

**STATEMENT BY HON. T. BITI
GOVERNOR FOR ZIMBABWE**

Honourable Chairman of the Board of Governors,
Fellow Governors,
ADB Group President - Dr. Donald KABERUKA,
Distinguished Guests,
Ladies and Gentlemen,

Introduction

1. Mr. Chairman, I am privileged to address this 45th African Development Bank and 36th African Development Fund 2010 Board of Governors Annual Meetings here in Abidjan, Cote d'Ivoire.
2. Allow me, first to express my appreciation, to the Government and People of Côte d'Ivoire for the warm reception and hospitality extended to my delegation since our arrival.
3. In addition, I would like to extend my gratitude to President Kaberuka and his team, for the professional conduct of the 2010 Annual Meetings.

Economic Developments

4. Mr. Chairman, as you will recall, the signing of the historic Global Political Agreement after lengthy and protracted negotiations by the country's three main Political Parties of ZANU PF and the two MDC formations in September 2008, ushered in a new era and hope on the political landscape of the country.
5. This eventually led to the formation of the Inclusive Government in February 2009. The immediate task of the Inclusive Government, as provided for in the Global Political Agreement, was to restore the country's economy that had suffered from a decade long economic downturn since 2000.
6. Consistent with this mandate, the Inclusive Government launched a 9 month Short Term Emergency Recovery Programme (STERP I) in March 2009.
7. A number of positive policy measures were adopted under the Programme. These included, among others, the adoption of a multi-currency regime, broad based liberalisation measures, cash budgeting, removal of exchange controls, price distortions that were promoting rent seeking and speculative activities and termination of all quasi-fiscal activities by the Central Bank, which were blamed for the soaring inflation.
8. Consistent implementation of the above policies yielded a number of positive results in the following domain:
 - Macroeconomic stability through taming inflation from hyperinflationary levels to single digit levels. Year on year inflation for December 2009

recorded -7.6% and has remained in the negative for most of the period in 2009. Year on year inflation for the month of April 2010 recorded was 4.8%.

- Increase in capacity utilisation which had declined from over 70% in 1999 to below 10% in 2008. This has since gradually increased to the current average levels of 45%.
- Introduction of the cash budgeting, entailing limiting expenditures to revenues and hence avoiding budget overruns.
- Improved social service delivery particularly in the education, health, water and sanitation sectors, among others.

9. After 9 months of implementing STERP, it became evident that some of the projects earmarked for implementation could not be undertaken during the lifespan of the Programme, and hence, the need for continuation of such Programmes beyond 2009.

10. Furthermore, having succeeded in stabilising the macroeconomic environment, it also became imperative to move the economy on a growth oriented development path.

11. In this regard, and in order to consolidate the gains realised under STERP I and attend to its unfinished agenda as well as anchoring sustained economic growth and development guided by the Vision of transforming the country into a vibrant, democratic, prosperous and functional Nation underpinned by the values of social justice and equality, the Government of Zimbabwe launched the Three Year Macroeconomic Policy and Budget Framework: 2010-2012 (STERP II).

12. STERP II, therefore, lays the foundation for a broad based sustainable economic development prioritising infrastructure rehabilitation and development particularly in the areas of power, roads, rail, aviation, water and sanitation and information communication technology, among others, in order to ensure uninterrupted service provision which is critical for facilitating overall economic performance.

13. Supporting the implementation of STERP II will be the finalisation of the outstanding Global Political Agreement issues, relating to legislative, electoral and media reforms among others, critical in enhancing peace and confidence in the country and hence, unlocking international financing.

Constraints

14. One of the biggest challenge confronting the Inclusive Government since its inception is the inadequate capital inflow in the form of foreign direct investment and lines of credit, among others, to support economic growth and sustainability of the multicurrency regime.

15. This has starved the productive sectors of the economy, the much needed working capital which is critical for enhancing capacity utilisation. The severe liquidity crunch has resulted in lending rates soaring to over 30 per cent per annum, thus limiting access to the working capital available for the productive sectors.

16. Linked to the issue of capital inflow is the slow implementation of the Global Political Agreement issues, particularly on the constitution making process, media and electoral reforms, among others.

17. The failure by the Parties in the Inclusive Government to share a common vision and speak with one voice on critical national important issues has led to loss of confidence. A case in point is the lack of clarity on the country's Indigenisation and Economic Empowerment Act.

18. These have created anxiety and uncertainties with most countries and potential investors maintaining a cautionary approach, much to the detriment of foreign direct investment and resultantly, worsening the already unsustainable balance of payment position.

19. In practical demonstration of the above, out of the total financial requirements of US\$ 8.4 billion under STERP I, very little resources were realised by the end of the Programme period in December 2009

20. Similarly, in STERP II, total financial requirements amounting to US\$ 10 billion is required annually for the successful implementation of the projects and programmes in the Framework.

21. However, only under US\$ 3 million has been realised by May 2010. The poor response from the international community against severe domestic resource constraint capacity has resulted in serious underfunding of capital development projects as only about 5 per cent of the domestically generated resources is being channelled towards capital development expenditures. This lack of fiscal space is threatening the implementation of a number of projects that are critical in facilitating sustainable economic recovery and growth.

22. This lack of fiscal space is already affecting provision of service delivery in power, water and sanitation, which have so far remained very erratic as well as other supportive infrastructure such as roads and railways.

23. Owing to these attendant challenges and other downward risks in the economy, the Government has revised its 2010 economic growth forecast from 7.7% to 4.8%.

24. Furthermore, the absence of lender of last resort function is exposing the financial sector's ability to deal with temporary liquidity shocks, against the deteriorating balance of payments.

25. Mr. Chairman, I want to express my profound gratitude to the Republic of South Africa together with other countries for responding favourably in support of Zimbabwe's Short Term Emergency Recovery Programme. South Africa provided a total of R300 million as direct budgetary support and currently, our request for an economic support programme is being considered.

26. Similarly, Lesotho also provided budgetary support of R1 million whilst US\$5 million came from China. Other support in the form of humanitarian assistance came from Tanzania, Zambia and Malawi, whilst Angola, Botswana and Mozambique pledged various lines of credits.

African Development Bank Support

27. Mr Chairman, allow me to acknowledge and appreciate the support the Government of Zimbabwe continues to receive from the African Development Bank Group, towards the country's economic recovery and growth efforts. Without such Bank Group support, some of the achievements alluded to earlier would not have been possible.

28. As you may be aware, the Bank Group support to Zimbabwe is currently limited to capacity building interventions under Pillar III of the Fragile States Facility window, due to the country's arrears position.

29. Through this window, the country received emergency humanitarian assistance in the areas of water and sanitation, and hence capacitates Government in combating outbreak of water borne diseases such as cholera.

30. In addition, the Bank has also provided capacity building and technical assistance in a number of areas, against critical shortage of skilled manpower. This enabled the Government to rebuild technical expertise which facilitated the implementation of a number of critical programmes.

31. Mr. Chairman, the Government of Zimbabwe recognises its external debt and arrears obligations amounting to over US\$5.7 billion as at end 2009. Of this total amount, over US\$400 million is owed to the African Development Bank Group. This has constrained the Bank's cooperation and participation in the financing of the country's key infrastructure requirements.

32. Mr. Chairman, the Government of Zimbabwe is committed to urgently resolve its external debt and arrears obligations, as essential in unlocking new international financing, critical in fulfilling the reconstruction and sustainable economic growth agenda.

33. In this regard, the Government has formulated and adopted Zimbabwe's Accelerated Arrears Clearance and Debt Development Strategy (ZAADS), as an institutional framework for re-engagement with all its creditors in resolving its debt burden.

34. The Government of Zimbabwe will be calling upon the Bank Group support for the successful implementation of this Strategy.

Multi Donor Trust Fund (MDTF)

35. Mr Chairman, whilst the Government embarks on a roadmap towards addressing the debt and arrears problem, operationalisation of the Multi Donor Trust Fund (MDTF), now administered by the African Development Bank will be critical in mobilising the much needed resources towards the immediate financing of infrastructure requirements of the country, estimated at over US\$45 billion.

36. I am once again appealing to the donor community to support the Fund by honouring pledges to the MDTF in order to make it operational.

37. Furthermore, I am appealing to the donor community to continue to be flexible in the design of the governance structures, setting of the priorities and sequencing of the implementation of projects in line with the Government priorities.

38. In conclusion, I would like to thank the Bank Group's Extended Mission in Zimbabwe headed by Mr. Damoni Kitabire, which continues to perform to the Government's satisfaction. I hope their presence in the country will help make MDTF operations effective.

39. Mr. Chairman, on behalf of the Government of Zimbabwe, I would want to reiterate our confidence in the Bank Group leadership, and further reassure you that Zimbabwe stands ready to support all endeavours of improving infrastructure provision and poverty reduction in the African continent.

I thank you.