AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

ZIMBABWE: COUNTRY BRIEF 2011-2013

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ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AfDB	African Development Bank
AWF	African Water Facility
BIPPA	Bilateral Investment Promotion and Protection Agreement
CIFA	Country Integrated Fiduciary Assessment
COPAC	Constitutional Parliamentary Select Committee
FSF	Fragile States Facility
GDP	Gross Domestic Product
GOZ	Government of Zimbabwe
GPA	Global Political Agreement
HPI	Human Poverty Index
IFI	International Financial Institution
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MEFMI	Macroeconomic and Financial Management Institute
PFM	Public Financial Management
RBZ	Reserve Bank of Zimbabwe
SADC	South Africa Development Cooperation
UNCTAD	United Nations Conference on Trade and Development
ZAADDS	Zimbabwe Accelerated Arrears Clearance Debt and Dev. Strategy
ZIMFUND	Zimbabwe Multi-donor Trust Fund
ZIMSTAT	Zimbabwe Department of Statistics

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GENERAL MAP OF ZIMBABWE

EXECUTIVE SUMMARY

1. **The aim of this Country Brief for Zimbabwe is to update the Board of Directors on recent developments in Zimbabwe as well as serve as a programming instrument for the Bank's intervention in the country in 2011-13**. The Bank has supported Zimbabwe's recovery over the past two years in line with the recommendations made in the Country Brief 2009/10 (ADF/BD/WP/2010/Approval) that was approved by the Board of Directors in 2010. Assistance provided comprised mainly of technical assistance and institutional capacity building funded with grant resources from Pillar III of the Fragile States Facility (FSF) of which some 90 percent of committed funds have been disbursed. The support was targeted at improving economic governance and enhancing the effectiveness of public service delivery.

2. **Zimbabwe started on a new political path with the signing of the Global Political Agreement (GPA) in 2008, even though its implementation has been uneven**. The economic reforms implemented since the signing of the GPA have borne positive results for the economy. Real GDP grew by about 6% in 2009 and is estimated to have grown by 9% in 2010. The adoption of the multi-currency regime along with the tightening of fiscal policy stance through the implementation of a cash-based budget system has helped Zimbabwe to bring down inflation to the commendable level of 3.0% by end-April 2011. In the medium term, Zimbabwe's prospects and performance will be largely determined by political developments and how these impact the economy. Key reforms aimed at addressing external indebtedness and improving the investment climate especially in the areas of property rights, indigenization and land reform, will also be vital if the economy is to continue to make progress.

3. **Over the past year, the Zimbabwean Authorities have also implemented several structural reforms aimed at stimulating the economy and increasing domestic revenue**. These included appointing a new Board for the Reserve Bank of Zimbabwe (RBZ), identifying ten public enterprises for restructuring, commercialization or privatization, commencing the Land Audit and conducting a Country Integrated Fiduciary Assessment (CIFA) and an Assessment on the Report on the Observance of Standards and Codes (ROSC) focusing on accounting and auditing. In addition, the Government has adopted a Debt Resolution Strategy.

4. **The total allocation to Zimbabwe from FSF pillar III was UA 4,005,795. The amount approved for operations thus far is UA 2,784,912, leaving a balance of UA 1,220,883**. Annex 1 provides details of amounts disbursed for various activities relative to commitments. The total undisbursed balance is UA 1,498,427of which UA 1.0 million has been committed to financing the Procurement Agent of the ZIMFUND and the balance has been committed to support other capacity building activities (Annex 3).With the utilization of this balance, there are no additional resources available to Zimbabwe in the current ADF 12 cycle. This notwithstanding, the Government has requested for technical assistance support in other areas including Public Financial Management and Public Private Partnership frameworks (Annex 4). The Bank has recently reopened a field office in Zimbabwe which has helped strengthen it's engagement with the Government. In addition, the Bank will continue to implement emergency infrastructure projects funded by the Africa Water Facility (AWF) and other operations supported from the Zimbabwe Multi-donor Trust Fund (ZIMFUND). Further, the Bank will explore

opportunities to support economic recovery and reengagement through private sector operations.

5. **To deliver on the mandate entrusted to the Bank, the AfDB will remain engaged in Zimbabwe over the next two years to consolidate the assistance and progress already made and to help avoid policy reversals**. Additional resources for Zimbabwe will be necessary for the Bank to sustain its engagement. In this regard, Management requests the Board to approve for Zimbabwe**:**

   - Exceptional eligibility under FSF Pillar I to support capacity building in public financial management, debt management, legal frameworks for public private partnerships, and in domestic resource mobilization as described in Annex 4.

I. INTRODUCTION

1. **This Country Brief for Zimbabwe serves to update the Board of Directors on recent developments in Zimbabwe and also serves as a programming instrument for the Banks' intervention over the period 2011-13 (consistent with the ADF cycle) under the Fragile States Facility (FSF)[1].** The Board of Directors will recall that the Government, with the support of the International Community, had requested the African Development Bank to play a lead role in assisting and supporting Zimbabwe's economic recovery. The Bank has supported Zimbabwe over the past two years in line with the recommendations made in the Country Brief that was approved by the Board of Directors in 2010 (ADB/BD/WP/2010/Approval). The support comprised mainly technical assistance and institutional capacity building using grant resources from Pillar III of the Fragile States Facility (FSF) (see Annex 1 for the detailed programs financed). The assistance was largely aimed at improving economic governance and restoring vital public services. Zimbabwe's rate of disbursement of FSF committed[2] under Pillar III at over 90 percent has been impressive and well above those of other countries that are eligible for assistance under Pillar III.[3]The Bank has recently reopened its Field Office in Zimbabwe which has helped strengthen the Bank's engagement with the Government. The Office has provided policy advice in areas such as Zimbabwe's future currency regime, payments system and debt restructuring as well as helping to define the Policy Framework on Infrastructure Development. In addition, the Bank is implementing emergency infrastructure projects funded by the Africa Water Facility (AWF) and the Zimbabwe Multi-donor Trust Fund (ZIMFUND).

II. POLITICAL AND ECONOMIC CONTEXT: RECENT DEVELOPMENTS

A. Political Context

2. **The signing of the Global Political Agreement (GPA) in 2008 and the creation of the Inclusive Government provided a new beginning for Zimbabwe.** Progress on the implementation of the GPA has, however, been mixed.[4]Some important elements have been implemented such as amendments to the Electoral Act, the appointment of independent Commissions to address Media, Human Rights and Election issues and the issuing of Print and Media Licenses (15 in 2010). Furthermore, a Land Audit Commission and a National Economic Council have been established. However, these Commissions are not fully functional because of lack of resources and clear legislative frameworks. A new Constitution is also being developed by the Constitutional Parliamentary Select Committee, a coordination body chaired by representatives from each of the political parties.

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[1]"Section 4 of the Operations Guidelines of the Fragile States Facility, ADF/BD/WP/2008/60, approved by the Board through Resolution B/BD/2008/10, and permits the Board of Directors to approve Zimbabwe's eligibility for the Fragile State Facility (FSF) and disbursements through Pillar III of FSF through submission of a country brief. This country brief serves as a programming document apprising the Board of the Bank's proposed activities in Zimbabwe

[2] Committed funds amounted to US$4.2 million.

[3] About 15 percent of Funds under Pillar III Funds are committed.

[4]The GPA seeks to provide a roadmap to reach agreement on key issues like a new Constitution, Land Reform, Economic Development, Rights and Freedoms, National Security Council, Electoral Commission, and Rule of Law.

3. **Notwithstanding these developments in the area of governance**, **a recent Summit of the Organ Troika[5] on Politics, Defense and Security of the South Africa Development Corporation (SADC) held at the end of March 2011 in Zambia, noted that the implementation of the GPA has been slow.** The Summit was not satisfied with the polarization of the political environment characterized by the resurgence of violence, arrests and intimidation in the country. The summit resolved, inter-alia, that there must be an immediate end to any form of action that contradicts the letter and spirit of the GPA and that all stakeholders to the GPA should implement all the provisions of the GPA and create a conducive environment for peace, security, and free political activity.

B. Economic Context

4. **Economic reforms implemented since the formation of the GPA have borne positive results for the economy.** Real GDP grew by about 6% in 2009 and is estimated to have risen strongly to about 9.0% in 2010, reflecting strong performances in mining (47% growth) due to rising mineral and metal prices and higher agricultural output arising from higher output of tobacco, sugar, maize and cotton. Increases in agricultural output (34% growth) have historically supported manufacturing sector production (Box 1). The adoption of the multi-currency regime, along with cash budgeting, has helped to restore and maintain price stability. The currency and the fiscal regime have become agencies of restraint on government, ensuring discipline in budgetary execution—as there is no recourse to deficit financing. Inflation remains firmly in single digits at 3.0 percent in April 2011, broadly in line with those of its trading partners (Figure 1). There are, however, inflationary pressures from fuel and food prices and inflation is projected to reach some 7% at the end of 2011.

Box 1. Linkages between Agriculture and Manufacturing

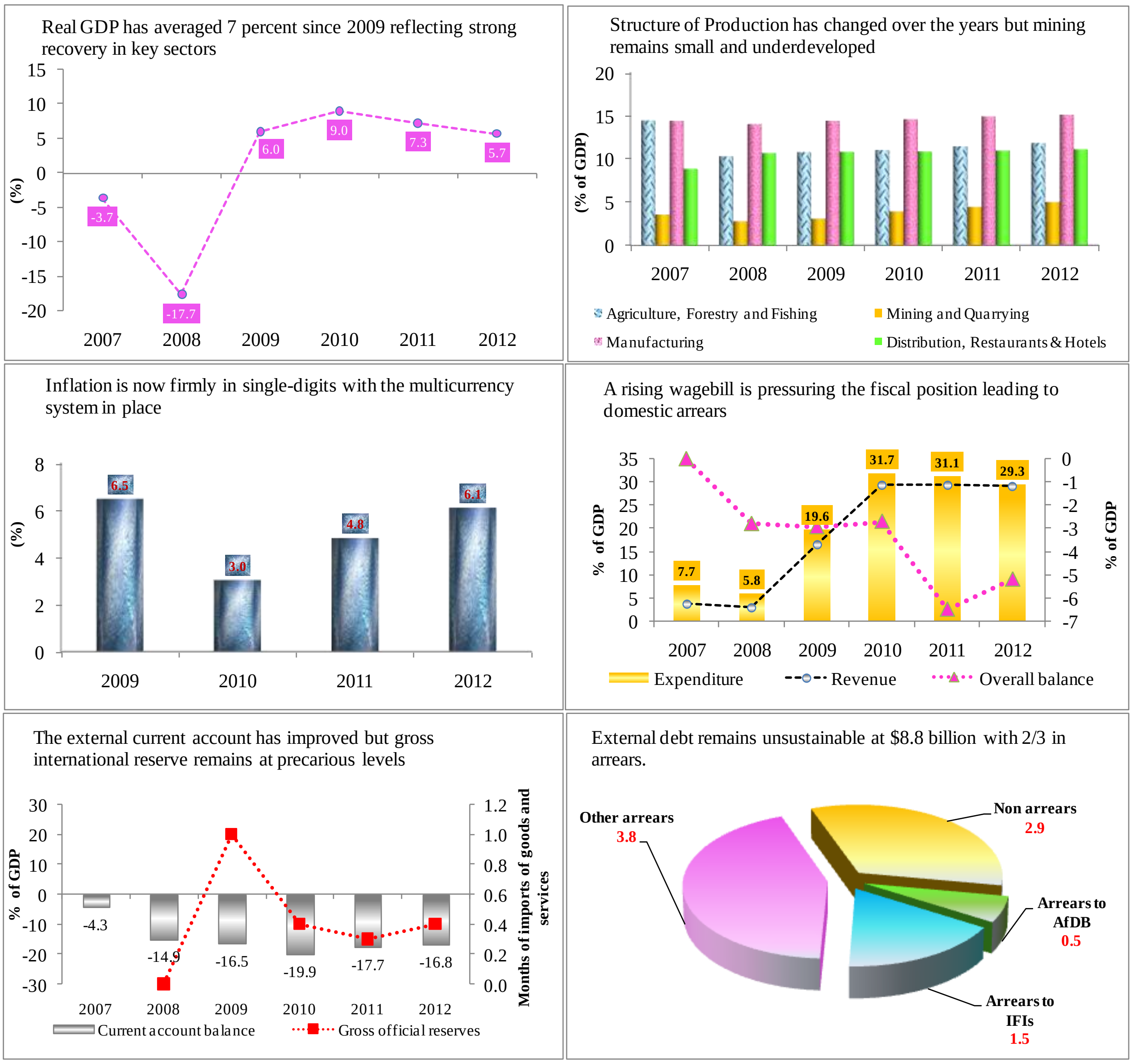
The manufacturing sector has always had strong linkages with the agricultural sector, with agriculture sourcing from it over half of intermediate goods, such as insecticides, stock feeds, and fertilizer, while nearly half of agricultural produce is supplied to the manufacturing sector. The performance of the two sectors has historically been closely correlated. The collapse of agricultural activities associated with the implementation of the fast track land reform program by the Government had a devastating impact on the manufacturing sector in the past decade. Between 1999 and 2008, manufacturing activities experienced a cumulative decline of 92 percent. However, the recent recovery in agriculture has not resulted in a similar recovery in the Manufacturing sector. This is due to constraints such as electricity supply, credit availability and uncertainty in the investment climate.

5. **Fiscal policy, based on cash-budgeting, aims over the medium term at preserving fiscal sustainability, while allowing for some modest increase in infrastructure and social spending**. Given the fiscal framework, Government finances have improved. There are, however, unresolved issues concerning ghost workers and the accounting for diamond revenues. Total revenue increased from US$933.6 million in 2009 to US$2.34 billion in 2010, underpinned by increases in income and corporate taxes. Despite the progress made on the fiscal side, difficult challenges still remain, including a rising wage bill and the limited fiscal space for infrastructure and priority social programs. On current trends, the 2011 budget is projected to result in a sizeable financing gap of about US$390 million (3 percent of GDP), which in the absence of external financing would lead to further accumulation of

[5] Namibia, Mozambique and Zambia

domestic arrears. A more prudent fiscal stance for the remainder of 2011, including a higher revenue effort and controls on the wage bill should reduce financing needs.

Figure 1. Selected Macroecnomic Indicators



Sources: Zimbabwe authorities, AfDB data platform and IMF (April 2011 update)

6 **Zimbabwe's external position remains precarious even though it has improved relative to the position in 2008 when international reserves had run-out.** The country's gross international reserve position, which was forecast at 1 month of import cover in 2009 declined to less than 0.4 months of imports of goods and services in 2010. Remittances have been on the increase, registering an estimated 7-9 percent of GDP in 2010. The current account deficit has worsened from 14.9 percent of GDP in 2008 to 19.9 percent by 2010 (Figure 1). It is however estimated to improve to 17.7 percent of GDP by 2011 and 16.8 percent of GDP by 2012 on account of mining sector exports. Notwithstanding the projected improvement in the current account, the gross international reserves position is projected to remain at the precarious level of 0.4 months of imports through 2012 on account of constrained capital inflows, and a slowdown in private transfers, including remittances.

C. Structural Reforms

7. The authorities have significantly accelerated structural reforms in the past year aimed at stimulating the economy and increasing domestic revenues including:

- **A new Reserve Bank of Zimbabwe (RBZ) Board was appointed in May 2010**. It was tasked with the downsizing the RBZ's huge staff complement; restoring the RBZ's position as the lender of last resort; and putting in place committees for monetary policy and audit. About 1,455 staff of the RBZ (75% of total staff) were retrenched in January 2011 in the largest such exercise since independence. In addition, the RBZ is disposing of its non-core assets in sectors such as mining, consistent with the RBZ Act.
- **Identification of ten public enterprises to be restructured, commercialized and privatized**. The companies include Agribank, Air Zimbabwe, Grain Marketing Board, Cold Storage Company, NetOne, TelOne, Zimbabwe Iron and Steel Company, National Railways of Zimbabwe, National Oil Company of Zimbabwe, and ZESA holdings.
- **A Land Audit to provide information** on the nature of land holdings, demand for land, land tenure issues, utilization, infrastructure and compensation issues. Progress on the Land Audit has since stalled, reflecting the contentious nature of this issue.
- Conduct of a **Country Integrated Fiduciary Assessment (CIFA)** with assistance from development partners to provide an integrated and holistic assessment of the Public Financial Management System (PFMS).
- **A Report on the Observance of Standards and Codes (ROSC) focusing on Accounting and Auditing Assessment was also done for Zimbabwe in 2011**. The main purpose of the ROSC A&A assessment was to assist the Government of Zimbabwe in strengthening the private sector's accounting and auditing practices and in enhancing financial transparency in the corporate sector.
- An Aid and Debt Management Office was established by GOZ in November 2010.

8. Financial sector reforms and the adoption of a more predictable currency system spurred a recovery of the financial sector in 2009. Total deposits in the banking system rose from US$500 million in 2009 to some US$2.5 billion by December 2010. Important **v**ulnerabilities remain[6]. The Banking sector is highly illiquid, with the bulk of bank lending being short term (90 days or less) with longer-term loans virtually nonexistent. Moreover, the intermediation spread is extremely high with prohibitive lending rates of as high as 30 percent and deposit rates of as low as 2 percent.

9. An acceleration of structural reforms remains critical to strengthen competitiveness and reach higher sustainable growth. In this regard, and to further enhance the efficiency of economy and to increase tax buoyancy, the Government plans to introduce Deposit Protection, Draft Income Tax, and Energy Bills in 2011.

[6] A major bank has recently (June 2011) been placed under curatorship.

D. External Debt and Arrears Clearance

10. **Zimbabwe's external debt remains unsustainable.** As at February2011, total external debt was estimated at US$8.8 billion or about 118 percent of GDP, of which over two-thirds are in arrears. The arrears to international financial institutions (IFIs) are estimated at about US$1.5 billion with the arrears to the AfDB amounting to UA 341.2 million (about US$ 532.9 million) as of February 2011, of which UA 333.8 million are owed to the ADB and UA 7.4 million to the ADF.

11. **The authorities have reached consensus on the way forward for a Debt Resolution Strategy with Cabinet approval of the *Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS)* in 2010**. The main components of the ZAADDS are reconciliation and validation of debt; re-engagement with creditors and the international community for the removal of the restrictive measures; negotiating for arrears clearance, new financing and comprehensive debt relief; establishment and operationalization of a Debt Management Office; and leveraging Zimbabwe's natural resources in pursuit of debt relief and development. Bank support under Pillar III of the FSF has been instrumental in facilitating the dialogue needed to reach this consensus. ZAADDS is a major step forward and represents a significant milestone in the discourse on debt relief for the Country. The technical and operational details of the ZAADDS would still need to be worked out in the context of the internationally agreed framework for arrears clearance and debt relief.

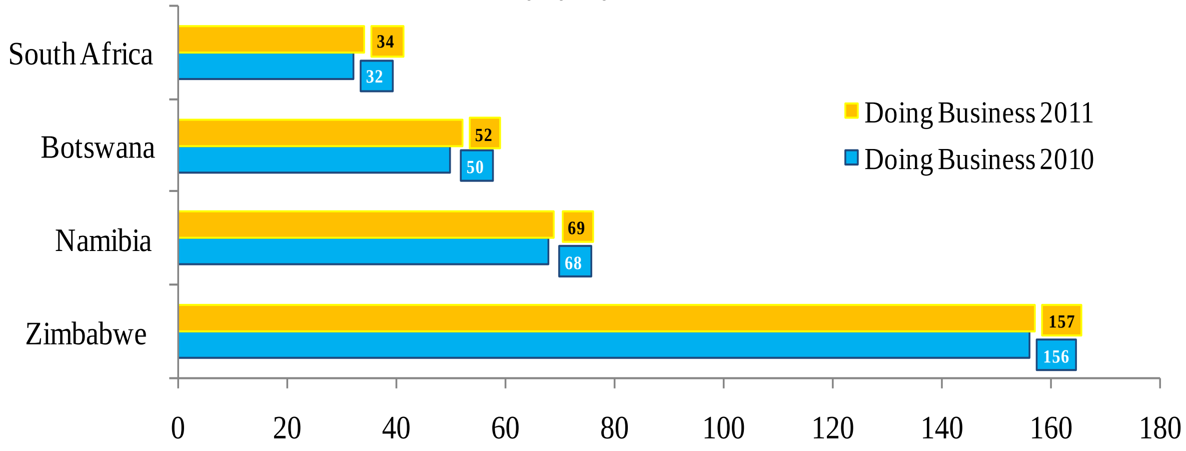
12. **The Bank, IMF and World Bank participated in a Government Forum organized in March 2011 to discuss the recently approved Strategy for Arrears Clearance**. A major conclusion from the workshop was the importance of reaching agreement on a Staff Monitored Program with the IMF as a critical component of the path towards arrears clearance and debt relief and a grandfathering of Zimbabwe by the IDA Executive Board if it is to benefit from the HIPC Initiative. A Technical Working Group on arrears clearance and external debt strategy comprising the Bank, World Bank, the IMF, UNCTAD and MEFMI was formed by the Government as it continues to put in place the building blocks in readiness for an agreement on arrears clearance and debt relief. Going forward, the Bank will continue dialogue with the Government of Zimbabwe on the re-classification of Zimbabwe to ADF-only based on economic data, and continue support for building Debt Management Capacity, while ensuring full cooperation with other IFIs and in a timely manner, prepare a comprehensive roadmap for arrears clearance and debt relief for Zimbabwe.

E. Investment Climate

13. **Zimbabwe continues to be among the least competitive economies in the World.** According to the World Bank 2011"Doing Business Survey" Zimbabwe ranked 157 out of 183 countries in the world, a move up of two positions compared with the 2009 report. Its ranking however is still well below those of neighboring countries such as South Africa (34), Namibia (69), and Botswana (52) (Figure 2). The regulatory environment for infrastructure services in particular is deficient, with the institutional and legal framework for public enterprises imposing constraints on their effectiveness, autonomy, and accountability. **The major concerns for the investment climate relate to the land reform policy and indigenization law**. The uncertainty as to direction and implementation of these critical pieces of legislation acts as a major disincentive for any long-term large private investment, particularly in the form of foreign direct investment.

14. Despite the mixed signals, the authorities are taking steps to improve the business climate. Zimbabwe has eased business start-up by reducing registration fees and initiated a process to speed up the *name search* process and company and tax registration. In addition, the corporate income tax rate was reduced from 30% to 25%, the capital gains tax was lowered from 20% to 5%, and the payment of corporate income tax was simplified by allowing quarterly payment through commercial banks. Zimbabwe has also recently concluded Bilateral Investment Promotion and Protection Agreements (BIPPAs) with the Governments of South Africa and Botswana respectively. These BIPPAs are aimed at providing reciprocal security of tenure to South African and Botswana investments in Zimbabwe but which expressly protects only new investments. BIPPAs are being discussed with other countries including Namibia, Brazil, Tanzania, India and South Korea.

Figure 2. Doing Business Ranking for selected countries 2010-2011

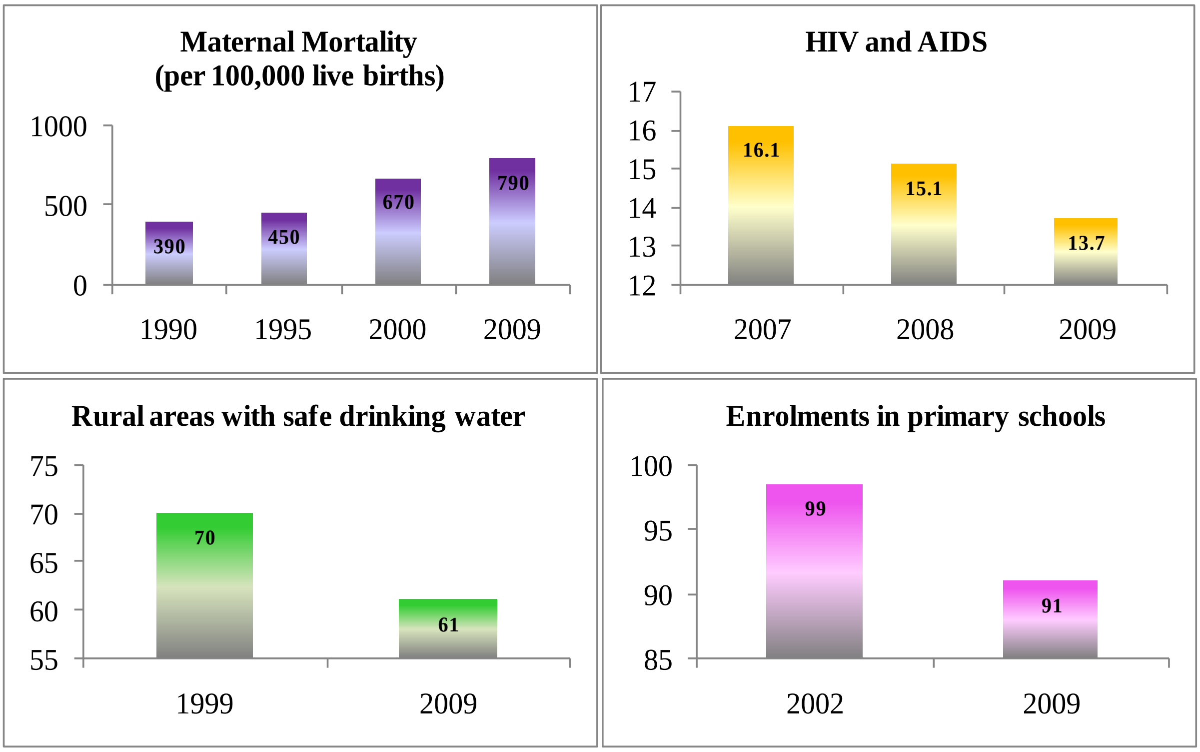


Source: Doing Business Report, 2011

F. Social Development

15. The excessive macro-economic imbalances experienced between 2000 and 2008 had extreme consequences for development and poverty situation in Zimbabwe. The collapse of the economy by 2008 resulted in a collapse of social services, especially in the areas of health, education, and access to water and sanitation and also increased the levels of unemployment and poverty. This has impacted adversely on the country's ability to meet the MDGs. With the support of donors, the Government has through targeted financing, improved services in education and health as well as enhanced food security.

Figure 3. Selected social Indicators



Source: 2010 Millennium Development Goals Status Report

16. A 2010 UN Status Report on the Millennium Development Goals (MDGs) in Zimbabwe pointed out that notwithstanding the poor performance of the economy, Zimbabwe has made relative progress in a number of key areas such as universal primary education. Enrolment in primary schools has consistently been relatively high (with a net enrollment ratio of 91% in 2009 down from 98.5% in 2002). The rate of HIV infection has also seen an improvement with a decline from 16.1 percent in 2007 to 13.7 percent by 2009 partly on account of public awareness programs and education. However, Zimbabwe has experienced a decline in areas such as access to safe drinking water. The rural population with safe drinking water declined from 70% in 1999 to 61% by 2009 (Figure 3).

G. Medium-Term Outlook

17. In the medium term, Zimbabwe's prospects and performance will be largely determined by political developments and key reforms aimed at improving the investment climate especially in the areas of the property rights, indigenization, and land reform, which make up the risks to the outlook. In addition, the speed and determination with which the Government addresses the issue of external indebtedness will be vital, as this will unlock critical resources required for investment in the various sectors of the economy and in infrastructure in particular.

18. Government has also recently launched a Medium Term Plan (Box 2) which targets a GDP growth of 7% annually over the period 2011–15 and envisages employment creation of 6% annually.

Box 2. The Medium Term Plan

The Government in May 2011 approved the Medium Term Plan (MTP), which is expected to drive economic growth over the next five years, 2011-15. The Plan will guide the formulation of National Budgets and other social-economic policies of the State. The MTP requires US$9 billion to be implemented over the period 2011-15 and funding is expected from the domestic and external sources including reliance on Public Private Partnership (PPP). The MTP has 3 major goals and these are economic transformation, orientating the economy to export-led growth and creating economic clusters based on production and job creation. The Plan has 11 priorities and these include infra-structure development, employment creation, human-centered development, entrepreneurial development, ICT and science, gender mainstreaming, indigenization and macro-economic growth among others.

Prudent fiscal and monetary policies have so far led to a resurgence of real GDP growth and some confidence in the economy. Zimbabwe can now build on these gains to sustain its high growth agenda. The short-term recovery measures pursued to date have helped to revive the economy, but they cannot sustain growth over a longer time horizon. This is because short-run output fluctuations are determined primarily by aggregate demand, while long-run growth reflects the combined effects of the accumulation of capital, labor and productivity improvements; and involves structural supply-side strategies that enable individuals, firms, industries, and the entire economy to become more productive on a sustained basis. Such measures will include:

- **Sustaining fiscal reforms which are critical for increasing growth and reducing poverty**. Higher tax collections, together with civil service and PFM reforms, will be key to creating additional space to respond to urgent infrastructure needs and increasing pro-poor spending.
- **Preserving Zimbabwe's competitiveness and boosting growth rests on the acceleration of structural reforms**. Pressing ahead with the remaining reform agenda is critical to improve the delivery of public services, lower production costs, and alleviate capacity constraints.
- **Building consensus and ownership is indispensable to sustaining the momentum for the program**. This will require a constructive and on-going dialogue with all political stakeholders.

III. BANK RELATIONS WITH ZIMBABWE

A. Bank Support to Zimbabwe 2009-2011

19. Over the past two years, the Bank has mainly supported Zimbabwe with resources from the Pillar III of the FSF to enhance capacity building in public financial management, statistics and debt management. This was aimed at **strengthening public institutions** which are vital for good governance and growth. The total allocation to Zimbabwe from FSF pillar III was UA 4,005,795. The amount approved for operations thus far is UA 2,784,912 leaving a balance of UA 1,220,883.Annex 1 provides details of amounts disbursed for various activities relative to commitments. The total undisbursed balance is UA 1,498,427.

20. In addition to Pillar III activities, the Bank responded to the Zimbabwean Humanitarian program with resources from the Bank's Special Relief Funds (SRF) to contribute to the humanitarian assistance. The Bank is also supporting water and sanitation projects in Chitungwiza, a suburb/satellite town of Harare, funded from the African Water Facility (AWF) to the tune of €2 million (Annex 2). Early in 2010, the Government requested the Bank to undertake a study that could assist it to understand the status and investments required in the Infrastructure sector to resuscitate the economy. The study entitled "Infrastructure and Growth in Zimbabwe" was completed and launched in March 2011 in Harare and has been positively received by GOZ and other stakeholders.

Box 3. The Flagship Report "Infrastructure and Growth in Zimbabwe: An Action plan for Accelerated Growth"

The Report has had an enthusiastic reception from the Government, donor community and the private sector. It provides: (i) the Government with a master plan for rehabilitation of infrastructure assets and recovery in infrastructure services in the Zimbabwe in the decade ahead; (ii) the underlying framework for a major conference held in March 2011 on infrastructure development and related investment opportunities, which was attended by Government officials, international and domestic private investors, and the donor community; (iii) a game plan for re-engagement with the international community in the field of infrastructure in the event that the Government moves ahead with arrears clearance in 2011-12 as the Ministry of Finance has signalled in discussions with the Bank; and (iv) a platform from which a strategy for possible AfDB operations in Zimbabwe can be drawn up.

The Report recommends an Action Program for Infrastructure in the decade ahead with proposals for achieving these objectives. These include policy and institutional reforms and capital expenditure programs for rehabilitation and new capacity which are estimated at US$14.2 billion at 2009 constant prices including US$4.6 billion of private investment in upgrade of existing infrastructure and new capacity. It provides options for financing the proposed program, identifies the specific areas where there is a role for private investment, and discusses improvements in the operating environment that will be required to attract this investment. The Government has taken ownership of the Report and sector specific workshops will be held to discuss the way forward.

B. Bank Presence in Zimbabwe

21. The Bank has reopened its office in Harare. The Board in 2010 approved the re-opening of a field office in Zimbabwe. Management has since implemented this decision by signing a Host Country Agreement (HCA) with the Government of Zimbabwe which was followed by the posting of a Resident Representative. The Field Office has been staffed and is being equipped to assist and dialogue effectively with the Government.

C. The Zimbabwe Multi-Donor Trust Fund (ZIMFUND)

22. The ZIMFUND was established in 2010 and formally launched in Zimbabwe by the President of the Bank in March 2011. The Program Oversight Committee of the ZIMFUND has approved for funding the Urgent Water Supply and Sanitation Rehabilitation Project (UWSSRP)(USD29.65 million) and the Emergency Power Infrastructure Rehabilitation Project (EPIRP) (USD35 million). UWSSRP has been approved by the Board and the Protocol of Agreement was signed at the Annual Meeting in Lisbon. EPIRP has been submitted to the Board for consideration on a LOTB with a deadline of 30 June 2011. Disbursements from the ZIMFUND are expected to accelerate with the engagement of the Implementing Entities. The Procurement Agent for the ZIMFUND has been engaged and the agreement between the Procurement Agent and GOZ has been fully executed. The Bank is responsible for the administration of the ZIMFUND and will support the ZIMFUND by funding the Procurement Agent with resources from Pillar III of the FSF.

D. Donor Coordination

23. The main donors in Zimbabwe include AfDB, European Union (EU), Canada, Denmark, Norway, Sweden, United Kingdom, United States, Australia, Germany, Netherlands, United Nations (UN) related agencies (UNDP, FAO, UNICEF, UNHCR, WFP, and the Global Fund).The ZIMFUND has provided an excellent opportunity for donor coordination, and has been established in line with the OECD-DAC Principles of Good International Engagement in Fragile Situations. The Project Oversight Committee of the ZIMFUND which comprises the contributing donors[7] and the Government, together with the observers (the World Bank and UN Resident Coordinator) meet regularly to assess the performance of the ZIMFUND projects and also ensures that there is no duplication of effort. In addition, the Bank participates actively in the PFMS meeting together with DFID, EU, the World Bank, USAID and UNDP**,** aimed to strengthening the PFM.

E. Assessment of Zimbabwe's Eligibility for First Cycle of Supplemental Support Funding from the Fragile States Facility (FSF) in ADF 12, 2011-13

24. Eligibility Criteria: The Board of Directors shall recall that eligibility[8] for the Fragile States Facility (FSF) Supplemental Support Window (Pillar 1) is outlined in the Bank Group's Strategy for Enhanced Engagement in Fragile States and the Operations Guidelines of the Fragile States Facility (the "Operational Guidelines"). The first stage assesses the: (i) the progress made by the country to consolidate peace and security; and (ii) the extent of destruction caused to the economy by conflict or crisis. A country that meets the first-stage criteria is subjected to a second-stage filtering process that is intended to capture the country's commitment to reforms designed to strengthen macroeconomic conditions and improve transparency and accountability in public debt and financial management practices.

25. Assessing First Stage Criteria for Eligibility for FSF Pillar 1:

- **Commitment to Consolidate Peace and Security:** Zimbabwe has taken some positive measures to meet the two-stage eligibility criteria for accessing FSF supplemental support funding in ADF 12. The country has a harmonized Bank Group/World Bank Country Policy and Institutional Assessment (CPIA) rating of 1.889 in 2010, which is below the cut-off score of 3.2 for fragile states. The signing of the Global Political Agreement (GPA) in 2008 and the creation of the Inclusive Government provided a new beginning for Zimbabwe.

- **Unmet Social and Economic Needs:** Zimbabwe's Real GDP Per capita contracted by more than 20 percent between 1990 and 2005 and the country continues to be ranked at the bottom quintile of the United Nations Human Development Report.

[7] DFID, Germany, Australia, Denmark, Norway and Sweden

[8] Countries are considered fragile if they have a harmonized Bank Group/World Bank CPIA rating of 3.2 or below; and/or have presence of a UN Regional peace-keeping mission over the past three years.

26. Assessing Second Stage Criteria for Eligibility to FSF Pillar 1:

- Zimbabwe continues to take steps to **improve financial management practices, and to strengthen macroeconomic and structural reforms.** Based on the reforms that have been undertaken and are underway, Zimbabwe can qualify for eligibility to the FSF supplemental support funding in ADF 12. Annex 5 provides a detailed assessment of Zimbabwe's eligibility for Pillar I.

- **Exceptional Support for Countries in Arrears:** Zimbabwe is under sanctions by the Bank Group due to arrears accumulation. Section 3.1.11 of the Operations Guidelines of the Fragile State Facility provides for exceptional support for countries in arrears that show a firm commitment to regularize their debts. Section II.D. of this Country Brief details Zimbabwe's commitment to addressing its arrears.

F. Potential Areas of Intervention by the Bank, 2011-13

27. It is important for the Bank to remain engaged in Zimbabwe by supporting and consolidating the capacity enhancement programs implemented over the last two years to build the institutional capacity in preparation for external debt and arrears clearance in the near future. In addition, the Bank is exploring opportunities to support economic recovery and reengagement through private sector operations. The Bank is also supporting a statistical capacity building program at ZIMSTAT.

Box 4. Rebuilding public sector capacity

Zimbabwe saw close to a fifth of its population, including personnel with technical, professional, and managerial skills migrate to other countries—mostly owing to brain drain during the political and socioeconomic crisis. The low pay of civil servants and associated low morale, absenteeism, and high staff turnover also continue to exacerbate the capacity problem. The public sector also lags behind in upgrading office technology, skills, and related infrastructure. Priority should be given in the short- and medium-term to strengthening the government agencies that will be in the forefront of the civil service capacity development and rehabilitating tertiary education institutions so that they can continue to produce quality technicians and professionals for the private and public sectors.

The fiscal space is severely limited given the many competing public expenditure demands. Unsustainable wage demands would need to be contained to generate savings needed for capital expenditures for emergency rehabilitation of infrastructure and social expenditures. Measures to strengthen government capacity to efficiently and effectively manage all public resources, including mineral wealth, need to be pursued vigorously.

28. Zimbabwe will continue to need the help of the Bank in rebuilding public sector capacity. In this regard, the Government has requested the Bank to support capacity building programs mainly in the areas of Public Financial Management and Debt Management. The Government has also requested the Bank to assist the Zimbabwe Revenue Authority (ZIMRA) to develop capabilities for assessing diamond and mineral value chains and to also help the Government in developing a credible Mining Act. In addition, there has been a request to support capacity building for Investment promotion and the Medium Term Plan. Further, the Government of Zimbabwe requested the Bank to support an incentive scheme aimed at retention and motivation for civil servants directly involved in the implementation of economic and financial reforms. The scheme would cover the Ministries of Finance, Planning and Regional Integration and International Cooperation. The Bank asked the GOZ to provide a detailed outline of the proposal with clarification on the targeted beneficiaries; the mode of disbursement; and exit strategy. These requests for capacity building are in Annex 4. Zimbabwe has put to good use its Pillar III FSF resources allocated under the ADF-11 cycle. Under the ADF12 cycle, no additional resources have been provided for targeted support under Pillar III even though the demand for and utilization of these resources in Zimbabwe is high. The Bank has allocated to Zimbabwe UA 16.12 million from the FSF (Pillar I) and a PBA allocation of UA10.58 million, making a total of UA26.70 million.

IV. CONCLUSION AND RECOMMENDATIONS

29. The instability in Zimbabwe's political system had a deleterious effect on the national economy. With the formation of GNU, Zimbabwe now faces the urgent problems of high expectations from the people and the critical imperatives of making up for lost times and opportunities. Steady implementation of the Global Political Agreement sponsored by SADC provides a great opportunity to address these challenges and to shape a different future. To do so, sustained implementation of policy reform would help forge a lasting political consensus on pro-growth policies. The Bank has been asked by SADC and the Government to take the lead role in the country's re-engagement with the international community. In this regard, the Bank has provided capacity building support to Zimbabwe over the last two years through the Fragile States Facility (Pillar III), in addition to the limited support for infrastructure through the African Water Facility and the ZIMFUND.

30. To deliver on the mandate entrusted to the Bank, the AfDB will remain engaged in Zimbabwe over the next two years to consolidate the assistance and progress already made and to avoid policy reversals.

31. Additional resources for Zimbabwe will be necessary for the Bank to sustain its engagement. In this regard, Management requests the Board to approve for Zimbabwe:

- Exceptional eligibility under FSF Pillar I in order to support capacity building in public financial management, debt management, legal frameworks for public private partnerships, and domestic resource mobilization as described in Annex 4.

ANNEXES

Annex 1: Pillar III Resources utilized in Zimbabwe (in UA)

Project Description	Amount Committed	Amount Disbursed	Balance
Debt sustainability consultant and workshop	30,446	30,446	…
Additional fees for debt sustainability	7,306	7,306	…
Purchase of computers and installation networks	398,430	398,430	…
Road condition survey	130,007	119,305	10,701
Purchase of printers and projectors	12,910	12,910	…
Central Statistics office	114,325	119,973	(5,648)
Staff training for Controller and Auditor General's Office	89,707	89,425	282
Additional request for Training	23,608	3,072	20,536
PFM System	1,307,190	1,059,337	247,853
Grant on the Implementation of the Emergency Institutional Support Project – ZIMSTAT Component(regarding the goods and services required for conducting National Account surveys)	485,348	485,348	…
Frolgate Technology (Pvt) regarding the supply, delivery of Network equipment.	133,189	133,189	…
Financial programming & policy course	49,390	48,628	762
Total	**2,784,912**	**2,507,368**	**277,545**

Annex 2. Additional Bank Support to Zimbabwe 2009-2011

1. Assistance to Vulnerable Farmers (seeds and fertilizer)	USD 1 million (SRF)
2. First Emergency Cholera Assistance	USD 1 million (SRF)
3. Second Emergency Cholera Assistance	USD 1 million (SRF)
4. Chitungwiza Water and Sanitation Project	€ 2 million (AWF)
5. Roads Condition Survey	USD 200,000 (FSF)
6. Infrastructure Study	JPY 14,033,200 (Japanese Grant)

Annex 3 :On-going Program for Zimbabwe (2011-2013)

Type of Activity	Description/ Objective	Amount (UA '000)
Support to the Debt Management Office in MOF	Support capacity building including training, equipment and Consultancy services	200
Support the Procurement Agent for th	To undertake all the procurement tasks in the ZIMFUND projects on behalf of the GOZ	1,000
Continue Support to PFM in MOF	Consolidate the ongoing support by providing equipment	247.853
Training	Capacity and skills enhancement in PFM	29.692
Total		**1,498.427**

Annex 4 : Capacity Building Program for Zimbabwe 2011-13

Type of Activity	Description/ Objective	Amount (UA '000)
Support to the Debt Management Office in MOF	Support capacity building including training, equipment and Consultancy services	1,333
Top up allowances for Officials involved in economic reform activities in MOF, Planning and Regional Integration and Infrastucture Professionals	Motivation and Retention of Staff	1,333
Continue Support to PFM in MOF	Consolidate the ongoing support by providing equipment and training	667
Continue Support to Statistics ZIMSTAT	Consolidate the ongoing support to undertake Statistical surveys.	1,333
Ministry of Regional Integration and International Cooperation	Support to purchase programmatic & Institutional materials such as trade trade database, a resource room and internet connectivity	333
Support the Ministry of Finance and other Line Ministries and offices in the development of a PPP framework	Framework and Capacity building for PPP Regulatory and Institutional reform in Infrastructure	2,333
Support the Procument Agent for the ZimFUND	…	…
Zimbabwe Revenue Authority	Capacity building to support Chain processes for diamonds and a Mineral Survey	2,667
Ministry of Planning and Investment Promotion	Capacity Building for Investment Promotion and Planning	667
Total		**10,665**

Annex 5: Eligibility Criteria for FSF Pillar 1 Support

FSF Supplemental Support Window	Eligibility Criteria for FSF Pillar 1 Support
First stage criteria	**A) To demonstrate commitment to consolidate peace and security after crises or conflict** • Zimbabwe has a harmonized AfDB/World Bank Country Policy and Institutional Assessment (CPIA) rating of 1.889, which is far below the cut-off score of 3.2 for fragile states • **The signing of the Global Political Agreement (GPA) in 2008 and the creation of the Inclusive Government provided a new beginning for Zimbabwe.** Progress on the implementation of the GPA has, however, been mixed • A functional governmental authority in place, widely accepted by stakeholders and the international community **B) Unmet Social and Economic Needs** • Zimbabwe's real GDP per capita declined by **over 40% between** 2000 and 2007. The decline from 1990 to 2007 is therefore more acute, and far beyond the threshold of 10% that is required for eligibility to FSF supplemental support funding • Poverty in Zimbabwe is widespread, and rose from 42% in 1995 to 63% in 2003 and is estimated to affect 70% of the population by 2009. Inequality is also very high, with the Gini coefficient estimated at 57% in 2009 • Zimbabwe persistently ranked at the bottom quintile of the UN Human Development Index. **► Zimbabwe meets first stage criteria for eligibility to supplemental support funding from the FSF, and has pressing socio-economic needs that requires urgent support from partners, including the Bank.**
Second Stage Criteria	Three criteria should be met: • **Improved macroeconomic conditions and sound debt practices:** Zimbabwe has effectively implemented two Short-Term Emergency Recovery Programs in 2008/09 that include the adoption of the multi-currency regime and tightening of fiscal policy stance through a cash-based budgeting system. The reforms implemented have served Zimbabwe well, with the real GDP expanding by 6% in 2009 and by an estimated 9% in 2010. The hyperinflation that characterized the country during the pre-reform years was also been brought down significantly to 3% by end-April 2011 • **Sound Financial Management Practices** – In 2009 Parliament passed the Reserve Bank Amendment Bill aimed at strengthening the Board oversight and refocusing the Reserve Bank institutional framework to its core mandate of monetary policy and financial supervision. Similarly, Parliament passed the new Public Finance Management (PFM) Bill aimed at improving the legislation that regulates the management of public resources. Besides, commendable improvements in tax policy and administration helped generate large increase in fiscal revenue; • **Transparency of Public Accounts**: Parliament in 2009 passed the Audit Bill, which clarifies the role of the Auditor General and creates an Audit Office, with separate civil servant structure for the staff. **► Significant reform efforts underway in Zimbabwe that need to be consolidated and deepened. Zimbabwe meets eligibility to FSF supplemental support funding in ADF 12.**
Exceptional eligibility under FSF Pillar I	Zimbabwe is under sanctions by the Bank Group due to arrears accumulation. Section 3.1.11 of the Operations Guidelines of the Fragile State Facility provides for exceptional support for countries in arrears that show a firm commitment to regularize their debts. Section II.D. of this Country Brief details Zimbabwe's commitment to addressing its arrears.