

**FOR
AGENDA**

EBS/09/55

April 22, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Zimbabwe—Request for Targeted Lifting of the Suspension of Fund Technical Assistance**

Attached for consideration by the Executive Directors is a paper on the request for targeted lifting of the suspension of Fund technical assistance to Zimbabwe, which is tentatively scheduled for discussion, together with the staff report on the Article IV consultation with Zimbabwe (SM/09/102, 4/20/09), on **Monday, May 4, 2009**. A draft decision appears on page 3. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Zimbabwe indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Kramarenko, AFR (ext. 34357).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, April 30, 2009; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

ZIMBABWE

Request for Targeted Lifting of the Suspension of Fund Technical Assistance

Prepared by the African, Finance, Legal, and Strategy, Policy, and Review Departments in
Consultation with Other Departments

Approved by Antoinette M. Sayeh, Andrew Tweedie, Sean Hagan, and Dominique Desruelle

April 21, 2009

1. **The staff is proposing a partial lifting of the suspension of technical assistance (TA) to Zimbabwe, which has been in place since 2002,¹ to allow for the resumption of TA in certain targeted areas of Fund expertise.** Consistent with Fund policy and past practice in other protracted arrears cases, in order for the Fund to lift the suspension of TA, Zimbabwe will have to be judged to be cooperating with the Fund on policies and payments toward addressing the outstanding Poverty Reduction and Growth Facility (PRGF)-Exogenous Shocks Facility (ESF) Trust arrears (SDR 89 million, US\$133 million) at end-March 2009.
2. **There has been a significant improvement in Zimbabwe's cooperation on economic policies to address its arrears problems since the Executive Board reviewed Zimbabwe's overdue obligations last January.²** Many of the recommendations identified during that review have been implemented. These include a significant fiscal adjustment, adoption of a strong nominal anchor (that is, official adoption of hard currencies for transactions with the rand as the reference currency), price liberalization, imposition of hard budget constraints on parastatal enterprises, and elimination of most restrictions on current account transactions.³ These policies have already produced positive outcomes, including

¹ Decision No. 12763-(02/60), adopted on June 13, 2002.

² The Executive Board last reviewed Zimbabwe's overdue financial obligations to the PRGF-ESF Trust in January 2009. See *Zimbabwe—Overdue Financial Obligations to the PRGF-ESF Trust* (EBS/09/9, 1/14/09) and Decision No. 14245-(09/7), adopted on January 21, 2009.

³ More detailed information on recent economic developments and the authorities' policy intentions is provided in the Staff Report for the 2009 Article IV Consultation.

price stabilization, improvements in the availability of basic goods, and a gradual restoration of market signals.

3. **The Zimbabwe authorities have expressed their commitment to improve cooperation on payments to the Fund.** Zimbabwe's cooperation on payments has remained poor: during the period of April 2008–March 2009 the Fund received SDR 0.3 million (in the last quarter, the payment was only SDR 25,924). In light of Zimbabwe's very limited payment capacity, it would be difficult for the country to make significant payments to the Fund under the current circumstances. Nevertheless, the authorities have committed to regular payments to the Fund of about \$100,000 per quarter starting with the next Fund financial quarter. As explained below, targeted Fund technical assistance in strengthening capacity would increase the chances of resolving Zimbabwe's arrears to the PRGF-ESF Trust.

4. **The government's forward-looking policy intentions are sound, but their success mainly depends on the authorities' ability to sustain political commitment and to strengthen technical capacity.** The authorities have adopted a short-term emergency recovery program, which targets a balanced cash budget position, the elimination of the Reserve Bank of Zimbabwe's quasi-fiscal activities, improvements to the dollarized monetary system, and steps toward addressing key structural issues, such as protection of property rights and establishment of the rule of law. However, severe technical capacity constraints represent a major risk to the implementation of their program. Other risks include political tensions within the unity government and unfilled budgetary financing gaps.

5. **Zimbabwe has severe capacity constraints in the Fund's core areas.** Short-term TA needs that cannot be accommodated by other donors include (i) tax policy and administration; (ii) the payments system, particularly to process transactions in foreign exchange; (iii) lender-of-last-resort operations and banking supervision; and (iv) central bank governance and accounting. While policy reversals cannot be ruled out in the current political environment, there are reasonable prospects for TA advice to be implemented.

6. **Based on Zimbabwe's improved cooperation on policies, the authorities' commitment to resume regular payments to the Fund, and the severe capacity constraints in the Fund's core areas of expertise, the staff recommends a lifting of the suspension of Fund TA to Zimbabwe in the four areas mentioned above.**

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The Fund decides that a partial lifting of the suspension of Fund technical assistance to Zimbabwe is appropriate. Effective from the date of this decision, Fund technical assistance may be provided to Zimbabwe in the areas of (i) tax policy and administration; (ii) payments systems; (iii) lender-of-last-resort operations and banking supervision; and (iv) central banking governance and accounting. This decision shall be reviewed at the time of the next review of Zimbabwe's overdue financial obligations to the PRGF-ESF Trust, and at subsequent reviews as long as Zimbabwe has overdue financial obligations to the PRGF-ESF Trust.