter-ministerial National AIDS Committee has thus been formed and tasked with identifying and implementing a national multi-sectoral strategy to halt the spread of AIDS, and reduce its impact on families, communities and the economy as a whole.

3.1.13 In order to achieve all the above macroeconomic and sectoral objectives, it is envisaged that the government will mobilize domestic and external savings and investment and utilize

them efficiently to generate higher economic growth and employment, foster entrepreneurial development and economic empowerment with a view to contributing to poverty alleviation efforts. External financing requirements over the period 1999-2001 are estimated to total US\$ 1 billion as shown in detail in Annex IX. The government has already identified donor sources for US\$ 850 million of this amount and is currently in negotiations with other bilateral and commercial sources with a view to closing the remaining financing gap. Furthermore the government intends to strengthen its manpower, technical and institutional capacities in order to effectively implement programme measures.

### **3.2 Assessment of the Agenda**

3.2.1 Since the first reform programme went off track in 1995, the Government of Zimbabwe has had difficulty in maintaining monetary and fiscal balance in the economy, which has diverted its attention from its main development agenda. With the adoption of ZIMPREST however, the Government has demonstrated that it remains firmly committed to achieving its objective of sustained growth and ultimately reducing poverty in the country. The considerable support that has been mobilized from the donor community is testimony to the soundness of the programme.

3.2.3 The goals set, though daunting in the light of past economic performance, are achievable. The government objective of reducing the budget deficit to under 5 % of GDP has already been attained in 1998. It remains for the government to ensure that this effort is maintained and implement reform measures aimed at reducing domestic debt, which threatens to force the country into a debt trap. The export growth target of 9 % is not excessively high given that during the period 1991-96 an average growth rate of 13 % was attained. It is projected that the improved 1998 current account performance can be sustained over the medium-term as the government institutes long-term measures to further improve the competitiveness of its exports. The government is also targeting a build up in gross official reserves throughout the period 1999-2001 relying mainly on the expected improved performances in the mining sector, as world market prices pick up and manufacturing exports such as ferrous alloys, as recovery in the global economy sets in. However, as shown in Annex IX, for this target to be met, the country will continue to require sizeable inflows of external assistance, averaging around US 300 million per annum. Investment in the country has been at or around the 23 % targeted under the programme. Savings and investment rates are expected to continue to rise in the medium-term reaching 23.9% and 27.5% by the year 2001 on the premise of continued moderate growth of the economy. These levels imply that the country should in future years have sufficient own resources to finance continued growth of the economy. The challenge, however, will remain one of translating the savings into the productive sectors of the economy in order to generate even more rapid growth. It is expected that with the implementation of stabilization measures resulting in a reduction of the budget deficit and inflation, interest rates will ease to levels more conducive to productive investment.

Other targets such as employment creation and reduction of inflation to single digit figures will require greater effort from the government if they are to be achieved. However, with the restoration of economic stability and rapid growth of 6% per annum these targets are also well within the country's reach. The government has also commendably made provision in ZIMPREST for the mobilization of the requisite domestic and external resources for investment in the economy and to support capacity building at the national and sectoral levels in order to ensure the orderly implementation of the agenda.

3.2.4 It cannot be overstressed however, that the crucial elements in the whole process remains the restoration of macroeconomic stability through government restructuring and improvements in governance. On this latter issue, recent events in the country point to some dissatisfaction with the Government's macro-economic management of the economy and there has been a standoff between the Government and the labour unions over the rising cost of living. The country's involvement in the war in the Democratic Republic of Congo, has also raised questions in the business community about the possible negative impact on the budget deficit. Corruption in Government circles has of late also become an issue of great public concern, and transparency and accountability on Government finance still needs considerable improvement. A case in point is the lack of accountability of public enterprises where it is estimated that cases of large-scale corruption exist. The failure in 1998 of one of the country's banking concerns has also raised questions as to the transparency and even-handedness of Government in dealing with financial institutions. Finally, the independence of the judicial process was severely tested following the recent jailing of two journalists in the country. The Government must take resolute steps to improve performances in all these areas. The ADB plans to establish a cluster of governance criteria to regularly monitor developments on the governance front in close consultation with government. These will include such elements as the sustainability of reforms; property rights and rule-based governance; quality of budget and public investment process; efficiency and equity of revenue mobilization; efficiency and equity of public expenditures and the accountability of the public service. Where assistance is required to improve on the technical capacities of government, this will be provided taking into account the activities of other partners in these areas. A case in point is the government's need to improve its accounting and budget processes, where some assistance is currently being provided by the World Bank.

### **3.3 Challenges and Risks**

#### **Challenges**

3.3.1 The major challenge to the authorities remains that of reducing the large government budget deficit, which has been a key factor behind the muted private sector response to reforms implemented under the first adjustment programme. Through the sale or liquidation of loss making parastatals and reduced government presence in the money market, enough room would be created for increasing private sector investment in the economy leading to employment creation and higher growth. The Government will need to take firm action to reduce its civil service wage bill including a reduction of its defence budget, cut back drastically on domestic borrowing and accelerate the on-going privatization programme.

3.3.2 Equally important will be the mobilization of external and domestic resources to fund the development agenda. At the time of writing the present report, the Government had successfully negotiated assistance from the IMF to restore macroeconomic stability. Further assistance is expected from the World Bank, the ADB and other bilateral and multilateral donors. It is also expected that the IMF SBA will be succeeded by an Enhanced Structural Adjustment Facility. The government will however need to demonstrate to the donor community its firm commitment to the reform programme and its ability to sustain the reform efforts it has undertaken to implement. Failure to do so will result in the suspension or withdrawal of much needed funding for the reform programme.

3.3.3 Poverty alleviation is another considerable challenge, especially in the light of the recent downturn in the country's economy, which has resulted in a fall in per capita income. The country will need to speedily implement its Poverty Alleviation Action Plan through ensuring that the necessary mechanisms and procedures are established. The continuing erosion in real terms of allocations to the social sector needs to be checked and the allocations increased in order to regain the achievements that the country had made in the immediate post independence years. This can only be done through reduction of the share of non-discretionary expenditures in the government budget so that funds can be released for investment in the social sector.

3.3.4 Related to the challenge of poverty reduction is that of reducing unemployment which has virtually reached crisis proportions. Current estimates place the unemployed as equivalent to half the potential work force. This is quite clearly an intolerable state of affairs and apart from the hardships it engenders could create the recipe for social unrest. School leavers have been particularly hard hit by this lack of employment opportunities. Out of 350,000 school leavers per year it is estimated that 90% fail to find formal employment and swell the ranks of the unemployed. Job creation is one of the primary objectives of ZIMPREST which has the intention of promoting labour intensive enterprises and empowerment of the indigenous people through providing them with the wherewithal to set up their own businesses.

3.3.5 Though drought cannot be predicted with accuracy or entirely averted, the government will need to take adequate steps to mitigate against its adverse effects on agricultural production and poverty. These will include measures such as the establishment of early warning systems, exploitation of the country's considerable irrigation potential from constructed dams and promotion of drought resistant crop production.

3.3.6 Land ownership and right to land have been contentious issues in Zimbabwe since independence, especially following the announcement by the government in 1998 that it would acquire 841 farms from white settlers for redistribution to the landless peasants. The lack of a clear Government policy on the envisaged land reforms and compensation to be paid to the farmers whose land was to be acquired raised concern within the donor community. A donor conference on land reform was held in September 1998 where guiding principles for land acquisition and resettlement were agreed to. As a follow up to the conference the Government has now, clearly outlined and committed itself to the implementation of a transparent and market based land reform programme. Donors have agreed to finance the infrastructure requirements of the programme, whilst the government will finance land acquisitions. It is important that the government is seen to remain steadfast in the implementation of the programme.

## **Risks**

3.3.7 Zimbabwe is currently at a crossroads. Because of underlying structural imbalances, the economy has in the past two years suffered major dislocations on both the domestic and external fronts that have resulted in lower standards of living for the majority of the country's population. Should this situation persist then the economy will slide into further economic decline and poverty that will take a very long time to reverse.

3.3.8 Specifically the development agenda faces risks in the areas of political uncertainty, persistently high budget deficits, drought, land reforms, HIV/AIDS, gender and military involvement in the Democratic Republic of Congo (DRC).

3.3.9 Uncertainties regarding the Government's approach to the complex political issue of indigenisation has already retarded the process of privatisation and private sector development. If not implemented in a transparent and even-handed manner, it could deter interested investors and retard the process of restoring market confidence in Zimbabwe. Second, the Government might not register success in lowering the fiscal deficit as rapidly as planned because of possible continued civil service and workers' agitation for increases in wages in real terms. The government will need to resist unrealistic demands. Third, the economy might be hit by another severe drought before much progress has been made in ongoing efforts to reduce vulnerability to drought. Such a development would impede the realisation of the fiscal deficit-reduction plan and act as a drag on economic growth and export expansion. Fourth, the complex issue of land reform is highly emotive and controversial, and could adversely affect agricultural productivity and economic growth if not addressed through transparent market-driven policies. The government must adhere to its agreed Inception Phase Programme and remain committed to implementation of the resettlement programme through a broad-based consultative process. Fifth, failure to deal effectively with the economic and social consequences of the acutely rising tide of AIDS morbidity and mortality, could adversely impact on productivity and efficiency of the key sectors of the economy. Sixthly, failure to mainstream gender and in particular to address aspects related to women's empowerment could exacerbate their marginalisation. Finally, if the conflict in the Congo is not brought to a speedy end, this could lead to unsustainable expenditures for the war effort contributing to even larger budget deficits.

### 3.4 Strategic Partnership

3.4.1 In its policy based lending and sectoral financing, the ADB will continue, as in the past, to leverage its own funds to enhance the participation of bilateral and multilateral donors. There are many donors currently active in providing assistance to Zimbabwe including, the World Bank (most sectors), the UNDP and UN affiliates (capacity building, poverty reduction, support to macroeconomic policy reforms, technical assistance), the European Union (trade, rural development, water, structural adjustment, CBI and HRD), UK (institutional support), the Nordic countries and other bilateral donors. Many also have country or regional offices in Harare.

Box 1 Selected Donor support by sectors					
Sector/donor	WB	UNDP	UK	Sweden	EU
Agriculture	8.8	3.2			
Industry	70.0				
Transport	38.6			2.9	
Public Utilities	90.0				
Social	64.5			9.7	
Multi-sector	147	4.0	25.2	16.2	460.6
Total	286.6	7.2	25.2	33.2	460.6

Figures are cumulative for the World Bank and EU, otherwise latest annual figures for other donors (UNDP) (1998), Sweden (1996). Figures are also indicative.

3.4.2 Co-ordination of this aid remains a major problem both from the donor point of view as well as

that of the government. The only major co-ordination mechanism of donor assistance remains the Consultative Group Meetings. However given the irregularity and short duration of such meetings, the last was held in 1996, this forum does not allow donors the opportunity to review their respective operations and adopt a co-ordinated approach to providing assistance to the country. As a result, this has fostered competition and duplication of efforts in operations. On the side of the Government, the Ministry of Finance which is responsible for the overall co-ordination of external assistance to the country lacks a formal aid co-ordination mechanism and adequate staff to carry out this function. The Bank will consider providing technical and financial support for the establishment of this unit, preferably during the year 2000.

3.4.3 Past efforts to establish a formal aid co-ordination unit have had limited success. A Disbursement Co-ordination Unit incorporating officials of the Ministry of Finance and the RBZ which had been established in the Reserve Bank of Zimbabwe to follow up on donor commitments under the first phase of the country's reforms has remained relatively inactive. The Government does however envisage the establishment of an Aid Co-ordination Unit under the second phase of reforms. The ADB will help by providing technical assistance and the financing required for the establishment of the unit in 2000.

#### **4. BANK GROUP STRATEGY**

##### **4.1 Assessment of the Previous Strategy**

4.1.1 The 1996-98 CSP strategy was geared toward supporting the government's economic policy and structural reforms, expansion of the country's infrastructure, investment in the agricultural sector with emphasis on rural poverty alleviation, and expansion of employment activities for new entrants to the labour market. A 1997 update of the CSP also indicated that a number of projects were in the pipeline for financing by the Bank's private sector department.

4.1.2 Under the four lending scenarios, strong, satisfactory, unsatisfactory and core, the allocations envisaged for Zimbabwe from ADF VII concessional resources were UA 24.78 million, UA 16.52 million, UA 8.26 million and UA 3.31 million respectively. It was also envisaged that the country could borrow in the range of UA 200 million to UA 250 million from ordinary ADB resources during the period. Total allocation envisaged was therefore in the range of UA 216.52 million and UA 266.52 million. The sectoral focus of the lending programme was to be on public utilities (30%), policy based operations (40%), transport (15%) and agriculture (15%) as shown in Table 4.1 below.

4.1.3 The larger share of ADB resources was a reflection of the country's relatively strong economic position during the 80s and early 90s and hence creditworthiness, allowing it to access non-concesional resources on the international scene. Most investments using ordinary Bank resources were also to be directed to sectors that could guarantee a reasonable measure of cost recovery. However, whenever possible, deliberate efforts were to be made by the Bank to blend ADB and concessional ADF resources, with a view to easing the country's debt burden. The sectoral distribution also reflected the Bank's envisaged support for the Government reform programme and the Government's prioritization of investment in the sectors that could facilitate the rapid and sustained growth of the economy.

4.1.4 The actual ADF allocation accorded to Zimbabwe under the ADF VII cycle was UA 13.49 million for projects and UA 1.15 million from grant resources making a total of UA 14.64

million from concessional ADF resources. This was under a satisfactory performance or normal lending scenario. During the period under review, five operations were approved for the country for a total amount of UA 107.17 million. The beneficiary sectors were to be public utilities (75%), agriculture (14%), and transport (11%). As shown in Table 4.4, the actual amount committed is equivalent to 53.6% of the programmed amount (using the lesser ADF VII programme total as the base amount). Hence the 1996-98 programme lending target was not met. Furthermore, sectoral allocations did not correspond to those originally programmed.

4.1.5 The main reason for the programme target not being met was the postponement of the structural adjustment loan following the deterioration in the country economic situation in late 1997. Expected investments in the transport and agricultural sectors also fell short of target because of ADF VII commitment constraints, which led to the redesign and postponement of two projects to 1999. Over commitment in the public utilities sector was a result of the increased funding requirements of projects in the telecommunications and water sectors. The development impact of Bank Group interventions during the period cannot be gauged at this point in light of the fact that most have either not yet started or are at an early stage of implementation. Slow start up and implementation of projects in the transport, electricity and telecommunications sectors have mainly been caused by the slow fulfillment of loan conditionalities. In recognition of these drawbacks, measures will be taken in the implementation of the 1999-2001 programme to ensure the timely start up and implementation of projects.

**Table 4.1**  
**Sectoral Breakdown of 1996-98 Programme and Actual Performance**

Sector	% of Programme Allocation	% of Actual	%age Deviation
Multi-Sector	40	-	- 40
Public Utilities	30	75	45
Transport	15	11	-4
Agriculture	15	14	-1

## **4.2 Bank Group Portfolio and Management**

4.2.1 Total commitments: Since the Bank Group started operations in Zimbabwe in 1981, twenty-four (24) loans and five (5) grants have been approved to finance sixteen (16) projects, two (2) lines of credit, one (1) policy-based operation and four (4) studies. Total commitments net of cancellations, stood as at 31 December 1998 at UA 517.87 million, of which 459.32 million (89%) was from ADB and UA 52.24 million (10%) was from ADF resources. A further UA 6.31 million (1%) was committed from TAF resources.

4.2.2 *Sectoral Distribution:* Table 4.2 below gives the cumulative sectoral distribution of Bank Group operations in Zimbabwe. The largest share of the cumulative commitments was provided to the public utilities sector with 30.9% of total commitments. This was followed by balance of payments support, 25.03%; industry, 20.92%; transport, 13.57%; agriculture and finally the social services sector with 0.7% of the total.

**Table 4.2**  
**Cumulative Bank Group Operations by Sector and Source (as at 31 December, 1998)**  
**(UA million)**

<i>SECTOR</i>	<i>ADB</i>		<i>ADF</i>	<i>TAF</i>	<i>Total Amount</i>	<i>%</i>
<b>Agriculture</b>	23.75		20.08	2.22	46.05	8.89
<b>Industry</b>	107.86			0.46	108.32	20.92
<b>Transport</b>	59.69		9.21	1.38	70.28	13.57
<b>Public Utilities</b>	143.02		14.73	2.25	160.00	30.90
<b>Social Services</b>			3.62		3.62	0.70
<b>Multisector</b>	125.00		4.60			25.03
<b>TOTAL</b>	459.32		52.24	6.31	517.87	100.00

4.2.3 *Disbursements:* As at 31 December 1998 cumulative disbursements were equivalent to 71% of net commitments as shown in Table 4.3 below. This compares favourably with the 1996 CSP figure of 64.5% and clearly indicates that there has been a significant improvement in the disbursement performance of formerly inactive projects. Some of the reasons behind this improved performance have been the more rigorous and regular supervision of projects and better communication between the Bank and the Borrower. Measures instituted by the Bank in 1995 to enhance its internal processing of disbursements have also helped. Isolated cases persist however, of projects with slow rates of disbursement, notable examples being the Electricity II (ADF) and III (ADB), Telecommunications III and Railways I projects. The major causes of the slow disbursements have been related to late project start up.

**Table 4.3**  
**Summary of Disbursements by Sector**  
**(as at 31 December, 1998)**  
**(UA million)**

<i>Sector</i>	<i>Amount Approved</i>	<i>Amount Disbursed</i>	<i>Disbursement As % Approved</i>
<b>Agriculture</b>	46.05	35.98	78.13
<b>Industry</b>	108.32	89.75	82.86
<b>Transport</b>	70.28	35.96	51.17
<b>Public Utilities</b>	160.00	72.57	45.36
<b>Social Services</b>	3.62	3.68	101.00
<b>Multisectoral</b>	129.60	129.60	100.00
<b>TOTAL</b>	517.87	367.54	71.00

4.2.4 *Implementation Experience:* The 1998 Annual Portfolio Performance Report and the Country Portfolio Review (CPR) circulated to the Boards in August 1997 rated project implementation in Zimbabwe as satisfactory. Problems that continue to hamper project implementation were identified as; (i) the inadequacy of supervision missions (ii) weak institutional capacity of executing agencies; (iii) the low level of disbursement on some projects due in part to insistence on using the reimbursement method of disbursement; and (iv) non-compliance with reporting requirements. Measures that the Bank instituted from 1995 to date in order to tackle the constraints to implementation include (i) a more regular supervision of projects (ii) continued dialogue with Government on the follow up actions required on projects (iii) conduct of national seminars on Bank Group disbursement and procurement rules and

procedures (iv) incorporating lessons learnt from previous projects into the design of similar projects and (v) the systematic cancellation of all outstanding balances on projects/programmes.

### **4.3 The Medium-term Bank Group's Strategy**

4.3.1 The 1999-2001 strategy will be primarily aimed at supporting the government in the implementation of the second phase of policy and structural reforms outlined in the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). It is however expected that with the implementation of the programme, the country will be able to phase out its reliance on external balance of payments assistance by 2002. Though the Bank will continue with specific sector investments as in the past, greater emphasis will be placed on supporting the development of integrated sector strategies through the PBL window. Technical assistance will also be provided to the government in order to strengthen its capacity to plan, implement, co-ordinate and monitor the envisaged reforms and improve its overall macroeconomic management capacities.

#### *Public sector*

4.3.2 In addition to the above, the Bank will undertake specific sector investments in line with the objectives detailed below:

1) In the public utilities sector the objective will be to rehabilitate, modernize and expand energy, telecommunications and water supply infrastructure in order to reduce the costs of production,

improve efficiency and enable more Zimbabweans to access the services provided, especially in the rural areas.

2) In the transport sector the strategy will be geared towards assisting the Government in its endeavour to disenclave the rural populations by providing them with a road network that will enable them to reach the main centres and markets at reduced cost. Ultimately, this will also allow the rural population to become fully involved in the development process of the country.

3) In the agricultural sector it is envisaged to continue to assist the Government in its efforts to resettle peasant farmers on land where greater efficiency in production can be achieved, basic services provided and consequently standards of living improved. This effort will also be linked to Government endeavours to achieve a system of land redistribution that is both fair and efficient.

4) In the social sector as already indicated, the strategy will be to reinforce Government's attempts to maintain the standards achieved in the education and health sectors in the immediate post independence years and establish the basis for further improvement of the health and educational standards in the country. In the health sub-sector, the Bank Group

#### **Box.2 Participatory Approach**

During the CSP preparation mission, in addition to government, discussions were held with the following major players in the country's economy:

- Commercial Banks and DFIs
- CZI, ZCC and ZIC
- NECF as representative of civil society
- and NEPC.

Although no formal workshop was convened, these wide ranging discussions ensured that the views of all potential beneficiaries of Bank Group interventions were taken into account in the design of the strategy.

will support the priority areas of the National Health Plan (1997 – 2007) such as to achieve equity in health by targeting resources and programmes to the most vulnerable and needy population; to maintain the Primary Health Care approach as the leading strategy for health development; to identify priority health problems and to target resources accordingly. In addition, the Bank Group will lend support in the area of HIV/AIDS control and prevention. In the education sub-sector, the Bank Group will support government's efforts to improve access to education for disadvantaged groups; to improve early childhood learning; to improve relevance of education curricula; to decentralise management; and improve the capacity of Ministry of Education (MOE).

#### *Private sector*

4.3.3 In the private sector the Bank will seek to contribute to the efforts of the government to promote private enterprise development through providing direct assistance to these enterprises. The Bank will also support the government's efforts to encourage greater private sector participation in the economy by creating the required environment conducive to their growth. To this end, emphasis will be placed on the development of an export promotion scheme that increases the competitiveness of Zimbabwean exports and provides incentives to increase exports. The Bank will also provide technical assistance to government for the restructuring of public enterprises in preparation for their eventual privatization. Finally, the Bank will intervene in the banking sector by way of providing support to financial institutions to strengthen their capacities as well as providing lines of credit.

#### **4.4 The Lending Programme**

4.4.1 As outlined in the Bank Group's strategy, the focus of the lending programme will be on policy-based operations in support of structural reforms and policy formulation in the sectors of transport and water as well as specific investments in public utilities, transport and agriculture. The social sector, which was omitted in the previous strategy, will be added in order to maintain the standards set by the government in the education and health sectors, where there are growing signs of a reversal of some of the earlier post independence achievements. The choice of these sectors also takes account of the Government's own priorities as outlined in the Public Sector Investment Programme (PSIP) and the experience of the Bank Group in past lending operations in the country and the areas of concentration of other donors. Other factors include, average loan size in the sectors, and the capacity of the executing agencies and line ministries to implement the projects.

**Table 4.4**  
**Sectoral Breakdown of Total Lending Programme**

Sector	%age
<b>Agriculture</b>	45
<b>Transport</b>	16
<b>Public Utilities</b>	3
<b>Social services</b>	36

4.4.2 An indicative amount of UA 20.50 million has been allocated to the country from ADF VIII resources, comprising UA 17.4 million for projects and UA 3.1 million from TAF resources. This total is based on the Country Performance Assessment (CPA). As a blend country, Zimbabwe can also benefit from ADB ordinary resources. An analysis of the country creditworthiness and Bank Group exposure, as outlined in section 4.5, shows that the country can continue to absorb a reasonable amount of ordinary resources without prejudicing its debt servicing capacity. It is estimated that a total of UA 250 million can be lent to the country from these resources during the period 1999-2001. This also takes into account such factors as the average size of projects financed in the country and the Bank Group total medium-term lending programme. Table 4.4 shows the sectoral distribution of the programme. An additional amount equivalent to 50% of ADF resources can be mobilized to finance policy based operations.

#### **4.5 Country Creditworthiness and Exposure**

4.5.1 **Bank Group Exposure:** An analysis of the exposure ratios shown in Annex VIII indicates minimal ADB exposure in the country. The country's debt service to the ADB stood at a low level of 2% of the country's export earnings. The Bank's exposure in Zimbabwe defined as its outstanding disbursements compared to total disbursements was 3% as at December 1998, compared to a limit of 15%. The share of the ADB in the country's public and Publicly Guaranteed Debt Outstanding and Disbursed as at end December 1998 was 13%, compared to a limit of 20%. Perhaps the sole ratio which might give rise to concern is the ADB share of the Debt Service to Preferred Creditors which is expected to reach 39% by the end of 1999, compared to a limit of 35%. Taken in isolation, this ratio simply indicates that the payments made to the ADB will be a sizable proportion of those to be made to the preferred creditors in 1999, one explanation being the cumulative maturity of payments to the Bank at this point in time. However, the country has an excellent repayment record and as the trend shows in the Annex, the ratio is projected to decline to 32% in 2001.

4.5.2 **Creditworthiness:** Zimbabwe's present value of debt to export of goods and services and GDP (131% and 49% respectively) are below the credit limits of 220% and 80% for accessing non-concessional resources. The debt service ratio (21% in 1999) is also below the limit of 30%. In addition, Zimbabwe is committed to prudent debt management, characterised by the increasing concessionality of its external loans, and increased grant financing. With prospects of improving the country's primary account position over the coming years, the debt service ratio is projected to fall to 16.7% by the year 2001. Zimbabwe has never felt the necessity to make recourse to rescheduling of its debt.

4.5.3 *Loan repayment:* The projected total disbursements of the Bank Group over the period 1999-2001 amount to UA 63.48 million while projected repayments amount to UA 157.81

million. This would result in a net transfer of resources from Zimbabwe to the Bank Group over the same period of UA 94.33 million.

#### **4.6 Issues Requiring Policy Dialogue**

4.6.1 *Governance*: Discussions will be held with the government on the governance criteria outlined in paragraph 3.2.4 and steps that will need to be taken to improve performance in those areas. Issues of particular note for discussion are the land reform programme, the impact of the DRC conflict on the budget, corruption and the on-going consultative process.

4.6.2 *Portfolio management*: Following a recent Bank audit of government project execution activities, a number of areas were identified as requiring actions on the part of government and follow up by the Bank through regular dialogue. These include: the establishment of a more pro-active system in the Ministry of Finance (MOF) that would ensure timely fulfilment and compliance with Bank loan and grant conditions; streamlining and co-ordination of activities and responsibilities of the Department of Domestic and International Finance in the MOF and the National Economic Planning Commission regarding the monitoring of Bank projects and programmes and a strengthening of their monitoring capacities; it is also recommended that the Ministry of Finance ensure that proper accounting records and procedures are maintained for all Bank financed projects and appropriate systems for monitoring procurement and disbursement activities are established. Finally it is recommended that the Office of the Auditor and Comptroller General adopt a more pro-active role in the auditing of projects. This would entail regular meetings with the Ministry of Finance and submission of adequate information on Bank projects to the Auditor's office.

4.6.3 *CSP Strategy Matrix*: In addition, the Bank will engage the government in regular dialogue on the status of implementation of the CSP matrix and the issues raised during the Country Performance Assessment exercise.

## **5. CONCLUSION AND RECOMMENDATION**

### **Conclusion**

5.1 Over the past two years Zimbabwe has experienced an unprecedented economic downturn that has highlighted the remaining structural weaknesses in the economy and impressed on the authorities the need to implement outstanding reforms that can help cushion the economy from future shocks. To achieve this goal the government has adopted and is committed to implementing a reform programme (ZIMPREST), which provides a framework for sustained economic growth and poverty reduction. For the country to implement the envisaged reforms and realise its medium-term growth potential, continued assistance will be required from the donor community, including the ADB. The main areas of emphasis will be the restoration of macro-economic stability in the economy, providing assistance for the design and implementation of integrated sector strategies, and specific sector investments in the agricultural, transport, public utilities and social sectors that complement the government's medium-term sector goals.

### **Recommendation**

5.2 In light of the above, the Boards are requested to endorse the proposed strategy and lending programme for Zimbabwe for 1999-2001.

Diagnosis/Issues	Government's Strategy/Action	Performance measures	Implementation timetable	Bank Group's Instruments	
				Lending	Non-lending
<p>Macroeconomic stability and sustainable growth.</p> <ul style="list-style-type: none"> <li>• Revenue/Expenditure</li> <li>• Financial Sector Stability</li> <li>• External Trade and Debt</li> <li>• Regional Integration</li> <li>• Environmental Protection</li> </ul>	<p><b>Maintain primary fiscal surplus to eliminate domestic borrowing by government and crowding out of private investment.</b></p>	<p><b>Primary balance surplus of 3.2% in 1999 1.4% in 2000 and 0.9% in 2001.</b></p>	1999-2001	ESAP II	Public Expenditure Review
	<p><b>Strengthen budgetary control of expenditures. Stop payment system in place in Ministries.</b></p>	<p><b>Continued use of stop payments system and Cabinet monitoring</b></p>	1999-2001	ESAP II	PER
	<p><b>Restore financial viability of NOCZIM and ZESA. Agreement reached on price increases. 15% increase for ZESA in January 1999, 100% for NOCZIM between Aug. 98 and Jan.99. NOCZIM is now breaking even.</b></p>	<p><b>Regular adjustment of rates.</b></p>	1999-2001	ESAP II	
	<p><b>About Z\$ 5 billion of govt. debt shifted from high-cost domestic debt to concessional foreign debt</b></p>	<p><b>Reduction of T-bills by Z\$ 5 billion.</b></p>	2000	ESAP II	
	<p><b>Fiscal deficit cut from 8.8% of GDP in 1997 to 4.9% in 2001. Rationalize government functions. As a first step the Government has reduced the number of ministries from 21 to 18 and is rationalizing functions within six ministries. Some 10,000 posts have been identified for abolishment as redundant or for subcontracting.<sup>9</sup></b></p>	<p><b>Budget out turns</b></p>	1999-2001	ESAP II	
		<p><b>NRA operational by Dec. 1999.</b></p>			

<sup>9</sup> Mines, Environment and Tourism; Rural Resources and Water Development; Education, Sport and Culture; Land and Agriculture; Local Government and National Housing; Foreign Affairs.

Diagnosis/Issues	Government's Strategy/Action	Performance measures	Implementation timetable	Bank Group's Instruments	
				Lending	Non-lending
Private Sector Development.	<b>Independent Revenue Authority to be established. Draft Act establishing the NRA approved by Cabinet and is now before Parliament.</b>		<b>Dec. 1999</b>	<b>ESAP II</b>	
	<b>Government has agreed on the need for VAT.</b>	<b>Introduce Value Added Tax by January 2000</b>	<b>2001</b>	<b>ESAP II</b>	
	<b>Agreement has been reached on a program to strengthen the supervision of banks and other deposit-taking institutions. Amendments to the Reserve Bank and Banking Acts approved by Parliament. Minimum capital adequacy requirements and new guidelines for loan classification and provisioning were introduced in October 1998. On-site examination of the few institutions facing difficulties is on-going.</b>	<b>On-site, off-site supervision by RBZ.</b>	<b>1999-2001</b>	<b>ESAP II</b>	
	<b>New pension and insurance supervision bill to be instituted.</b>	<b>Bill</b>	<b>2000</b>	<b>ESAP II</b>	
	<b>Tariff reform. A Tariff Commission has been established. New tax incentives for exporters were introduced in 1999 budget. Reduction of Tariffs to CBI four bands (zero, 5, 15 and 20%).</b>	<b>FED tax bulletin</b>	<b>June 2001</b>	<b>ESAP II</b>	
	<b>Enforcement of EIA requirements for specific sectors.</b>	<b>Project appraisal reports.</b>	<b>1999-2001</b>		<b>Supervision missions</b>
	<b>Establish transparent process for privatization</b>	<b>The Privatization agency in the</b>	<b>Dec. 1999</b>	<b>ESAP II</b>	

Diagnosis/Issues	Government's Strategy/Action	Performance measures	Implementation timetable	Bank Group's Instruments	
				Lending	Non-lending
<ul style="list-style-type: none"> <li>Privatization Programme</li> <li>Liberalization of the Economy</li> <li>Utilities and Infrastructures</li> <li>Capacity Building</li> </ul>	<p><b>and sale of government owned shares.</b></p> <p><b>Privatize some 40 public enterprises. Already Dairiboard and the cotton company have been privatized and shares in other companies sold.</b></p> <p><b>Eliminate price controls on basic food</b></p> <p><b>Formulate the regulatory mechanisms for telecomms, roads, water and provide for maintenance. ZINWA established.</b></p>	<p><b>president's office fully staffed and operational.</b></p> <p><b>All 40 designated enterprises privatised by 2001.</b></p> <p><b>All prices market based</b></p> <p><b>Reformulated Regulations. Road Fund.</b></p>	<p><b>June 2001</b></p> <p><b>Dec. 1999</b></p> <p><b>1999-2000</b></p>	<p><b>ESAP II</b></p> <p><b>ESAP II</b></p> <p><b>Road project, ESAP II, Telecommunications project, Water project</b></p>	
	<p><b>Initiate human resource development policy and strategy for improving efficiency and equity of health and education services. Agreement reached to maintain social sector expenditures constant in real terms</b></p>	<p><b>MOE and MOH budgets maintained.</b></p>	<p><b>1999-2001</b></p>	<p><b>ESAP II, SDA, Poverty Project, Education project, WID project</b></p>	
	<p><b>Give highest priority to prevention of HIV. Draft National Aids Strategy prepared.</b></p>	<p><b>Strategy.</b></p>	<p><b>1999-2001</b></p>	<p><b>SDA, Health project</b></p>	
	<p><b>Cost recovery for health and education services consistent with gender and equity objectives. Proposal for improved access of low-income households under preparation.</b></p>	<p><b>MOE and MOH budgets.</b></p>	<p><b>1999-2001</b></p>	<p><b>ESAP II, SDA, Education project</b></p>	
<p><b>Poverty Reduction.</b></p> <ul style="list-style-type: none"> <li>Building Human Capital</li> <li>Gender Equality</li> <li>Pro-Poor Targeting</li> </ul>					

Diagnosis/Issues	Government's Strategy/Action	Performance measures	Implementation timetable	Bank Group's Instruments	
				Lending	Non-lending
<b>Good Governance.</b> <ul style="list-style-type: none"> <li>• Peace and Security</li> <li>• Anti-Corruption</li> <li>• Accountability</li> <li>• Transparency</li> </ul> and	<b>Agreement reached on implementing the land reform programme in line with the principles agreed at the 1998 Land Conference.</b>	Action Plan under implementation.	1999-2000	ESAP II, SDA, Poverty project	
	<b>Implement Inception Phase of Land reform program in order to reduce poverty and increase the role of smallholders in agricultural growth</b>	Action Plan under implementation.	1999-2000	ESAP II, SDA, Poverty project	
	<b>End to the DRC conflict.</b> Appropriate laws enforced by independent judiciary	Peace Treaty and withdrawal of troops.	End 1999		CSP dialogue
	Economic bulletin improved and regularly published. NECF consultative process under implementation.	Corruption cases prosecuted.	1999-2001		CSP dialogue
		Economic bulletin and minutes of NECF meetings.	1999-2001		CSP dialogue

## Social Indicators

	Year	Zimbabwe	Africa	Developing Countries
<b>Basic Indicators</b>				
Total Population (millions)	1998	12.0	777.52	4748.91
Area ('000 Km <sup>2</sup> )		390.76	30060.00	80946.00
GNP per Capita (US \$)	1997	750.00	676.70	...
Population Density (per Km <sup>2</sup> )	1998	29.12	25.87	58.67
Labor Force Participation - Total (%)	1994	46.90	43.70	...
- Female (%)	1994	20.80	37.00	...
<b>Demographic Indicators</b>				
Population Growth Rate (%)	1998	2.8	2.65	1.66
Population < 15 years (%)	1998	0.00	43.34	33.38
Sex Ratio (per 100 female)	1998	98.59	99.52	103.29
Life Expectancy at Birth – Total (years)	1998	49.00	54.21	64.50
- Female (years)	1998	42.72	55.73	66.22
Crude Birth Rate (per 1,000)	1998	30.42	38.32	24.32
Crude Death Rate (per 1,000)	1998	18.96	13.10	8.26
Infant Mortality Rate (per 1,000)	1998	66.6	83.50	58.40
Maternal Mortality Rate (per 100,000)	1996	280.00	698.00	...
Total Fertility Rate (per woman)	1998	3.54	5.10	2.97
Female Population 15-49 years (millions)	1998	2.89	181.69	1217.75
<b>Health &amp; Nutrition Indicators</b>				
Population per Physician (per 100,000 people)	1993	14.00	...	76.00
Population per Nurse (per 100,000 people)	1993	164.00	...	85.00
Access to safe water (% of population)	1995	74.00	55.00	72.00
Access to Health Services (% of population)	1995	85.00	60.00	...
Access to Sanitation (% of population)	1990-97	52.00	...	43.00
Child Immunization against Tuberculosis (%)	1996	79.00	77.00	88.00
Child Immunization against Measles (%)	1996	77.00	63.00	79.00
Underweight Children (% of under 5 years)	1990-97	16.00	...	31.00
Daily Calorie Supply	1996	2083.00	2400.00	2628.00
Public Expenditure on Health (as % of GDP)	1995	1.70	...	1.80
<b>Education Indicators</b>				
Gross Enrolment Ratio (%)				
Primary School - Total	1996	116.00	79.50	64.80
- Female	1996	111.00	73.50	46.00
Secondary School - Total	1996	48.00	28.30	30.70
- Female	1996	44.00	45.00	44.00

	Year	Zimbabwe	Africa	Developing Countries
<b>Female</b>				
Adult Illiteracy Rate	1996	9.70	44.54	28.83
Primary School Female Teaching Staff (%)	1995	44.00	44.00	51.00
% age of GNP Spent on Education	1995	8.50	5.90	3.90
<b>Environmental Indicators</b>				
Land Use (Cropland Land as % of land area)	1996	8.30	6.70	...
Annual rate of deforestation (%)	1990-95	0.60	...	...
Annual rate of reforestation (%)	1980-90	2.00	...	...
Protected Areas (1000 ha)	1997	3068.00	154043.00	
Per capita CO2 emissions (metric tons)	1995	0.90	...	2.00
Annual Internal renewable water resources(p.c.cub.m)	1998	1182.00	..	5133.00
Annual fresh water withdrawals per capita	1987-95	136.00	...	496.00
<b>Poverty Indicators</b>				
HDI (Value scale 0 to 1)	1997	0.570	...	0.637
HDI (Rank among 174 countries)	1998	130.00	...	...
Human Poverty Index (HPI-1) Value (%)	1995	29.20	...	27.70
Population Living below \$ 1 a day	1989-94	26.00	...	32.20

Source : ADB Statistics Division

**National Accounts (1992-1997)**

Industry	1992	1993	1994	1995	1996	1997
	(Z\$ million)					
Agriculture, hunting, fishing, and forestry	2322	5836	9593	9636	15283	16152
Mining and quarrying	1552	1625	2531	3151	3846	1384
Manufacturing	9251	8930	10701	11931	14668	15376
Electricity and water	913	1234	1810	2014	2409	2828
Construction	1082	1152	1330	1550	1943	2289
Fiance and Insurance	2790	3211	4577	4872	6370	7115
Real estate	840	995	1177	1429	1526	1739
Distribution, hotels, and restaurants	5818	6926	8609	12112	15630	17163
Transport and communications	1515	2807	3124	3636	4200	5180
Public administration	1596	1886	2366	2941	3324	4444
Education	1946	2362	2955	3441	3602	7420
Health	460	544	791	923	1042	2108
Domestic services	447	474	565	621	828	1097
Other services	1310	1657	1998	2209	2795	3616
Less: Imputed bank service charges	-522	-833	-1289	-1016	-1223	-1149
<b>GDP (at factor cost)</b>	<b>31321</b>	<b>38808</b>	<b>50837</b>	<b>59449</b>	<b>76242</b>	<b>86761</b>
Net other taxes on production	154	188	254	334	413	518
<b>GDP at basic prices</b>	<b>31475</b>	<b>38995</b>	<b>50809</b>	<b>54947</b>	<b>75637</b>	<b>87279</b>
Net taxes on products	2917	3485	5350	6817	9130	12459
<b>GDP at market prices</b>	<b>34392</b>	<b>42481</b>	<b>56159</b>	<b>61763</b>	<b>84767</b>	<b>99737</b>
Population ('000)	10413	10779	11150	11526	11908	12294
<b>GDP per capita (\$)</b>	<b>3303</b>	<b>3941</b>	<b>5037</b>	<b>5358</b>	<b>7119</b>	<b>8113</b>

Source: CSO

### Summary of Public Finance

Year Ending June	1997	1998	Estimate 1999	Proj 2000	Proj 2001
<b>REVENUES</b>					
Total Revenue	<b>29324</b>	<b>42642</b>	<b>55903</b>	<b>61424</b>	<b>68021</b>
Tax revenue	<b>26934</b>	<b>39483</b>	<b>52708</b>	<b>57448</b>	<b>63530</b>
Taxes on Income & Profit	13965	20461	27725	28755	32017
Customs duties	5105	7106	10000	10102	10706
Excise duties	1247	1757	2265	2970	3324
Sales tax	5688	8869	11182	13111	14672
Other taxes	930	1291	1537	2509	2812
Nontax revenue	2390	3159	3195	3977	4491
Total expenditure	<b>38137</b>	<b>48407</b>	<b>67000</b>	<b>70075</b>	<b>74601</b>
Total Recurrent Expenditures	<b>33443</b>	<b>45176</b>	<b>60307</b>	<b>60817</b>	<b>62589</b>
Goods and Services	18912	23603	34798	38216	42184
Salaries & Wages	13528	17196	24785	25791	28146
Other	5385	6407	10013	12415	14038
Interest on debt	7271	13466	17748	12006	8921
o/w Int. Foreign Loans	1294	2307	3574	3939	3740
Int. Domestic Loans	5977	11158	14173	8057	5181
Subsidies	40	3	0	0	0
Transfers	7220	8105	7761	10596	11484
Capital expenditure	2840	2488	5486	8008	10761
Net lending	1852	743	1208	1250	1250
Balance excluding grants	<b>-8813</b>	<b>-5765</b>	<b>-11097</b>	<b>-8650</b>	<b>-6580</b>
Grants	<b>1086</b>	<b>2322</b>	3588	3317	3452
Balance including grants	-7272	-3443	-7509	-5333	-3128
Privatization proceeds	761	0	1776	2000	2000
Financing	6068	3312	5733	3333	1128
Foreign financing	301	-3512	-2623	-1443	-684
Borrowing	2829	2023	4766	6985	7772
Repayments	-2528	-5535	-7389	-8428	-8456
Domestic financing	5768	6824	1174	1344	-1261

Sources: Zimbabwean authorities and IMF estimates and projections

**Balance of Payments**

	1995	1996	1997	1998	1999 prog	2000 projs	2001 projs
Current account (excluding official transfers)	-368	-179	-827	-343	-351	-309	-257
Trade Balance	89	249	-230	79	67	102	130
Exports, f.o.b.	2216	2496	2424	2047	2125	2379	2638
Imports, f.o.b.	-2128	-2247	-2654	-1968	2060	-2217	-2508
Nonfactor services	-252	-259	-314	-171	-187	-162	-123
Receipts	502	612	659	584	601	687	797
Payments	-754	-871	-973	-755	-788	-849	-928
Investment income	-325	-319	-409	-381	-364	-403	-397
Receipts	40	34	33	25	37	43	42
Payments	-191	-178	-184	-176	-181	-190	-193
O/w interest	-150	-144	-151	-162	-144	-147	-150
Other (net)	-175	-175	-258	-220	-220	-235	-247
Private transfers	120	149	126	130	134	133	133
Capital Account (including official transfers)	481	87	90	166	317	296	383
Official transfers (net)	167	85	85	77	90	90	90
Direct and portfolio investment (net) 1/	162	32	145	99	160	211	248
Medium & LT Loans (net)	135	67	5	-2	8	-4	45
Short-term capital (net)	18	-97	-145	-8	59	0	0
Errors and omissions	142	50	-14	152	0	0	0
Overall balance	255	-43	751	-25	-34	-13	125
Financing	-255	43	751	25	34	13	-125
Change in reser. (- = incr.)	-290	42	561	-208	-146	-208	-143
Memorandum items:							
Gross official international reserves	882	830	272	296	392	635	863
(in months of imports)	3.3	2.9	0.8	1.1	1.4	2.1	2.7

Sources: Zimbabwean authorities, and IMF estimates and projections

### Monetary Survey

(In millions of Zimbabwe dollars; end of period)

	1997	1998	1999	2000	2001
Monetary authorities					
Net foreign assets of reserve bank	-6869	-16677	-10631	-5280	-3459
Net domestic assets of reserve bank	14928	27729	22791	19507	13187
Credit to government	6939	7216	4894	4786	683
Credit to non-financial public enterprises	188	674	672	672	672
Credit to private sector	1764	5181	3911	1661	461
Credit to deposit money banks	1403	4373	1798	2911	961
Credit to non-bank private sector	361	808	1000	700	400
Other items	6037	14658	13314	12388	11371
Reserve money	8059	11052	12160	14227	16646
Currency in circulation	3396	4265	4987	5835	68827
Deposit money bank reserves	4291	6144	6676	7811	9139
Other banking institutions' reserves	335	465	432	505	591
Nonbank deposits	37	178	64	75	88
Deposit money banks and other banking institutions	892	1319	1141	1784	1705
Net foreign assets	-5832	-8489	-12686	-12697	-12697
Reserves	4614	6512	7108	8317	9730
Net credit from the reserve bank (asset +)	-951	-4198	-2911	-961	-61
Total credit	54786	67630	79474	87087	97582
Credit to the government	9000	8997	4106	370	398
Credit to nonfinancial public enterprises	1702	2776	2704	2704	2704
Credit to the private sector	44084	55857	72664	85014	94479
Other items	-6398	-9269	-13725	-14751	-16170
Total deposits	46219	52185	57261	66995	78384
Monetary survey	-13	-22	-41	1	26
Net foreign assets	-12701	-25166	-23317	-17977	-9238
Net domestic assets	62354	81794	85630	90882	94538
Domestic credit	62274	76328	86041	93246	99337
Claims on the government	15939	16213	9000	5156	1081
Claims on nonfinancial enterprises	1890	3450	3376	3376	3376
Claims on the private sector	44445	56665	73665	84714	94880
Other items	80	5466	-411	-2363	-4799
<i>Broad money (M3)</i>	<i>49652</i>	<i>56628</i>	<i>62312</i>	<i>72905</i>	<i>85299</i>
Currency	3396	4265	4987	5835	6827
Deposits	46256	52363	57325	67070	78472

**Zimbabwe: Indicators of Debt-Servicing Capacity, 1997-2001**

	1997	1998	1999	2000	2001
	% of GDP				
<b>External debt outstanding</b>	63.6	82.9	100.6	87.7	82.8
M&LT	53.2	68.3	83.8	74.5	71.2
ST	10.4	14.6	16.9	13.2	11.6
<b>Debt service</b>	6.7	8.8	10.8	9.3	8.5
	% of Exports				
<b>External debt outstanding</b>	164.6	195.1	193.6	178.2	162.5
M&LT	137.8	160.8	161.1	151.4	139.8
ST	26.9	34.3	32.5	26.9	22.7
<b>Debt service</b>	17.2	20.8	20.7	19.0	16.7
<b>Exposure and creditworthiness indicators</b>	UA million				
ADB Portfolio share	4	3	3	3	4
ADB DS/PPGDS	15	13	15	14	14
ADBDS/XGS	2	2	3	2	2
ADBDS/Preferred creditors	48	35	39	34	32
TDOD/GDP	64	83	101	88	83
PVD/GNP	491				
PVD/XGS	131				

Sources: Zimbabwean authorities; and IMF estimates and projections, ADB FRMU

### Financing Requirements

	1995	1996	1997	1998	1999	2000	2001
<b>I. REQUIREMENTS FOR EXTERNAL FINANCING</b>	3914	3789	3741	3937	4377	4690	4651
1. Imports of goods and services	3057	3293	3885	3307	3601	3948	3938
2. Total scheduled debt service obligations before debt relief	567	551	558	603	575	565	570
a. of which multilateral creditors	217	240	27	57	67	78	114
I. - of which IBRD	91	91	97	101	103	105	98
ii. - of which IDA	4	5	21	24	26	28	30
iii. - of which IMF	0	9	27	57	67	78	108
b. of which bilateral creditors	99	99	0	0	0	0	0
3. Stock of arrears from previous period of adjustment	0	0	0	0	0	0	0
a. cash payments on arrears	0	0	0	0	0	0	0
4. Reserves build up	290	-55	-703	26	200	177	143
5. Current transfers	0	0	0	0	0	0	0
<b>II. RESOURCES ("above the line"):</b>	3827	3789	3681	3937	3920	4375	4412
1. Exports of goods and services	2758	3142	3116	2866	3207	3620	3507
2. Current transfer receipts	120	149	126	128	134	133	146
3. Project financing	828	545	604	759	704	692	776
a. - IDA	52	56	55	58	25	33	32
b. - other ODA	286	220	237	313	220	237	353
c. - IBRD	32	39	39	34	0	0	0
d. - direct foreign investments	162	32	146	108	128	149	162
e. - commercial banks	169	59	93	137	172	181	158
f. other	127	139	34	109	159	92	71
4. Non-adjustment, non-project financing	0	0	0	0	0	0	0
5. Other capital flows & Errors and omissions	121	-47	-165	184	-125	-70	-17
<b>III FINANCING GAP BEFORE SPA</b>	87	0	60	0	457	315	239
<b>IV NET REDUCTION IN DEBT SERVICE ("below the line")</b>							
<b>V. PROJECTED ADJUSTMENT SUPPORT</b>	87		60				
1. Official Development Assistance (ODA) disbursements	87		60				
a. - IDA	4		60				
b. - IMF	80						
2. Official non-concessional disbursements							
a. - IBRD							
b. - IMF (stand-bys, CCF, etc.)							
c. Other (AfdB/Bilateral)							
<b>VI. ARREARS - total stock at end-period</b>							
1. New accumulation in current period (ex post)							
2. Adjustment to end-period stock of arrears							
<b>VII. RESIDUAL FINANCING GAP (III-IV-V-VI):</b>	0	0	0	0	457	315	239

Sources: SPA Report, IMF estimates and ADB staff projections

## Selected Macroeconomic Indicators

	1995	1996	1997	1998	1999	2000	2001
					est.	proj.	proj.
<b>GDP</b>							
Nominal GDP (market prices, in Z\$ millions)	75470	95202	99737	139899	196502	243071	271998
Real GDP (market prices, %age change)	-0.7	7.3	3.2	1.6	1.2	4.4	4.4
Real per capita GDP (%age change)	-3.9	3.9	0	-1.5	-1.9	1.2	1.3
<b>Savings and Investment (in % of GDP)</b>							
Gross national savings (excluding grants)	14.2	21.2	10	15.9	16.8	20.3	23.9
Gross investment	19.4	25.3	19.9	21.2	23.1	25	27.5
<b>Prices (%age change)</b>							
Consumer prices (annual average)	22.6	21.4	19	31.5	47.7	14.7	7.2
Consumer prices (end of period)	26	16.3	20.1	46.6	29.8	10.7	4.9
<b>Budget (in % of GDP, fiscal year basis)</b>							
Revenue, excluding grants	24.1	24.1	26.7	28.1	29.1		
Expenditure and net lending	34.7	34.9	34.3	37.1	36.5		
Balance, excluding grants	-10.6	-10.8	-7.6	-9	-7.4		
Balance, including grants	-8.6	-9.5	-6.4	-7.4	-6.1		
Primary balance, excluding grants	-3.2	-1.5	0.3	-0.3	1.3		
<b>Central Government budget (in % of GDP, calendar year)</b>							
Revenue, excluding grants		29.4	28.6	30.5	26.9	25.3	25
Expenditure and net lending		38.2	34.1	34.6	32.3	28.8	27.4
Balance, excluding grants		-8.8	-5.5	-4.1	-5.3	-3.6	-2.4
Balance, including grants		-7.7	-3.8	-2.5	-3.6	-2.2	-1.1
Primary balance, excluding grants		-1.5	3.5	5.5	3.2	1.4	0.9
<b>Money and credit (%age change, end of period)</b>							
Broad Money (M3)	22.7	27.7	34.9	14	10	17	17
<b>External trade (%age change)</b>							
Export volume	0.7	5.9	0	-4.6	5.9	13.2	8.8
Import volume	12.2	8.9	22.8	-19	2.2	9.1	8.5
Terms of Trade	5.9	9.7	1	-3.2	-4.2	-2.5	0.5
<b>Balance of payments (in US\$ millions)</b>							
Exports	2216	2496	2434	2047	2126	2379	2538
Imports	-2128	-2247	-2654	-1968	-2060	-2277	-2508
Current account balance (excluding grants)	-368	-179	-827	-343	-351	-311	-258
(in % of GDP)	-4.8	-2.1	-9.9	-5.2	-6.3	-4.7	-3.6
Overall balance	255	-43	-751	-2.5	-3.5	-1.4	125
<b>Gross official reserves (gold valued at 100 % of market prices)</b>							
Gross reserves (end of period, in US\$ millions)	882	830	272	296	435	636	864
(in month of imports of goods and services)	3.3	2.9	0.8	1.1	1.6	2.1	2.7
<b>External debt</b>							
Total external debt (% of GDP)	74.8	63.1	58.9	61	101.5	87.8	83
Debt service (% of exports)	18.7	16.7	17.2	20.8	20.8	19	16.8

Sources: Zimbabwean authorities, and IMF estimates and projections

Note: The budget figures are given using both calendar and fiscal year estimates for comparison purposes. Zimbabwe effectively changed from a July-June fiscal year to a calendar year in 1999.

# Annex

# **ZIMBABWE: 1999-2001 COUNTRY STRATEGY PAPER**

## **ADDENDUM**

### **1. INTRODUCTION**

The purpose of this brief is to provide further information to the Boards as an addendum to the Country Strategy Paper (CSP) for Zimbabwe (ADB/BD/WP/99/148 - ADF/BD/WP/99/143). The brief, first, provides an update about the socio-economic situation in the country and analyses the domestic debt situation of Zimbabwe. It also reiterates the commitment of the Bank Group to poverty reduction as the focus of its intervention in the country, and provides notes about issues related to the Bank Group intervention in the private sector and Government's efforts in instituting and enforcing the core labor standards.

### **2. RECENT SOCIO-ECONOMIC DEVELOPMENTS**

2.1 Zimbabwe's relations with the World Bank and the IMF remain at an impasse, characterized by continued on-going discussions on fiscal issues, expenditure levels and in particular military expenditures in the Democratic Republic of Congo. As indicated in the CSP (para 2.1.5), it was expected that the dialogue would have been completed by the end of 1999, so that the Standby Arrangement would be back on track. This has not happened, and it is unclear when the Government will reach agreement with the Bretton Woods institutions. A World Bank/IMF mission to Zimbabwe has been tentatively scheduled for February to discuss, inter alia, fiscal measures that might assist to lower inflation.

2.2 As a result of the IMF/World Bank program being off track, external resource flows have dwindled significantly as a number of bilateral and multilateral donors have held back their expected support for the country. This has thrown the economy into a deepening economic crisis, with the budget deficit set to widen further, in the months ahead, from the already high level of 10 % of GDP at the end of 1999. Although inflation has declined from the monthly 70 % in October 1999 to an overall annualized level of 56.9 % for 1999, this figure is significantly higher than the expected level of 38.6 % projected in paragraph 2.1.11 of the CSP. This points to the need for the Government to continue to tighten fiscal and monetary policies in order to combat the persistent inflationary pressures and arrest the crisis of confidence in the Zimbabwe dollar. The IMF has already alerted the Government to the need to devalue the dollar (by allowing it to float), but the Government has not given any indication that it is considering such a move, which, in the end, might become inevitable. With respect to economic growth, for 1999 GDP growth remained stagnant at 1%, the same level as in the previous year; and the foreign exchange constraints facing the Government resulted in external payment arrears (government and government-guaranteed) of at least US \$ 74 million at end December 1999. The foreign exchange reserves are estimated to have been at the precarious level of one week of import cover at the end of December 1999. The foreign exchange scarcities have led to fuel shortages during December 1999 and January 2000, and this could have a further debilitating impact on an economy already in crisis.

2.3 The economic prospects are further clouded by the uncertain political situation. A controversial national referendum on a draft new constitution is to be held in February, and this is being planned in tandem with on-going voter registration for general elections which are now being envisaged for April this year. This situation has created a tense political environment which, combined with the difficult economic circumstances, may negatively impact on investor confidence in the economy.

### **3. DOMESTIC DEBT**

3.1 Zimbabwe's credit worthiness continues to be satisfactory and the Bank Group's risk exposure is still minimal (4.5). However, the magnitude of the domestic debt is a source of concern, particularly in terms of its impact on fiscal and monetary management. Domestic Debt in 1996 stood at 46.9 percent of GDP; this ratio declined in the following two years to 31.8 percent and 30.9 percent respectively. The inventory of domestic debt included development stocks, bonds, loans, treasury bills, overdrafts and other short-term debts. However, as the proportion of the long-term domestic debt owed to financial institutions represented less than 1 percent of the total domestic debt, the adverse effect on the financial system is expected to be minimal.

3.2 The value of the domestic debt represented by development stocks has remained fairly constant since 1996, as new issues of the stocks are maintained at levels comparable to the amounts being retired. Also, borrowings from domestic financial institutions have been declining. But the effects these measures would have had in substantially reducing the size of the domestic debt has been countervailed by the growth in the treasury bills and the resuscitation of short term borrowing in the form of overdraft facilities from banks in 1998. Over the medium-term the government is planning to use the proceeds of the privatization programme to retire a part of the domestic debt. The International Monetary Fund (IMF) has commenced consultations with government on the reform and management of its domestic debt and the outcome of the consultations is expected to provide a framework for a sustainable reduction in Zimbabwe's domestic debt over the medium term.

### **4. POVERTY FOCUS & PRIORITISATION**

4.1 The deteriorating macro-economic environment is a major constraint to efforts aimed at reducing poverty. As highlighted in the Country Strategy Paper for Zimbabwe for the period 1999-2001, the focus of Bank Group intervention in the country is on poverty reduction. Towards that objective, the Bank Group will support efforts to address the problem of macroeconomic imbalances and structural constraints. The Bank will also work closely with the Government to ensure the consistency of reforms with the objective of reducing poverty in the framework of Zimbabwe Social and Economic Program (ZIMPREST). The Bank aims at encouraging the government to strengthen the ownership of the poverty reduction programs through a broad-based participation of the civil society and stakeholders in the preparation of these programs.

4.2 The Government's ZIMPREST clearly spells out poverty alleviation as the overriding medium-term development objective. For achieving that objective, the Government's medium-term policy will continue to focus on stabilizing the economy and accelerating economic growth (3.1.2). The Government had announced a dual-pronged approach to poverty alleviation: directly through its "*National Poverty Alleviation Plan*", which will focus on Community Action Programs, designed to provide basic social services to the most vulnerable groups, and indirectly through the reallocation of public funds to the social sectors (2.3.1).

4.3 The Government's poverty alleviation strategy cuts through all sectors. Within the agricultural sector, the Government's focus over the medium-term would be on formulating a Land Act through which large-scale commercial farmland would be redistributed to land-less and/or poor rural population. In implementing this strategy, the government is planning to strengthen existing institutions or establish new ones for the provision of technology, information, finance and infrastructure for farmers. The poverty reduction strategy within the industry and mining sectors will focus on promoting small-scale and informal enterprises. The Government's main strategy within the infrastructure is to integrate the communal sector with the rest of the economy, through connecting farm-roads to the main trunk roads and marketing outlets. The Government's poverty alleviation agenda is similarly well integrated into the overall social development program. In both education and health the government's main strategy is to improve the access for disadvantaged groups, especially women.

4.4 The Bank Group's operational medium-term strategy (1999-2001) is consistent with the Government's development agenda (4.3). The Bank's policy objective will mainly be geared to reduce poverty. Within this contest the Bank will support the government's policy reforms designed to stabilize the economy and accelerate poverty-reduction growth. In the agricultural sector the Bank will support the government in the resettlement of peasant farmers and the achievement of a land redistribution that is both fair and efficient. This will be further supported by programs, which are designed to improve the existing yields of communal agriculture. Within the infrastructure the Bank's operations would be designed to bridge the gap in the standards of living between the communal sector and the modern sector of the economy and to improve accessibility of rural farms to marketing centers. In the health sector the Bank's focus will continue to give priority to primary health care in the rural communal areas as well as control and prevention of HIV/AIDS. Similarly the Bank's operations on the education sector will be geared to redress the apartheid policies, which neglected the population in the communal lands.

## **5. CORE LABOUR STANDARD**

Although, as indicated in the CSP, Zimbabwe has ratified a number of international labor conventions aimed at ensuring minimum labor standards, the Government needs to make progress in actually implementing the provisions of these conventions. This issue will, therefore, be taken up as an additional issue for dialogue with the Government. The issue of core labor standards will be raised with the Government in terms of how they affect the implementation of Bank Group funded projects.

## **6. PRIVATE SECTOR PORTFOLIO AND STRATEGY**

There is no existing private sector project in the Bank's portfolio on Zimbabwe. The strategies for the Bank's intervention in Zimbabwe in the medium term are discussed in section 4.3.3 of the CSP.