

**FOR
AGENDA**

EBS/10/23

February 4, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Zimbabwe—Restoration of Voting and Related Rights and Termination of Ineligibility to Use the General Resources of the Fund**

Attached for consideration by the Executive Directors is a paper on the restoration of voting and related rights and termination of ineligibility to use the general resources of the Fund for Zimbabwe, which is tentatively scheduled for discussion on **Friday, February 19, 2010**. Draft decisions appear on page 4.

Questions may be referred to Mr. Kramarenko, AFR (ext. 34357), Mr. Ogada, LEG (ext. 37886), and Mr. Lin, FIN (ext. 37299).

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

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Zimbabwe—Restoration of Voting and Related Rights and Termination of Ineligibility to Use the General Resources of the Fund

Prepared by the African, Finance, and Legal Departments

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

February 4, 2010

I. BACKGROUND

1. **Following Zimbabwe’s clearance in full of its arrears to the General Resources Account (GRA) on February 15, 2006, the Executive Board met on March 8, 2006 to consider sanctions that had been imposed under Article XXVI, Section 2 (EBS/06/25, 2/22/2006) with respect to the GRA arrears.** At that time, staff recommended the restoration of Zimbabwe’s voting and related rights and the termination of its ineligibility to use the Fund’s general resources. There was, however, insufficient support among Executive Directors to restore Zimbabwe’s voting and related rights by the 70 percent of the total voting power needed to adopt the proposed decision. Furthermore, because of the sequential nature of the sanctions imposed under Article XXVI, Section 2, the absence of a decision to lift the suspension of voting and related rights precluded the Board from considering a decision to terminate Zimbabwe’s ineligibility to use the Fund’s general resources.¹ During the discussion, Executive Directors expressed concern over Zimbabwe’s existing breach of obligations under Article VIII, Sections 2(a) and 3 on exchange restrictions and multiple currency practices, and the possibility of a breach of Article VIII, Section 5 on data reporting. Executive Directors were also concerned about Zimbabwe’s poor economic policies.²

¹ See “Statement of the Acting General Counsel on Sequencing of Decisions Lifting Sanctions,” BUFF/06/44, 3/8/2006.

² The remedial measures related to both GRA and PRGT arrears—the declaration of noncooperation and suspension of Fund technical assistance—were not proposed to be lifted at that time due to the existence of Zimbabwe’s arrears to the PRGF-ESF Trust (now renamed the PRGT).

2. **Since the Board did not agree to lift the sanctions, under Rules K-4 and K-7 of the Fund's Rules and Regulations, the Executive Board is required to state the further actions that are required of Zimbabwe in order for the sanctions to be lifted but it has not done so to date.** In light of these rules, on February 23, 2007, the Executive Board met to consider a staff proposal setting conditions that Zimbabwe would have to meet for the restoration of its voting and related rights (EBS/07/16, 2/14/07). However, the Board was not able to reach agreement on such conditions, but agreed to return to this issue at a later date. Since then, the Board has not provided additional guidance on the GRA-related sanctions.

3. **In the meantime, the concerns raised by Executive Directors in March 2006 regarding Zimbabwe's breaches of obligations under Article VIII Sections 2(a) and 3 and the possibility of a breach under Article VIII, Section 5 have been largely addressed:**

- Since early 2009 Zimbabwe's exchange system has been significantly liberalized and exchange rates have been unified. Based on the staff's current assessment, Zimbabwe has only one remaining exchange restriction subject to Fund jurisdiction arising from outstanding balances on an inactive bilateral payment arrangement with Malaysia. The authorities intend to address this restriction as part of their efforts to regularize relations with external creditors.
- Following the Executive Board's expression of concern over data provision, staff and the authorities agreed on a template to be used for reporting international reserves data to the Fund. The authorities began to report these data to the Fund consistent with the template in 2007. Reporting delays have been reduced to 3–6 months. Zimbabwe has not been found in breach of its obligations under Article VIII, Section 5.

4. **While substantial arrears to the PRGT remain (SDR 89.5 million at end-2009), they do not constitute a breach of obligations under the Articles and cannot, therefore, be the subject of the sanctions specified under Article XXVI, Section 2, nor a basis for a decision to maintain or remove these sanctions** (EBS/06/25, paragraph 3).³ The remedial measures in place related to the PRGT arrears are (i) the declaration of noncooperation; (ii) the removal of Zimbabwe from the list of PRGT-eligible countries; and (iii) the suspension of Fund technical assistance except in the targeted areas specified in Decision No. 14327-(09/44) adopted on May 4, 2009. Even if the sanctions under Article XXVI, Section 2 were to be lifted, Zimbabwe would be precluded from using GRA resources so long as its PRGT arrears are outstanding.⁴ Use of GRA resources is also subject to Fund policies on

³ The Executive Board last reviewed Zimbabwe's overdue obligations to the PRGT on September 4, 2009 (EBS/09/131, 8/27/09).

⁴ See Decision No. 11832-(98/119) ESAF, adopted November 20, 1998, as amended.

(continued...)

access to such resources, including a requirement that arrears to official creditors are cleared or programmed to be cleared.⁵

5. **Since early 2009 Zimbabwe’s macroeconomic performance has improved but significant risks to the economic outlook remain going forward.** In 2009, the government implemented a sizeable fiscal adjustment, introduced revenue measures, and broadly adhered to cash budgeting; the exchange system (see above) and prices were largely liberalized; and inflation was brought under control thanks to the disciplining effects of a multi-currency system. Rapid progress in launching the payments systems in foreign currency and the elimination of surrender requirements on foreign exchange transactions have fostered financial reintermediation. As a result of all these positive policy steps, a tentative economic recovery appears to be underway following unprecedented hyperinflation in 2008 and a decade-long economic decline. However, continued political tensions, weak RBZ governance, large wage increases that raise competitiveness and fiscal sustainability concerns, important banking system vulnerabilities and insufficient progress in improving the business climate represent major risks to the sustainability of the economic recovery and poverty reduction.

6. **While Zimbabwe’s economic policies may be taken into account in assessing its cooperation with the Fund with respect to its PRGT arrears, they do not provide a basis for determining whether the GRA sanctions should be lifted.** The test of cooperation on policies has been understood as a measure to assess progress towards the objective of arrears clearance. With the full clearance of GRA arrears, the test of cooperation on policies would no longer be relevant to measuring the objective that has been met, and it should not be a residual factor in determining whether to lift remaining GRA sanctions (EBS/06/25, paragraph 7).

II. STAFF ASSESSMENT

7. **Staff recommends that the suspension of voting and related rights and the declaration of ineligibility to use the Fund’s general resources be lifted.** The basis for the recommendation is that (i) Zimbabwe has remedied the breach of obligations that led to the suspension of its voting rights by settling its arrears to the GRA and the key objective of the sanctions has been achieved; and (ii) Zimbabwe no longer has outstanding obligations to the GRA that could result in GRA arrears reemerging. In addition, Zimbabwe has largely addressed the previous concerns of Executive Directors pertaining to exchange restrictions

⁵ Zimbabwe’s arrears to the International Financial Institutions (IFIs) amounted to \$1.3 billion at end-2009. More detailed information on operational and legal aspects of IFIs’ re-engagement with Zimbabwe was provided in a joint IMF/World Bank/African Development Bank note circulated to the Executive Board in June 2009 (FO/DIS/09/100).

and multiple currency practices subject to Fund jurisdiction and the possibility of a breach of obligation under Article VIII, Section 5 on data reporting.

8. Staff does not propose lifting of the declaration of non-cooperation or the partial suspension of Fund technical assistance initially imposed because of both GRA and PRGT arrears as the PRGT arrears are still outstanding.

PROPOSED DECISIONS

Accordingly, the following decisions are proposed for adoption by the Executive Board.

Decision I may be adopted by a 70 percent majority of the total voting power. Decision II may be adopted by a majority of the votes cast.

I. RESTORATION OF VOTING AND RELATED RIGHTS

Pursuant to Article XXVI, Section 2(b) of the Articles of Agreement, the Fund decides that the voting and related rights of Zimbabwe, suspended on June 6, 2003 by Executive Board Decision No. 13020-(03/53), are restored.

II. TERMINATION OF INELIGIBILITY TO USE THE GENERAL RESOURCES

The Fund decides that Zimbabwe is no longer ineligible to use the general resources of the Fund as was provided for in Executive Board Decision No.12582-(01/99), adopted September 24, 2001.