AFRICAN DEVELOPMENT BANK GROUP

ZIMBABWE

Country Brief 2013-2015

SARC DEPARTMENT

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LIST OF ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank Group
AWF	African Water Facility
FSF	Fragile States Facility
GNU	Government of National Unity
GOZ	Government of Zimbabwe
HIPC	Heavily Indebted Poor Countries
IFIs	International Financial Institutions
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MTP	Medium Term Plan
PBA	Performance-Based Allocation
RBZ	Reserve Bank of Zimbabwe
SMP	Staff Monitored Program
UA	Units of Accounts
USD	United States Dollars
WB	World Bank
Zim-Fund	Zimbabwe Multi-Donor Trust Fund

GENERAL MAP OF ZIMBABWE

I. BACKGROUND

1. The Country Brief provides a programming document for the Bank to continue its engagement with Zimbabwe over the period 2013-15 or until Zimbabwe's arrears situation with the Bank is regularized. The Bank's operations have been limited by the country's arrears situation, but the Bank has remained engaged through policy dialogue, technical assistance and capacity building, and knowledge and advisory services through the Fragile States Facility (FSF). The Bank Group also supported infrastructure development in the water and energy sectors through the African Water Facility (AWF) and management of the Zimbabwe Multi-Donor Trust Fund (Zim-Fund). It also provided some support to the private sector.

2. The Bank Group's strategy builds on the Short Term Emergency Recovery Program 2010-2012 and is aligned with the country's Medium Term Plan (MTP) 2011-2015. These two policy frameworks ushered in macroeconomic stability, incentives for development partners' continued engagement and some limited turnaround in private capital and financial inflows. Donor support to Zimbabwe has continued despite restrictive measures and financial sanctions. The country has also been working closely with the Bank, the International Monetary Fund (IMF) and the World Bank (WB) to regularize its debt arrears and re-engage with the international community.

3. This Country Brief provides an update of recent developments in the country and highlights the challenges facing the Government of Zimbabwe (GOZ) in turning around the economy. It also recommends to the Board the use of the 50 percent of the performance-based allocation (PBA) for Zimbabwe as a country under arrears in line with the FSF Guidelines. The brief also recommends further engagement in the country.

II. RECENT DEVELOPMENTS

2.1. Political Context

4. **Zimbabweans elected a new Government during the 31st July 2013 general elections in which the Zimbabwe African National Union – Patriotic Front (ZANU-PF) party won the presidency by 61 percent and garnered a two thirds parliamentary majority.** The poll followed the end of tenure of the Government of National Unity (GNU) at the end of June 2013. The elections were considered free, fair and credible by the African election observers (AU, SADC and COMESA). However, the opposition parties raised concern over the conduct and integrity of the electoral process which, in their view, affected the election outcome. Consequently, the leader of the major opposition party (the Movement for Democratic Change -Tsvangirai) filed a petition at the Constitutional Court, later withdrawn but heard, seeking nullification of the presidential election results. In its judgment, the Constitutional Court upheld President Robert Mugabe's victory, declaring the July 31st harmonized elections free, fair, credible and an expression of the will of the people of Zimbabwe. Consequently, President Robert Mugabe was sworn in for a new five-year term on 22 August 2013. However, some development partners, whilst acknowledging the peaceful environment before, during and after the elections, raised reservations on the fairness and integrity of the electoral process.

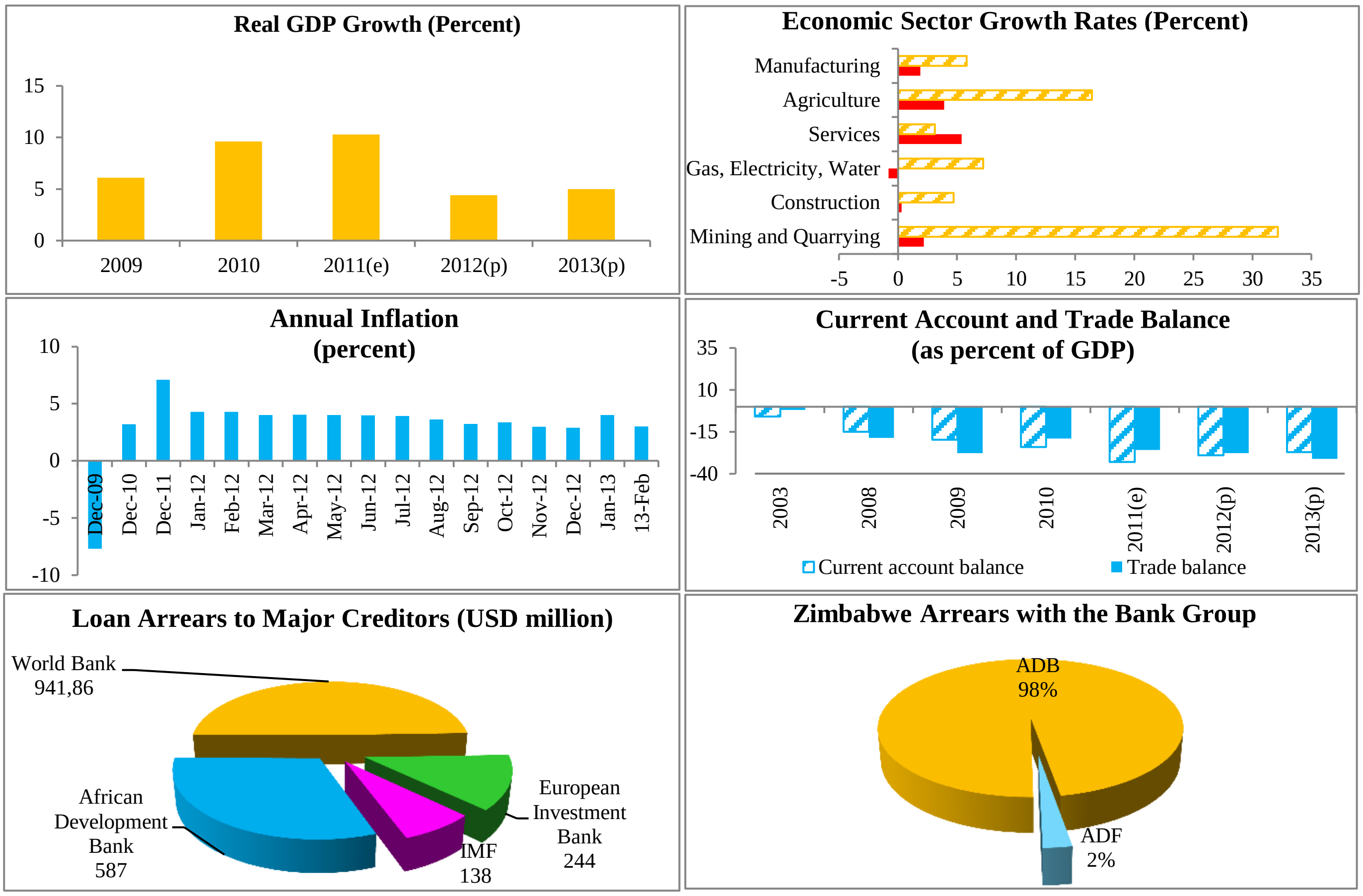
5. **Concerns on the credibility of the electoral process are likely to affect donor participation in the country's economic recovery process.** Some development partners have expressed preconditions for meaningful re-engagement with Zimbabwe, and these include concrete evidence of credible and tangible progress on political and democratic reforms. Based on the foregoing, the donors' role and engagement with the new government on the country's development process is rather uncertain. The expectations on the Bank's leadership, as a trusted partner, in the re-engagement process and debt relief remain high, despite the challenges. Going forward much will depend on the willingness of all parties to dialogue and commitment by the government to pursue prudent, consistent, credible and inclusive policies and political reforms.

6. **The election of the new government may present opportunity for the re-bound of the Zimbabwean economy, if the ruling party makes economic recovery top on its agenda.** There will be need for the new Government to address bottlenecks to investment, job creation, productivity and infrastructure development amid stagnating economic growth. In particular, clarity on the Government's approach towards the implementation of the indigenization and empowerment regulations will be critical. It will be important for the government to ensure that its policies do not reverse the economic gains and momentum attained during the life of the Inclusive Government. The downside risks on the political front include the integration of the opposition and the future role of development partners in the country's development process. The risks of policy reversal, following the elections and formation of a new Government, seem minimal given that all political parties within the GNU had endorsed key ongoing policy reforms, particularly on macroeconomic management. Also, the new government has re-affirmed its commitment to on-going macroeconomic management policies and pursuance of an inclusive approach to the country's development agenda.

2.2. Economic Context

7. **The Government expects economic growth to stabilize around 5 percent in 2013 and 2014 and slightly increase to 6 percent in 2015, underpinned by improvements in mining and agriculture.** This follows average growth rates of about 10 percent in 2010 and 2011, albeit from a low base.

Figure 1. Selected Economic Indicators



Source: National Sources and AfDB Statistics Department

8. **Under the multi-currency regime, inflationary developments in the short to medium term will continue to be influenced by the United States dollar (USD)/rand exchange rate, inflation developments in South Africa, international food and oil prices and local utility**

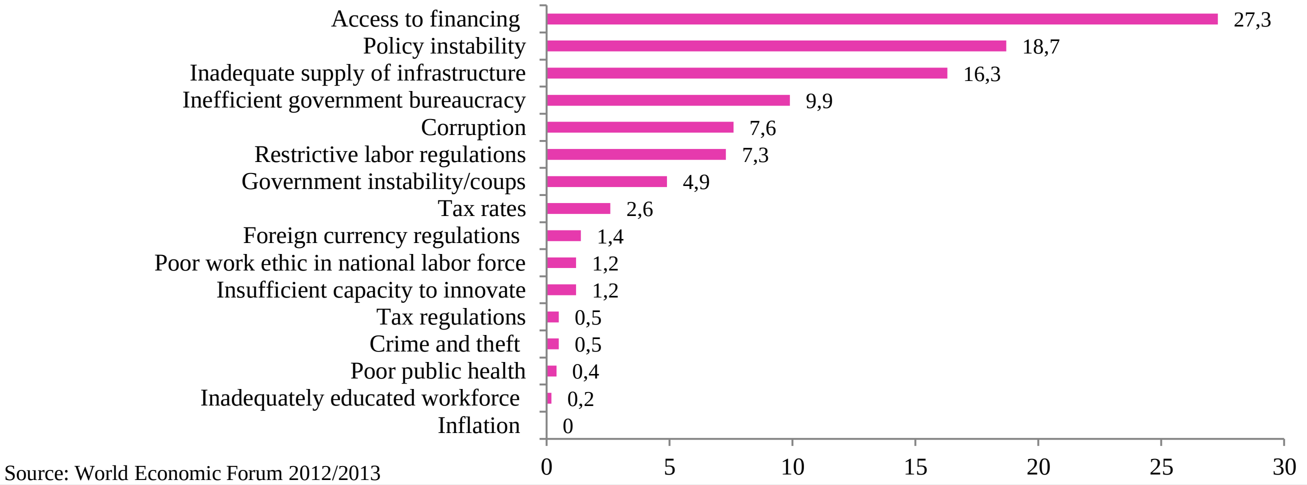
charges. Zimbabwe's current account will remain under pressure unless there is a full recovery of the local manufacturing sector and value addition in the mining industry. The fiscal sector is also likely to remain under stress in 2013 against the background of high employment costs and costs related to the general elections. While budgetary operations are anchored on a cash budgeting system, fiscal operations have been complicated as revenue collections fall short of expenditure. Underperformance of Government revenues is largely attributed to underperformance of diamond-related revenues, which stood at only 8 percent of projections in 2012. Weak performance of diamond-related revenues is partly due to lack of transparency in the sector. Zimbabwe's debt continues to be a major impediment to the country's economic recovery. In this regard, a comprehensive arrears clearance and debt relief strategy (the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy) was formulated and endorsed by the GNU in 2010.

9. **To curb the deceleration in growth, Government has instituted a vigorous program of reforms.** These reforms aim to improve the quality of Government expenditures, increase revenue, raise overall productivity, reduce financial sector vulnerabilities, increase competitiveness and improve the business environment. Zimbabwe has also embarked on a staff monitored program (SMP) with the IMF. The SMP will institute economic prudence through a number of benchmarks that will have to be met. The quantitative program benchmarks include: a floor on the primary budget balance, social spending and stock of usable reserves and a ceiling on non-concessional borrowing. It will also involve qualitative benchmarks such as improvements in public financial management, modernization of human resources and payroll systems, reconciliation of domestic debt and arrears by 2013 and clearance of domestic arrears by 2014. A decline in commodity export prices, financial sector stress and uncertainties related to the election year, however, pose some of the risks to the program.

10. **Minimal improvement in Zimbabwe's Global Competitiveness Index.** Zimbabwe's ranking in the World Economic Forum's Global Competitiveness Index report 2012/13 is 132 out of 144. Protection of property rights continues to receive a weak assessment (ranked 137) and reduces the incentive for businesses to invest. The country's poor credit rating (ranked 142) limits the capacity of the country to access offshore lines of credit. There is also need to upgrade overall infrastructure; the country ranked 123 in this area. However, the country performed well on the quality of the education system (ranked 30), in particular the quality of mathematics and science education (ranked 50). Women also actively participate in the labor force (ranked 18). The country also continues to benefit from very few incidents of organized crime (ranked 36). Since 2005, the country's overall score has increased marginally from 3.25 to 3.34, while the average for sub-Saharan Africa rose from 3.4 to 3.7.

11. **The investment climate is still challenged.** While the Government is making limited strides on the policy front to improve the investment climate, there are still some challenges. The investment climate remains uncertain, being weighed down by the downside risks arising from the lack of a clearly agreed policy framework within the inclusive Government. According to the WB's Doing Business 2013 Indicators, Zimbabwe slipped from a ranking of 157 out of 185 countries in 2011 to 173 in 2012. Impediments to investment include limited resources and high cost of capital, dilapidated infrastructure, obsolete technologies, and power and water shortages.

Figure 2. The Most Problematic Factors for Doing Business



Source: World Economic Forum 2012/2013

2.3. Social Context

12. **Human social indicators remain below international baselines.** The weak growth of the country's economy, characterized by declining employment for more than a decade, resulted in poverty levels that remained high. While individual poverty prevalence for Zimbabwe dropped from 75.6 percent in 1995 to 70.9 percent in 2001 and slightly increased to 72.3 percent in 2011 – these levels are critical. However, persons in extreme poverty declined from 47.2 percent in 1995 to 41.5 percent in 2001, and then further declined to 22.5 percent in 2011. The drop was partly attributed to remittances from the diaspora, gifts and transfer incomes. While all the human social indicators are below acceptable international baselines, Zimbabwe is on course to achieving the Millennium Development Goal (MDG) target of reducing the prevalence of HIV and Aids to 9 percent by 2015, from 14 percent in 2009. The incidence of malaria has also been on the decline due to malaria prevention programs.

2.4. Zimbabwe's Development Challenges and Opportunities

13. Zimbabwe faces a number of development challenges and opportunities that need to be considered in formulating the Bank Group's engagement in the country in the period ahead.

Challenges

- **Uncertainty with regard to normalization of relations with the international community and implications of this on the country's debt and arrears situation.** Following some concerns over the credibility of the electoral process, the future of Zimbabwe's re-engagement with the international community remains somewhat uncertain. More so, the non-resolution of arrears will continue imposing significant limits on the amount of support available from development partners and constrain Zimbabwe's access to international capital markets and private investment.
- **Weak state owned enterprises** have suffered from human capital flight, dilapidated and outdated equipment and undercapitalization. Although an independent entity, the Reserve Bank of Zimbabwe (RBZ) is equally indebted.
- **Deterioration in basic infrastructure**, particularly water and energy, impede economic recovery in both the short and medium term.
- **A shortage of official and private external financing** because of perceived risks, and the low level of banking sector deposits in a recovering economy have significantly affected the performance of key sectors of the economy: agriculture, mining and manufacturing.
- **Erosion of human and institutional capacities** within the public and private sectors adversely affected the capacity for economic reform and provision of public services.

- **Lack of a business enabling environment and opportunities for the youth.** While over 300 000 young people enter the labor market annually, less than 10 percent of these are absorbed into formal employment. Members of the youth that have adequate skills to become self-employed entrepreneurs are hampered by limited access to credit. Limited employment opportunities have left millions of youth stuck in the vicious poverty cycle. For the same reason, micro and small business start-ups are unable to grow into medium-scale businesses that can provide more and better job opportunities.

Opportunities

- **Because of the country's loan arrears situation, donors may continue to be engaged** although to a limited extent. Also, if the macroeconomic and political stability attained during the GNU era is maintained, investor confidence may remain.
- **The Bank's non-lending instruments are relevant.** Policy dialogue, technical assistance, capacity building and knowledge work are relevant for deepened engagement and consensus building towards the country's arrears clearance, debt relief and re-engagement with the IFIs.
- **Donors regard ZimFund as the best modality for development finance** in infrastructure given Zimbabwe's arrears situation. At the same time, Zimbabwe is a regional gateway to the North-South Corridor due to its central and strategic location in Southern Africa. An African Development Bank (AfDB) study estimates Zimbabwe's infrastructure gap at a daunting USD 14 billion.
- **Zimbabwe is endowed with mineral deposits**. Major mineral resources include: gold, diamonds, copper, coal, nickel and platinum, among others. Links between sectors, particularly manufacturing and mining, is key for Zimbabwe's broad-based growth.

III. AFDB'S ENGAGEMENT IN ZIMBABWE AND RECENT ACTIVITIES

3.1. Bank Group Activities

14. Despite Zimbabwe's arrears situation, the Bank Group remained engaged in the country in the following areas:

(i) **Leadership role in arrears clearance, debt relief and the overall re-engagement process** – The Bank Group has taken a leadership role in the process of re-engagement by mobilizing the Friends of Zimbabwe group, which includes creditors and development partners, to garner support for the country on financing in general and debt relief in particular. As part of this process, the Bank Group hosted a high-level debt forum in Tunis that was aimed at facilitating the process for Zimbabwe's re-engagement. The Bank Group also co-hosted a series of forums aimed at re-engagement, both in Washington and Tokyo. Consequently, there has been strong support from the development partners for Zimbabwe's arrears clearance and debt relief process. There has also been consensus on deepened engagement through an IMF SMP.

(ii) **Support to economic and financial governance** – the Bank Group's support to Zimbabwe's economic governance has been through technical assistance and capacity building utilizing Pillar III resources of the FSF to the tune of UA 4 million and other types of assistance not affected by the arrears situation. The support was targeted at improving economic governance and enhancing the effectiveness of public service delivery in public financial management (PFM), statistics and external debt management.

(iii) **Infrastructure rehabilitation and development –** The Bank Group also provided support through the AWF funded water and sanitation project to the value of euro 2 million in Chitungwiza, a suburb of Harare. In 2011, to further strengthen its leadership in the infrastructure department, the Bank Group produced a study, entitled "Infrastructure and Growth in Zimbabwe", on the status and investments required in the infrastructure sector to resuscitate the economy. While the Bank Group cannot provide financing for infrastructure, the Bank Group, at the request of the GOZ and the international community, manages the ZimFund delivery of priority infrastructure projects in the energy and water sectors.

(iv) **Private sector development** – The Bank Group's engagement in private sector development in Zimbabwe has been both direct and indirect. In 2011, the Board of the Bank approved a loan of USD 8 million to directly finance the Lake Harvest Aquaculture expansion project on Lake Kariba. This project aims to increase Lake Harvest's tilapia production and processing capacity from 2,200 tons per annum in 2010 to 20,000 tons per annum by 2015, create employment and enhance tax revenues. Beyond its direct investment in Lake Harvest, the Bank Group has supported Zimbabwe's private sector through its partnership with regional financial institutions that operate and invest in Zimbabwe.

3.2. Emerging Issues and Lessons Learnt

15. Zimbabwe has made an impressive recovery, but future progress will demand continued effort on economic and political reforms. Much will depend on Government's willingness to push these reforms through.

16. The Bank Group's operational experience in Zimbabwe has also highlighted the following key issues:

(i) **The Bank's support to Zimbabwe in Capacity building has been generally effective.** Zimbabwe's allocation of over UA 4 million from the FSF Pillar III window was committed to a total of 16 capacity building activities, of which 14 have been completed. The remaining two activities are ongoing.

(ii) **Capacity development needs are immense.** Utilization of Pillar III resources of the FSF revealed the inadequate capacity for policy formulation and programming, macroeconomic data management, and dialogue for arrears clearance.

(iii) **ZimFund is an efficient vehicle for donor-coordinated support in infrastructure and has provided useful lessons in infrastructure engagement.** Coordinated effort between donors and the GOZ in infrastructure rehabilitation and development in water and sanitation and energy throughout the country is critical (Annex IV).

(iv) **The private sector has great potential.** Lessons from the Lake Harvest Aquaculture Project and indirect lending through financial institutions have highlighted the potential of Zimbabwe's private sector and opportunities in linkage banking.

(v) **Analytical reports have been useful for policy dialogue.** The infrastructure flagship report provides useful information to potential investors in the country's infrastructure sector. Also, when the country's debt situation normalizes, this report will serve as a blueprint for the Bank Group's engagement in Zimbabwe's infrastructure development. Clients and the donor community find the Bank Group's monthly Economic Bulletin useful for policy advisory purposes.

IV. PROPOSED USE OF BANK INSTRUMENTS

4.1. Potential Allocation of Financial Resources

17. **The Bank Group support to Zimbabwe will continue to be guided by the commitment to the New Deal for Engagement in Fragile States, which the Bank Group endorsed at the Fourth High Level Forum on Aid Effectiveness in Busan in December 2011.** The New Deal commits the Bank Group to focus on peace and state building goals as an important foundation for progress towards the MDGs, and country-led and country-owned transitions out of fragility, among others. The Bank Group's support also has to be aligned with its ten year strategy (2013-2022), which includes strong commitments to enhancing engagement in fragile states, with key priorities being: building capacity, providing basic infrastructure, generating employment and reducing insecurity. To maximize

impact in these areas, the Bank Group will utilize all applicable financing facilities, namely the FSF, PBA, the private sector window and trust funds.

18. To achieve maximum impact in engagement, this Country Brief proposes that the Bank Group utilize all applicable financing windows provided within the framework of:

(i) the African Development Fund (ADF-12), which allows for 50 percent use of the PBA allocation, UA 8.5 million;
(ii) the FSF resources for arrears clearance (Pillar II), UA 359.06 million;
(iii) the AfDB window for private sector development; and
(iv) trust funds for infrastructure project preparation.

19. **Access to 50 percent of the PBA.** According to clause 3.1.12 of the FSF Operations Guidelines, where the Board of Directors has approved exceptional support for a country in arrears, a country could be allowed to utilize all its supplemental finance to support operations plus a maximum of 50 percent of its PBA determined grant allocation for capacity building prior to debt regularization.

20. While such support does raise the question of moral hazard, this is mitigated in the case of Zimbabwe due to:

(i) the fact that access to the Enhanced Support Window (as well as access to arrears clearance support as at present) is on the basis of eligibility criteria and performance benchmarks, including sound macroeconomic and debt management practices; and
(ii) the fact that the basis for continued access to the supplementary financing (i.e. for a second three-year cycle) includes specifically agreed performance elements. In particular, the active participation of the country in the arrears clearance process would be viewed as part of the country's commitment to economic governance. Entry into a program the Bank Group supports in conjunction with the Bretton Woods institutions and the international community will provide clear incentives for the country to pursue a policy path that includes clearance of arrears to the Bank Group. The linkage is thus through the program itself, which will provide an explicit path to debt regularization and be part of the performance benchmarking.

21. **Supplemental support from the FSF will be allowed to precede arrears clearance in exceptional circumstances, when a country shows a firm commitment to regularize its debt.** Zimbabwe should be deemed eligible to utilize a maximum of 50 percent of its PBA determined grant allocation for capacity building prior to debt regularization on the basis of the progress the country has made with regard to:

(i) macroeconomic stability through policy reforms;
(ii) the Government adopting a debt management strategy and committing to its implementation;
(iii) improving relations with the IMF, the WB and other creditors; and, importantly
(iv) agreeing to make quarterly token arrears clearance payments to the Bank.

22. **FSF resources.** The Board of Directors approved Zimbabwe's eligibility for FSF Pillar I resources in July 2011. The next step is for Zimbabwe to meet the criteria for FSF Pillar II (Arrears Clearance Window). The criteria are:
(i) eligibility for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, but should not yet have reached the decision point;
(ii) a demonstration of respect for the AfDB's preferred creditor status by servicing new maturities on all outstanding AfDB loans or at least to the same relative level of debt service paid to other international financial institutions (IFIs); and

(iii) a demonstration of readiness to re-engage by completing technical requirements under the HIPC Initiative, such as having an IMF-supported program and classification as an IDA-only country. Zimbabwe authorities have begun to pay token arrears payments to the AfDB, effective from June 2013.

Pillar I: In December 2012, the ADF Board approved the Capacity Building Project for Financial and Economic Management in Zimbabwe (2012-2015) to the tune of UA 16.1 million under the FSF.

Pillar II: The ADF deputies agreed to continue to ring-fence the resources set aside for arrears clearance for Zimbabwe, Sudan and Somalia through the ADF-12 period, with a presumption that they could be rolled over into ADF-13 if necessary[1].

23. **Non-concessional lending.** While opportunities for further support to the private sector will be explored, lending through the ADB window will take into account sustainable lending limits for the country and the opportunity of using such funds to leverage additional financing for Zimbabwe.

V. PROPOSED BANK GROUP SUPPORT TO ZIMBABWE

5.1. Rationale for Scaling up Bank Group Assistance to Zimbabwe

24. **Zimbabwe faces a daunting array of developmental challenges and poverty traps.** Though it holds a significant natural resource wealth, weaknesses in policies and institutions have led to weak linkages between the resource wealth of the country, poverty reduction and equity among the population at large. There is therefore an urgent need to focus on inclusive growth in order to ensure that as many people as possible have the opportunity to lift themselves out of poverty. In recognition of this need, the AfDB is committed to scaling up and strengthening its support to Zimbabwe and to tailor its operations to the specific needs of the country.

25. **Though the Bank Group has remained engaged in the country through the FSF, ZimFund and the AWF, these resources have been limited.** The implications of the debt burden are significant. Clearing loan arrears is a binding prerequisite for securing new IFI and bilateral donor assistance. Thus failing to deal with the arrears problem will continue to hinder efforts by the Government to access international assistance to maintain the economic growth momentum.

26. **Also, given the large number of individuals that have left the country (over 3 million left in 2006-08) and the institutional capacity gaps and huge infrastructure and financing deficits, the need for external assistance to restart economic activity and rehabilitation of service delivery (water, health, education and electricity) remains acute.** The paucity of Government revenues has also strained Government's ability to finance large reconstruction programs. Continued assistance will help to improve business confidence in Zimbabwe and facilitate foreign and domestic investment.

5.2. Potential Areas of Intervention by the Bank, 2013-15

27. **The Country Brief will be aligned with the GOZ MTP, which underpins the country's development model, to develop skills and human resources, strengthen and streamline public sector institutions and invest in infrastructure.** Also, in line with the Bank Group's strategy for 2013-2022 and the Bank's Fragile States Strategy, this Country Brief will support, consolidate and enhance the country's institutional capacity in readiness for full re-engagement (see Annex VI).

[1] The FSF resources set aside for the arrears clearance operation under ADF-12 are not earmarked for any particular country and are provided on a first-come-first-served basis to any country eligible for arrears clearance in the ADF-12 period (2011-13).

28. **Zimbabwe will continue to need support from the Bank in rebuilding public sector capacity.** The Government has requested the Bank to continue and deepen its support for capacity building programs mainly in the areas of public financial and debt management. The Government further requested the Bank to augment coverage in this area to include institutional support to procurement and audit functions, statistics (particularly for the mining and tourism sectors), the RBZ's information technology (IT) system and related capacity building operations and to the Ministry of Youth Development, Indigenization and Economic Empowerment's youth program. The Bank will also continue to explore opportunities to support economic recovery and reengagement through private sector operations.

29. **The national procurement procedures for national competitive bidding in Zimbabwe are not fully consistent with the Bank's rules and procedures and do not comply with international best practice.** As a way forward, the Bank Group will support capacity development for the institutions responsible for public procurement.

30. **The Reserve Bank is heavily indebted and suffers from dilapidated and outdated IT equipment.** Also, for it to realize its vision for 2020 – a banking sector that is vibrant, viable, strong and stable enough to anchor sustained economic growth and development – it requires, among others, information systems that are sufficiently robust and up-to-date to accommodate a growing financial sector. In this context, the Bank will support the rehabilitation, maintenance and development of the Reserve Bank's IT system.

31. **The Government has requested to work with the Bank Group to create an enabling environment and opportunities for the socio-economic empowerment of the youth.** The relevant Government program entails capacity building for the youth in sectors with a demonstrated potential to yield decent employment opportunities. The Bank will support the Ministry of Youth Development, Indigenization and Empowerment's youth training programs and capacity building activities.

32. **Zimbabwe will continue to need the Bank's knowledge and support for analytical products.** Noting that the business environment is key to the effectiveness of the private sector and pro-poor growth strategies, Government has requested assistance in developing a comprehensive study on improving the business environment in Zimbabwe. This study will recommend areas of reform and provide viable solutions to improve the business climate, job creation and social inclusion. The Bank will, also at the request of Government, support development of analytical work on the application of private-public partnerships (PPPs) in infrastructure projects, building on the recommendations the Bank included in its 2011 Zimbabwe Infrastructure Flagship Report. The Government has also requested support for a pipeline of infrastructure projects, in preparation for full re-engagement following arrears clearance.

33. **The Bank cannot undertake infrastructure development in Zimbabwe because of the arrears situation.** However, at the request of Government the Bank will continue to manage the ZimFund, which focuses on rehabilitation and the development of projects in the water and energy sectors. The Bank will also engage the private sector through in ADB window, whenever the sustainable lending limit for the country allows this type of engagement.

34. **Crosscutting issues:** the Bank Group's engagement from July 2013 to June 2015 will also cover the key crosscutting themes: regional integration, environmental protection and adaptation and resilience to climate change, gender equality, and the empowerment of vulnerable segments of the population. These themes will be mainstreamed in the design of Zim-Fund's second phase financed infrastructure projects. In addition, the Regional Integration Strategy Paper for Southern Africa covers Zimbabwe's regional integration projects.

5.3. Donor Coordination

35. **Donor engagement in Zimbabwe is well coordinated and in a number of sectors.** Within this coordinated framework, the Bank will deepen its collaboration with all relevant bilateral and multilateral actors on the ground – particularly the United Nations (UN) agencies, major donor countries, relevant African institutions, the IMF, WB, etc. – in assisting the Government move forward in its development agenda, which includes the clearance of its arrears with the IFIs. The Bank will continue to participate in routine joint donor meetings to discuss macroeconomic management and economic governance issues in Zimbabwe. In addition, the WB-led analytical multi donor trust fund – which comprises bilateral donors, the AfDB, the EU, the WB, the UN and other partners – provides a platform for partners to coordinate on analytical and advisory work as well as wider policy dialogue within the scope of the Country Brief. Thematic group meetings (e.g. on public financial management) will also provide opportunity for coordination and collaboration with other development partners including the Africa Capacity Building Foundation, the United States Agency for International Development, the Department for International Development and the UN. The ZimFund structure, which comprises the Project Oversight Committee, will continue to provide oversight and guidance by contributing donors in infrastructure activities financed by the Fund (see Annex V).

VI. RISKS AND MITIGATION MEASURES

Description of Risk	Measure
Risk 1: Political instability in the aftermath of the elections.	- Enhanced international and regional efforts to maintain dialogue between the different parties.
Risk 2: Macroeconomic instability: - Failure to successfully implement the SMP. - Failure to meet IFIs' conditions for arrears clearance eligibility, in particular the clause on "preferred creditor status". - Fall-out on deal with international community and creditors on cessation of targeted measures and debt clearance proposals respectively.	- Continued engagement with the authorities on importance of meeting the agreed targets and quantitative benchmarks under the SMP – particularly limits on non-concessional borrowing. - Continued engagement with the country on eligibility criteria for arrears clearance. - GOZ's demonstrated commitment to sound fiscal and monetary policies; increased focus on domestic resources mobilization, particularly diamond-related revenues; and enhanced Bank support for the country's efforts to reach a deal on debt clearance.
Risk 3: Implementation capacity constraints: high attrition continues, leading to lack of labor to implement reforms.	- Incentives to be introduced by Government as a means of curbing the brain drain. Continued technical assistance by the IFIs.
Risk 4: Fiduciary risk: weak public financial management system.	- Continued development partner (including AfDB) support to strengthen PFM systems.
Risk 5: Policy reversal: failure to continue with ongoing reforms.	- Enhanced engagement by donor community with GOZ.
Risk 6: Support to PPP policy and systems won't result in the mobilization of private sector finance for infrastructure works.	- Continued efforts by the government to maintain stability for investor confidence.

VII. CONCLUSION AND RECOMMENDATION

36. To deliver on the mandate entrusted to the Bank, the AfDB's engagement in Zimbabwe over the next two years will be to consolidate the assistance and progress already made and to avoid policy reversals.

37. **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 the proposed programming of resources entailed in the Zimbabwe Country Brief 2013-15.

ANNEXES

ANNEX I: SELECTED MACROECONOMIC INDICATORS

Indicators	**Unit**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 (e)**
Economic Indicators							
Real GDP Growth Rate	%	-3.7	-17.7	6.3	9.6	10.6	4.4
Real per Capita GDP Growth Rate	%	-3.3	-17.5	5.8	8.2	5.3	2.4
Inflation (CPI)	%	1.09E+05	5.56E+10	6.5	3.1	3.9	5.1
Exchange Rate (Annual Average)	local currency/US$	9,686.8	6,723,052,073.3	1.0	1.0	1.0	1.0
Total Revenue and Grants	% GDP	3.6	2.5	17.9	28.7	32.9	32.6
Total Expenditure and Net Lending	% GDP	6.8	4.9	21.0	31.0	36.4	36.6
Overall Deficit (-) / Surplus (+)	% GDP	-3.2	-2.4	-3.1	-2.3	-3.4	-4.0
Current Account Balance	% GDP	-6.6	-19.3	-25.0	-28.0	-38.7	-35.3
External Reserves	months of imports	0.7	0.3	2.7	1.5	0.9	0.9
External Debt	% GDP	93.0	121.8	139.7	117.8	121.0	146.2

Social Indicators					
Indicators	**Unit**	**1990**	**2000**	**2011**	**2012 (e)**
Population	millions	…	…	…	13.0
Employment to population ratio,	15+, total (%)	52.3	51.8	51.8	…
Poverty Head Count at $1.25 a day	% of Pop.	49.2	64.4	62.6	…
Primary completion rate	% of relevant age group	…	76.8	79.2	…
Ratio of female to male primary enrollment	%	83.5	84.3	91.0	…
Mortality rate, infant	Per 1,000 live births	125.5	103.7	89.9	…

Environment and Climate Change Indicators					
Indicators	Unit	1990	2000	2011	2012(e)
CO2 emissions	kg per PPP $ of GDP	2.6	1.2	0.8	…
Improved sanitation facilities	% of population with access	36.0	33.0	31.0	…
Improved water source	% of population with access	50.0	56.0	58.0	…

ANNEX II: ECONOMC POLICY FRAMEWORK AND SELECTED POLICY REFORM MEASURES

The Medium Term Plan (MTP): 2011-2015 -The Medium Term Plan (MTP) is the premier economic and social policy framework set out to support the restoration of economic stability and growth in Zimbabwe. This framework has been developed on the foundations laid down by the STERP from February to December 2009 and the 3 year Macroeconomic Policy and Budget Framework (STERP 11). The MTP sets out clearly the national priorities and investment programs for 5 years, from 2011 to 2015. The main target of the MTP is to ensure that the economy remains on a sustainable growth path averaging 7.1 percent per annum for the period 2011-2015. The focus of the plan is on inclusive growth and balanced development. To attain objectives of the MTP, a number of reform measures are being implemented.

Debt Management: To address the debt and arrears situation, Government adopted the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS) with the following key policy elements: (i) Establishment and operationalization of a Debt Management Office; (ii) Undertaking a validation and reconciliation exercise of Zimbabwe's external debt database with all creditors; (iii) Re-engagement with the international community for the removal of sanctions; (iv) Negotiating with creditors and the development partners for arrears clearance, debt relief and new financing; and (v)Leveraging Zimbabwe's natural resources in pursuit of debt relief.

Expenditure Rationalization - In view of the expenditure overrun on the wage bill, Government introduced the general freeze on civil service recruitment, with dispensations on critical areas and which warranted Treasury and relevant Public Services Commissions concurrence; restrained foreign travel accompanied by other cost cutting measures, such as, forward purchasing of tickets; gazetting of the PFMS Regulations accompanied by a roll out of the PFMS to all centres; and prioritised settlement of domestic arrears.

Efficient collection of mine-related revenues - To improve efficiency in revenue collection in the mining industry, the Ministry of Finance proposed a bill that will empower the Zimbabwe Revenue Authority (ZIMRA) to access and examine mining operations in the country. The proposed bill gives ZIMRA powers to take soil or rock samples for examination and monitoring of the grading of minerals at mines. ZIMRA can also take copies of any records related to operations of the mine. This is meant to ensure transparency and accountability in the exploitation of mineral resources.

Consolidation of the banking sector and the strengthening of governance in the sector - As part of on-going efforts to ensure soundness of the banking industry, the RBZ increased the minimum capital requirements to USD 100 million, for all financial institutions by 2020. To encourage financial intermediation, the RBZ and banking institutions signed a Memorandum of Understanding (MoU) which provides guidelines for determination of interest rate margins and bank charges. The MoU took effect on 1st of February 2013. In terms of improving bank supervision, the Ministry of Finance is finalizing amendments to the Banking Act that will focus on improving oversight and surveillance over the financial sector by the Reserve Bank. The Reserve Bank on its part will strengthen its financial regulatory and supervisory framework of the banking sector.

Human Development - Government has instituted policies that enable the participation of women and youth in mainstream economic activities. These policies include the National Youth Policy, National Gender Policy, Mining policy, Land Policy and Small- Medium Enterprises Policy. Adoption of these policies has been followed by establishment of several funding facilities such as the Youth Development Fund, Mining Industry Loan Fund, Women Development Fund and SME Fund to facilitate access to skills training, affordable credit, as well as creation of employment opportunities.

Source: National sources.

ANNEX III: STATUS OF BANK GROUP ACTIVITIES IN ZIMBABWE

	Project Name/Country	Dept.	Approval Date	Age (Yr)	Disbursement Deadline	Amount Approved (UA m)	Amount Disbursed (UA m)	Amount Disbursed %	% Change from last (Disb)	Status/OutstandingImplementation Issues
1	Chitungwiza Water and Sanitation Project: P-ZW-EAZ-001	AWF	13/08/2009	4	22/06/2013	1.75	1.65	94.09	8.9% from May 2013	Project completed and handed over in March 2013. Project is now being closed.
2	Urgent Water Supply and Sanitation Rehabilitation Project: P-ZW-E00-002	OWAS	7/4/2011	2.4	31/12/2014	19.21	4.73	24.25	20.55% from May 2013	9 out of 13 contracts are at various stages of implementation. One goods procurement contract is at bidding stage through shopping and the capacity building tools contract is still outstanding. The signing of the Protocol of Agreement for the Supplementary Grant is outstanding. This is holding back the conclusion of the two sludge removal local contracts.
3	Emergency Power Infrastructure Rehabilitation Project: P-ZW-FAO-001	ONEC	30/06/2011	2.2	30/06/2014	23.02	2.10	9.13	7.03% from May approval	The approval of the Supplementary Grant application is being processed. Otherwise project implementation is progressing well.
4	Lake Harvest Aquaculture (Pvt) Limited: P-ZW-AAF-001	OPSM	10/26/2011	1.10	26/11/2020	5.26	5.26	100	25% from May 2013	Was supervised in April 2013 and funds have been fully disbursed. Bank to ensure proper closure of the project in due course.
5	Procurement Agent for ZimFund: P-ZW-KOO-002	OSFU	24/06/2011	2.2	30/06/2014	1.00	0.63	63.48	61.88% from last disburse ment	Work is in progress for the long-term consultant
6	Technical Assistance to ZADMO: P-ZW-KFO-001	OSFU	09/08/2011	2	30/06/2014	0.19	0.08	41.62	38.82% from May 2013	Consultants now in place. Third disbursement made in April 2013. Work in progress.
7	Capacity Building Project for Public Financial & Economic Management (CBFEM): P-ZW-KFO-002	OSGE	5/12/2012	0.8	30/06/2016	16.12	1.33	8.22	08.22 from approval	The project was launched in July 2013.
	Total					**66.2485**	**15.79**	**23.61**	**13.51 from May 2013**	

ANNEX IV: ZIMFUND ACTIVITIES

Against the background of the decade long deterioration of the economic and social situation and the reaching of a global political agreement in September 2008, the dialogue between donors and the GOZ led to the inception of the ZimFund. As a significant and committed contributor to development in Africa, the AfDB received a request to administer the ZimFund. The Board approved its establishment on 31 May 2010, and, after mobilizing USD 40 million, the ZimFund became effective on 19 October 2010.

The purpose of the ZimFund is to contribute to early recovery and development efforts in Zimbabwe by mobilizing donor resources and promoting donor coordination. Thus from the outset the ZimFund aimed at interventions that would save lives and protect assets; it therefore focused on infrastructure rehabilitation investments in water and sanitation, and energy sectors in line with the priorities of the inclusive Government. Both donors and Government saw the establishment of the ZimFund as a great achievement in ensuring continued coordinated support for Zimbabwe.

To date, two projects in the water and energy sectors have been approved. The Urgent Water Supply and Sanitation Rehabilitation Project (USD 29.65) million was approved on 8 April 2011. The objective of the project is to support urgent rehabilitation works, specifically the restoration and stabilization of water supply and sanitation services in the municipalities of Harare, Chitungwiza, Mutare, Chegutu, Masvingo and Kwekwe, targeting a total of 2.4 million people. Similarly, in June 2011, an emergency power infrastructure rehabilitation project (USD 35 million) was also approved to improve the reliability of power supply through the rehabilitation of the ash plant at Hwange Power Station and the sub-transmission and distribution facilities in the country. The project specifically contributes to the continuous supply of power to critical water and social infrastructures. The implementation of these projects is progressing well, and completion is expected by the first quarter of 2014.

Furthermore, preparations are progressing for the approval in 2013 of second phases of power and water sector projects. It is expected that additional commitments from partners will be secured to strengthen the activities of the ZimFund. Donors' commitments to the ZimFund has reached an equivalent of USD 124.66 million, out of which an actual amount of USD 121.82 million had been released by end of June 2013.

The ZimFund contributing countries include the United Kingdom (UK), Australia, Denmark, Norway, Sweden, Germany and Switzerland.

ANNEX V: DEVELOPMENT PARTNERS AND FOCAL AREAS OF SUPPORT IN ZIMBABWE

	Capacity Building and Institutional Support	Education	Health	Water & Sanitation	Energy	Agriculture	Economic Reform	Food	Infrastructure	Displaced Persons	Judicial Reform
ACBF	√						√				
AfDB	√			√	√		√				
Australian Aid (AUSAID)	√	√	√	√		√	√		√		
China		√	√	√		√	√		√		
CIDA			√	√				√		√	
Denmark		√				√		√	√		√
European Commission	√	√	√	√		√	√	√		√	
Finland							√				
France			√			√		√			
Germany		√	√	√				√	√		
Ireland			√					√			
Japan		√	√	√				√		√	
Norway		√	√			√			√		
SIDA		√	√	√		√		√	√	√	
Spain			√			√		√			
Switzerland			√	√		√		√			
The Netherlands	√	√	√	√		√		√	√	√	
UK Department for International Development (DFID)	√	√	√		√	√	√	√	√	√	
UNDP	√						√				
USAID	√	√	√	√		√		√			
World Bank	√						√				

ANNEX VI: INDICATIVE TECHNICAL AND CAPACITY BUILDING PROGRAMS FOR ZIMBABWE 2013-2015

Type of Activity	Description/Objective	Amount (UA Million)
Institutional Support to RBZ	Rehabilitation and development of the RBZ IT system.	1.60
Capacity Building and Empowerment of the Youth	Support Youth Training Programs and capacity building activities	1.50
Support to Infrastructure Development	Studies to update the Infrastructure Flagship Report that was done in 2011 by providing updated costing and sector studies in infrastructure.	0.60
Support to Procurement reforms	Implement the Recommendations of the NCB Study on procurement in Zimbabwe	0.60
Support to Audit	Support capacity building in the Audit Department	0.60
Institutional Support to the Ministry of Mines and Minerals	Support the institutional set-up of the Zimbabwe geological survey company as part of the Mineral Policy reforms	2.40
Support to the Tourism Sector	Assist the preparation of the Tourism Master Plan and the Tourism satellite account (visitor exist survey)	1.2
Total		**8.50**

ANNEX VII: BANK GROUP SUPPORT TO ZIMBABWE 2013-2015, RESULTS-BASED FRAMEWORK

Country Development Goals	Issues and Constraints	Final Outcome Indicators (2015)	Final Output Indicators (2015)	Mid Term Outcome Indicators (2014)	Mid Term Output Indicators (2014)	Ongoing and Proposed Bank Interventions under the new CB
Improving Capacities for the Implementation of the MTP						
Economic Governance Goal Enhanced capacity for revenue, debt and public financial management	- Limited revenue generation and administration - Weak PFM systems and manual accounting system in place - Non-compliance with cash-based International Public Sector Accounting Standards (IPSAS) and Government Finance Statistics (GFS) 2001 - Weak debt management (external debt not fully reconciled, less than 50% of official development assistance captured, outdated Debt Management and Financial Analysis System (DMFAS) 5.6 Security Auction System in place).	- Country Policy and Institutional Assessment (CPIA) score on quality of budgetary and financial management at 4.0 - CPIA score on debt policy at 3.7. - Efficiency in public expenditure - Consolidated financial statements compliant with cash-based IPSAS and GFS 2001 reporting - 100% of aid captured - 100% external debt data reconciled - Public Expenditures and Financial Accountability (PEFA) reports published by the Ministry of Finance annually - Updated Government accounts - At least one published geological survey by the Ministry of Mines and Minerals	- 389 staff trained in revenue administration (ZIMRA) - 33 staff trained in cash-based IPSAS and GFS compliant reporting - 24 staff trained in debt management - National Development Fund computerized accounting system in place - Upgrade to DMFAS 6.0 Security Auction System - Geological survey carried out	- CPIA score on quality of budgetary and financial management at 4 from 3.72 in 2011 - CPI score on debt policy at 3.8 from 3.2 in 2011 - Efficiency in public expenditure - Consolidated financial statements compliant with cash-based IPSAS and GFS 2001 reporting - 100% of aid captured - 100% external debt data reconciled - PEFA reports published by the Ministry of Finance annually - Updated Government accounts	- 389 staff trained in revenue administration (ZIMRA) - 33 staff trained in cash-based IPSAS and GFS compliant reporting - 24 staff trained in in debt management - National Development Fund computerized accounting system in place - System upgrade to DMFAS 6.0 Security Auction System - Staff trained in in modern geological mapping	**<u>Activities</u>** - Capacity building for Public and Economic Management (CBPFEM) project - Providing training, technical assistance, computer equipment for accountants in PFM, audit functions, and asset management; training and technical assistance for debt management; and training and ICT infrastructure for Zimbabwe Revenue Authority - Support national budget consultative and PFM workshops - Development of an internal audit manual - Institutional support to the Ministry of Mines and Minerals
Developed legal framework for PPPs and private sector development	- No legal framework for PPPs in place - No PPP unit in place - No investment code in place	- At least five PPP transactions	- PPP unit established	- PPP transactions increased from 1 in 2011	- PPP framework developed and approved - Investment code and related regulations adopted	**<u>Activities</u>** - CBPFEM - Providing technical assistance, training and equipment for developing legal and institutional framework for PPPs - Conducting economic and sector work on PPPs in infrastructure and improving the business environment

Country Development Goals	Issues and Constraints	Final Outcome Indicators (2015)	Final Output Indicators (2015)	Mid Term Outcome Indicators (2014)	Mid Term Output Indicators (2014)	Ongoing and Proposed Bank Interventions under the new CB
Improved capacities for monitoring and implementation of the MTP, and statistical development	- Production and publication of official statistics not timely - IT systems at the RBZ outdated	- Official statistics published one month after end of each quarter - Quarterly progress reports - Annual publication of ZIMSTAT - Ministry of Regional Integration and International Cooperation (MORIIC) publications - MTP implementation annual progress reports	- Regular publication of quarterly digest of macroeconomic statistics, tourism and financial sector routine statistics and reports	- Official statistics published two months after end of each quarter - Quarterly progress reports - Annual publication of ZIMSTAT - Publications of MORIIC - MTP implement-ation annual progress reports - Quarterly publication of tourist statistics	- Quarterly production and publication of Digest of Statistics - RBZ IT systems installed - Staff trained in methodology for tourist surveys	**Activities** - CBPFEM - Supporting economic surveys to build baseline and various socio-economic indicators to monitor the implementation of the MTP (Quarterly Digest of Statistics) - Purchasing RBZ IT systems and support related training - Supporting capacity development in the Ministry of Tourism
Youth Development Goal Developed entrepreneurship and empowerment programs for the youth	- High unemployment and a particularly strong informal sector characterize the economy, particularly among the youth	- Increase in the number of youth engaged in decent employment	- At least one training program supported	- Youth trained in entrepreneurship skills	- At least one training program supported	**Activities** - Conference on capacity building for the youth
Improving Infrastructure Development						
Energy Sector Goal Restore and increase power generation capacity to meet national demand for the attainment of economic recovery and growth	- Aged, obsolete equipment and poor state of infrastructure - Low access rates - Unreliable and insufficient generation, transmission and distribution capacity - Theft and vandalism of infrastructure - Undercapitalization compounded by debt ridden financial positions	- Improved reliability of power supplies	- Rehabilitation of Hwange Power Station - Replacement of five faulty transmission transformers	- Increase energy output from Hwange Power Station - Reduce number of customers with no access to electricity due to transformer faults	- 500 distribution transformers installed - 23 transmission substations rehabilitated	**Activities** - Rehabilitating Hwange and Kariba to full capacity - Expanding Hwange and Kariba power stations - Rehabilitating transmission and distribution network
Water and Sanitation Restore and stabilize water and sanitation services and improve service delivery	- Aged and dilapidated infrastructure - Inadequate funding for maintenance - Capacity constraints in municipalities	- Improved availability and reliability of water supply and sanitation services (access to sanitation at 80% and access to water supply at 83%)	- Rehabilitated water and sanitation infrastructure in six major cities	- Water and sanitation services stabilized (normalized)	- Water treatment and waste water treatment plants rehabilitated in six municipalities. Capacity restored to 820,000m3 for water and 298,000m3 for waste water	- Phase 1 -Urgent Water Supply and Sanitation Rehabilitation Project phase 1 (ongoing 2011-2014) - Phase 2 – Urgent Water Supply and Sanitation Rehabilitation Project (proposed 2013-2016)