

**FOR
AGENDA**

EBS/10/75

CONFIDENTIAL

May 3, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Zimbabwe—Overdue Financial Obligations to the Poverty Reduction and Growth Trust**

Attached for consideration by the Executive Directors is a paper on Zimbabwe's overdue financial obligations to the PRGF-ESF Trust. This paper, together with the staff report for the 2010 Article IV consultation with Zimbabwe (SM/10/108, 4/30/10), is tentatively scheduled for discussion on **Monday, May 17, 2010**. A draft decision appears on pages 10–12.

It is not intended to publish this paper on the Fund's external website.

Questions may be referred to Mr. Njoroge (ext. 38785) and Ms. Yang (ext. 38123) in FIN, Mr. Kramarenko, AFR (ext. 34357), and Ms. Liu, LEG (ext. 37643).

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

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INTERNATIONAL MONETARY FUND

**Zimbabwe—Overdue Financial Obligations to the Poverty
Reduction and Growth Trust**

Prepared by the Finance, African, and Legal Departments

(In consultation with the Strategy, Policy and Review Department)

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

May 3, 2010

I. INTRODUCTION

1. **The Executive Board last reviewed Zimbabwe's overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT) on September 4, 2009** (Attachment I).¹ The Board welcomed a significant improvement in Zimbabwe's macroeconomic policies leading to a nascent recovery, while noting that substantial risks remained amidst a very tense political situation. Directors encouraged the authorities to build a track record on cooperation on policies to demonstrate a sustained departure from past policies and continue the close policy dialogue with the Fund through quarterly staff visits. Zimbabwe had been in continuous arrears to the PRGT since February 2001 and arrears had increased further. The Board welcomed the authorities' commitment to regular payments to the Fund of about US\$100,000 per quarter starting with the Fund's financial quarter of May–July 2009. Directors strongly encouraged the authorities to fulfill their commitment and urged the authorities to increase these payments in line with the improvements in Zimbabwe's payment capacity. The Board attached the highest importance

¹ See *Zimbabwe—Overdue Financial Obligations to the PRGF-ESF Trust* (EBS/09/131, 8/27/09), and Decision No. 14422-(09/93), adopted on September 4, 2009. The Board subsequently extended the next review to no later than June 4, 2010, as the assessment of Zimbabwe's cooperation with the Fund would benefit from the findings of the mission in March; *Zimbabwe—Review of Overdue Financial Obligations to the Poverty Reduction and Growth Trust—Postponement* (EBS/10/31, 2/25/2010) and Decision No. 14564-(10/20), adopted on March 3, 2010. Zimbabwe is the only case of protracted arrears to the PRGT.

to Zimbabwe's prompt settlement of its arrears and urged the authorities to take action to discharge these arrears as soon as possible. The Executive Board decided at that time to keep in place the decisions previously taken to address Zimbabwe's overdue financial obligations to the PRGT.

2. **At that time the Executive Board also reviewed the earlier decision to partially lift the suspension of Fund technical assistance (TA).** The decision to partially lift Zimbabwe's suspension of Fund TA in May 2009 was based on: Zimbabwe's improved cooperation on policies; the authorities' commitment to resume regular payments to the Fund; and Zimbabwe's severe capacity constraints in the Fund's core areas of expertise. In reviewing this decision in September 2009, Directors noted the improved cooperation on policies and the authorities' assurances that they intend to implement most of the recommendations of recent TA missions, and decided to continue the Fund's TA in targeted areas.

3. **On February 19, 2010, the Executive Board restored Zimbabwe's voting and related rights and its eligibility to use the Fund's general resources (Attachment II).**² Notwithstanding the restoration of the eligibility to use the General Resources Account, Zimbabwe will not be able to access these resources until it fully settles its arrears to the PRGT. The remaining remedial measures relate to the PRGT arrears, and are: (i) the declaration of non-cooperation; (ii) the suspension of technical assistance except in targeted areas specified in Decision No. 14327-(09/144) adopted May 4, 2009; and (iii) the removal of Zimbabwe from the list of PRGT-eligible countries.

4. **This paper discusses economic developments since the last Board review in September 2009, and assesses Zimbabwe's cooperation with the Fund on policies and payments due to the PRGT.** Since the last review, Zimbabwe's cooperation on policies has weakened significantly, including on fiscal policy and the wage bill, Reserve Bank of Zimbabwe's governance, and the conversion of the SDR allocation (SDR 96.8 million or US\$150 million) for budget financing against staff advice. Cooperation with the Fund on payments has remained poor, with payments to the Fund having being less than SDR 1 million. Staff have provided recommendations on how to bring policy back on track and urged the authorities to save the remaining SDR holdings. If, however, the authorities choose to continue to deplete their SDR holdings to fund expenditures, this would weaken the track-record of cooperation with the Fund and could complicate the eventual arrears clearance process. The authorities have given assurances to staff that they will forge a

² See *Zimbabwe—Restoration of Voting and Related Rights and Termination of Ineligibility to Use General Resources of the Fund* (EBS/10/23, 2/4/2010) and Decisions No. 14556-(10/16) and 14557-(10/16), adopted on February 19, 2010.

consensus for implementing staff's policy recommendations, and are committed to improve their cooperation on payments. In light of these assurances, staff proposes that the remedial measures imposed as a result of Zimbabwe's arrears to the PRGT remain unchanged (Attachment III). Staff also recommends that the Fund's technical assistance in targeted areas be continued and that macroeconomic statistics be included in the targeted areas. Staff proposes that the next review of Zimbabwe's arrears to the Trust be held within six months of the Board's consideration of this paper. A decision to this effect is proposed for adoption by the Executive Board.

II. ARREARS TO THE FUND AND OTHER CREDITORS

5. **Since the last review, Zimbabwe made three payments to the Fund, totaling SDR 0.85 million (US\$1.3 million) which lowered its arrears to the PRGT to SDR 88.7 million.** In March 2006, the authorities had indicated their intention to fully repay the PRGT arrears through equal quarterly payments from June 2006 through December 2009.³ To date, Zimbabwe has not met this commitment. In April 2009, the Zimbabwean authorities committed to regular payments to the Fund of about US\$100,000 per quarter starting with the Fund's financial quarter of May-July 2009. Since then, Zimbabwe has made four payments, whose total exceeds the commitment of quarterly payments.⁴ These payments were applied towards Zimbabwe's principal arrears to the PRGT, and as of April 15, 2010, Zimbabwe's arrears to the PRGT stood at SDR 88.7 million, a decrease of SDR 0.8 million since the last review (Table 1).

³ Statement by Dr. Herbert M. Murerwa, Zimbabwe's then Minister of Finance, at the Executive Board Meeting, March 8, 2006 (BUFF/06/37, 3/6/06).

⁴ Since the last review, payments of US\$0.2 million, US\$0.1 million, and US\$1 million, were received on February 2, 2010, February 18, 2010, and April 1, 2010, respectively. A payment of US\$0.1 million was received on August 25, 2009, just before the last review.

Table 1: Zimbabwe Overdue Financial Obligations
(In millions of SDRs, as of April 15, 2010)

Type of Obligation	Total Amount Overdue
Principal	72.9
Interest and Charges	15.8
Regular interest 1/	0.7
Interest on overdue obligations 2/	15.0
Total	88.7

Source: Finance Department.

1/ Interest on outstanding, but not overdue, PRGT principal.

2/ Interest on outstanding PRGT principal and interest.

6. **Zimbabwe's forthcoming obligations are projected at about SDR 0.5 million per annum based on the current SDR interest rate.** Since the PRGT credit to Zimbabwe is all overdue, Zimbabwe's forthcoming obligations to the Fund will consist of regular interest on outstanding PRGT loans and additional interest on overdue PRGT obligations, and net SDR charges and assessments. Based on the current SDR interest rate, these obligations are projected at about SDR 0.4 million in the remainder of 2010 and about SDR 0.5 million each year thereafter (Table 2).⁵ However, the forthcoming obligations would increase if interest rates rise from current levels.

Table 2. Zimbabwe: Overdue and Forthcoming Financial Obligations to the Fund
(In millions of SDRs; as of April 15, 2010)

Type of obligation	Overdue as of 2010/4/15	Forthcoming Obligations					
		2010 1/	2011	2012	2013	2014	2015
PRGT principal and interest	88.7	0.22	0.23	0.23	0.23	0.23	0.23
Net SDR charges and SDR assessments	--	0.22	0.30	0.30	0.30	0.30	0.30
Total	88.7	0.44	0.53	0.53	0.53	0.53	0.53

Source: Finance Department.

1/ Forthcoming obligations for the remainder of 2010.

Note: In addition to PRGT interest, the projections also include net SDR charges, which consist of interest paid to each holder of SDRs, and charges at the same rate on the participant's cumulative SDR allocation. The Fund also levies SDR assessments at the end of each financial year, to cover the expenses of conducting the business of the SDR Department.

⁵ The Fund levies an interest rate (equivalent to SDR interest rate) on overdue PRGT principal and interest.

7. **Zimbabwe's failure to meet its obligations to the PRGT has necessitated the use of resources from the PRGT Reserve Account to repay Trust lenders.** Since Zimbabwe first fell into arrears to the PRGT in February 2001, SDR 73.6 million has been drawn from the Reserve Account to meet payment obligations to Trust lenders.⁶ The Reserve Account will be replenished when Zimbabwe clears its arrears to the Trust, in addition to receiving Zimbabwe's payment of interest on its overdue obligations.

8. **In August 2009, Zimbabwe received SDR 262 million under the general allocation of SDRs.** Since then Zimbabwe has made two conversions of its SDR holdings, totaling SDR 96.8 million (US\$150 million), with the intention of bridging the financing gap of the central government budget.⁷ In addition, Zimbabwe received SDR 66.4 million under the special SDR allocation provided under the Fourth Amendment of the Articles of Agreement. The special allocation is held in an escrow account in the SDR Department pending the clearance of Zimbabwe's arrears to the PRGT. Staff urged the authorities to save the SDR allocation to help rebuild the depleted reserves. The conversion of the SDR holdings to fund budget expenditures exposes Zimbabwe to significant risks, including from the nonconcessional interest rate and a risk of default on interest payments due to Zimbabwe's fragile external position and debt distress.

9. **Zimbabwe's arrears to other creditors, including multilateral financial institutions, are large and increasing.** As of April 15, 2010, its arrears to the World Bank Group (IBRD and IDA) amounted to US\$763.3 million, and those to the African Development Bank Group (AfDB) totaled US\$486.3 million. Zimbabwe has made no payments since the last review to either the AfDB or the World Bank Group. Zimbabwe's medium- and long-term external public and publicly guaranteed debt was estimated at US\$6.9 billion, about 340 percent of exports of goods and services and 157 percent of GDP at end-2009, of which most are reportedly to be in arrears.⁸

III. POLICY PERFORMANCE AND OUTLOOK

10. **Although economic policies improved in 2009, renewed political instability and a weakening of policy discipline in recent months have intensified macro-financial**

⁶ This consists of overdue principal of SDR 72.9 million and overdue regular interest of SDR 0.7 million that has been paid to PRGT lenders.

⁷ The first conversion of SDR 31.5 million was made on December 16, 2009, and the second of SDR 65.3 million on February 22, 2010.

⁸ As there is no comprehensive debt reporting system in Zimbabwe, these estimates are preliminary and subject to revisions. See *Zimbabwe—Staff Report for the 2010 Article IV Consultation—Debt Sustainability Analysis* (SM/10/108, Supplement 1, 4/30/10).

vulnerabilities.⁹ While significant improvements have been realized in tax policy and administration, the authorities have moved away from cash budgeting, wages and capital expenditures were ramped up, and rapid unsustainable government expenditure growth is projected. The budget deficit has been financed largely by drawing down on Zimbabwe's SDR holdings. The civil service payroll audit is ongoing and the World Bank is providing TA on public sector reforms, including on public financial management systems (PFMS). Serious governance problems remain at the Reserve Bank of Zimbabwe (RBZ) as key recommendations of past TA missions were not implemented, even as the RBZ's balance sheet continues to deteriorate and external auditors report serious weaknesses in internal controls and financial reporting. Exuberant credit growth has increased systemic vulnerabilities in the banking system, and the recent increase in uncertainty regarding indigenization regulations has led to a reduction in private capital inflows.

11. In light of the rising risks, staff has urged the authorities to implement corrective policies. The near-term risks of a disorderly balance of payments adjustment and banking system distress have risen sharply, and the government urgently needs to forge political consensus for the remedial policies. Key recommendations include: (i) returning to cash budgeting and reducing the wage bill; (ii) retaining the SDR holdings as a reserve cushion; (iii) containing rapidly rising risks to the banking system through a reduction of banks' exposure to the financially distressed RBZ and stepped up prudential measures; (iv) strengthening RBZ governance and downsizing it; and (v) implementing key structural measures, including with respect to enforcement of property rights, security of land tenure, and wage flexibility. Although reaching consensus on the recommended measures is a major political challenge, speedy implementation of the recommendations is essential for reducing significant vulnerabilities and avoiding higher costs of a forced delayed adjustment.

12. The authorities have expressed their commitment to improve cooperation on payments. During the discussions for the 2010 Article IV consultation, the authorities agreed with the staff that making timely quarterly payments to the Fund and increasing them over time as the payment capacity improves, will strengthen the credibility of their commitment to normalizing relations with the Fund.

IV. TARGETED TECHNICAL ASSISTANCE

13. Albeit partially implemented, the Fund's targeted TA advice has played a significant role in addressing the short-term policy challenges and strengthening

⁹ Additional information about Zimbabwe's recent performance is provided in *Zimbabwe—Staff Report for the 2010 Article IV Consultation* (SM/10/108, 4/30/10). In addition to the discussions during the Article IV consultation mission, policy discussions with Fund staff were held during the staff visit in October 2009.

Zimbabwe's implementation capacity.¹⁰ The short-term recommendations of TA in tax policy and administration have been largely implemented, which has helped the government to achieve a significant improvement in revenue collection. The authorities have requested additional TA in these areas. TA in banking supervision provided timely diagnostics of key risks and vulnerabilities and specific recommendations on how to adapt banking supervision accordingly. These recommendations have been largely reflected in prudential requirements. Some short-term recommendations with respect to the RBZ accounting have been implemented, and the TA efforts in this area have had a strong capacity building component. However, most TA recommendations with respect to RBZ governance and accounting have not been implemented. The authorities intend to appoint an RBZ governing Board soon and request follow-up TA in RBZ accounting, restructuring and downsizing. They also indicated that recent amendments to the RBZ Act did not reflect some staff recommendations due to lack of domestic political agreement, but the RBZ Act will be fully overhauled when a decision is made on a new currency regime.

14. **The authorities have also requested approval of Fund TA in the area of macro-economic statistics.** They indicated that with macroeconomic stabilization and the resumption of normal functioning of public institutions, the importance of reliable statistics for economic analysis, forecasting, and policy formulation has increased. The authorities are confident that the Central Statistics Office of Zimbabwe and other agencies collecting data are committed to undertake significant improvements in data with Fund TA.

V. STAFF ASSESSMENT

15. **While Zimbabwe's cooperation on payments of its arrears to the PRGT remains poor, the authorities' intentions to improve the cooperation on payments are welcome.** Token payments of SDR 0.85 million since the last review were greater than the authorities' commitment to quarterly payments of about US\$100,000. These payments slightly exceeded Zimbabwe's new obligations falling due, but arrears to the PRGT remain substantial. Staff welcomes the authorities' commitment to continue making timely payments to the Fund and to increase them over time as the payment capacity improves. Staff regrets that the authorities did not follow the advice not to draw down their SDR holdings, and urges the authorities to retain the remaining SDR holdings as a reserve cushion. If the authorities choose to continue to deplete their SDR holdings to fund expenditures, this would weaken

¹⁰ Following the targeted lifting of the suspension, the Fund's technical assistance may be provided to Zimbabwe in the following areas: (i) tax policy and administration; (ii) payments systems; (iii) lender-of-last-resort operations and banking supervision; and (iv) central banking governance and accounting. See Decision No. 14327-(09/44), adopted on May 4, 2009.

the track-record of cooperation with the Fund and could complicate the eventual arrears clearance process.

16. Zimbabwe's cooperation with the Fund on policies has weakened significantly since the last review. Following the improvement in Zimbabwe's macroeconomic policies in 2009, the recent deterioration in the policy environment is worrisome. Fiscal policy has weakened substantially with the departure from cash budgeting and the rapid expenditure growth driven by a ramping up of wages and capital expenditures. Serious governance problems remain at the RBZ, and its balance sheet continues to deteriorate. Systemic vulnerabilities in the banking system have also increased, and the recent increase in uncertainties about indigenization regulations has led to a reduction in private capital inflows. These factors have increased the risk of a disorderly balance of payments adjustment and significant banking system distress. Nevertheless, staff has welcomed the close policy dialogue with the authorities.

17. In light of the emerging vulnerabilities, policies need to be strengthened to sustain the economic recovery. On fiscal policies, a return to cash budgeting is needed. The approved 2010 budgetary expenditures need to be curtailed, to return to a path toward medium-term fiscal and external sustainability and reduce the economy's vulnerability to shocks. The wage bill needs to be reduced, and while the recent payroll audit presents an opportunity to eliminate ghost workers, political support needs to be forged for additional measures to further reduce the wage bill in 2010 and over the medium term. Urgent steps need to be implemented to address rising systemic banking system vulnerabilities and improve RBZ governance while downsizing it. The business climate—particularly issues pertaining to enforcement of property rights and wage levels—needs to be strengthened significantly.

18. Despite political instability and recent policy slippages, the continuation of a close policy dialogue and targeted TA would help the government build the necessary political consensus for improving economic policies. In this regard, staff sees significant merit in continuing regular staff visits and providing further TA in the targeted areas approved by the Executive Board in May 2009. In addition, staff supports the authorities' request for approval of TA in the area of macroeconomic statistics. There are good prospects for implementing recommendations of this TA in light of the authorities' strong interest in this area and improved funding of the agencies involved in data collection. Furthermore, strengthening macroeconomic statistics would be essential for preparing the necessary technical work related to a comprehensive resolution of Zimbabwe's external payments arrears, when the time comes.

19. In light of the above, staff proposes to keep in place the remedial measures previously taken to address Zimbabwe's overdue financial obligations to the PRGT.

Staff also proposes the continuation of the Fund's technical assistance in the targeted areas, and that macroeconomic statistics be included as one of these areas. It is proposed that the next review of Zimbabwe's overdue financial obligations to the PRGT take place within six months of the Board's consideration of this paper. Accordingly, the following draft decision is proposed for adoption by the Executive Board.

PROPOSED DECISION

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

1. The Fund has again considered Zimbabwe's overdue financial obligations to the PRGT.
2. The Fund regrets that there have been serious setbacks in Zimbabwe's cooperation on policies since the last review. The weakening of policy discipline has recently intensified macro-financial vulnerabilities. The Fund strongly encourages the authorities to implement corrective policies to return to cash budgeting by curtailing the approved 2010 budgetary expenditures, and a path toward medium-term fiscal and external sustainability. The wage bill needs to be reduced, and while the recent payroll audit presents an opportunity to eliminate ghost workers, political support needs to be forged for additional measures to further reduce the wage bill in 2010 and over the medium term. The Fund also urges the authorities to improve the Reserve Bank of Zimbabwe's governance while downsizing it, and to take prompt steps to contain the rising systemic banking risks. The Fund underscores the importance of addressing key weaknesses undermining the business climate and competitiveness, in particular, issues pertaining to the enforcement of property rights and wage levels.
3. The Fund urges the authorities not to use their SDR holdings to finance budgetary expenditures, as this would expose Zimbabwe to additional risks. In this regard, the

authorities should save the SDR holdings to rebuild the depleted reserves. However, if the authorities choose to continue converting their SDR holdings to fund expenditures, this would weaken the track-record of cooperation with the Fund and could complicate the eventual arrears clearance process.

4. The Fund notes that Zimbabwe has been in continuous arrears to the PRGT since February 2001. The Fund welcomes Zimbabwe's payments since the last review.

Cooperation on payments remains poor, however, and the Fund strongly encourages Zimbabwe to continue to make timely payments to the Fund and increase them as the payment capacity improves. The Fund attaches the highest importance to Zimbabwe's prompt settlement of its arrears and urges the authorities to take action to discharge these arrears as soon as possible.

5. The Fund sees significant merit in continuing regular staff visits and its technical assistance in targeted areas. The Fund strongly encourages the implementation of the recommendations from the Fund's technical assistance. In light of the benefits of the Fund's technical assistance in addressing the short-term policy challenges and strengthening the implementation capacity of the authorities, the Fund decides to continue its technical assistance in the targeted areas specified in Decision No. 14327-(09/44) adopted May 4, 2009. In light of the authorities' commitment to undertake significant improvements in macroeconomic statistics, the Fund decides to amend Decision No. 14327-(09/44) adopted May 4, 2009 to add macroeconomic statistics to the targeted areas for Fund's technical assistance.

6. The Fund will again consider Zimbabwe's overdue financial obligations to the PRGT within six months of the date of this decision.

Table 1. Zimbabwe: Selected Economic Indicators, 2008–11

	Estimated		Projected 1/	
	2008	2009	2010	2011
Real GDP growth (annual percent change) 2/	-14.5	4.0	3.3	5.0
Nominal GDP (US\$ millions)	3,929	4,397	5,113	5,570
GDP deflator (annual percent change)	-1.3	7.6	12.6	3.7
Inflation (annual percent change)				
Consumer price inflation (annual average) 3/	5.56E+10	6.5	5.0	5.0
Central government (percent of GDP, measured in US\$)				
Revenue and grants	3.4	22.2	26.6	27.8
Expenditure and net lending	6.5	25.0	31.6	31.2
<i>Of which:</i> cash expenditure and net lending	3.1	20.9	29.5	28.1
<i>Of which:</i> wages and benefits	1.3	9.5	13.0	12.0
Quasi-fiscal activity by RBZ	28.9	0.5	0.0	0.0
Overall balance (including quasi-fiscal activity)	-32.1	-3.3	-5.0	-3.4
Primary balance (including quasi-fiscal activity)	-28.5	0.1	-1.9	-0.2
Cash balance	0.3	1.2	-2.9	-0.4
Money and credit (US\$ millions) 4/				
Broad money (M3)	314	1,276	1,570	...
Net foreign assets	-314	-256	-449	...
Net domestic assets	628	1,531	2,019	...
Domestic credit	140	602	968	...
<i>Of which:</i> credit to the private sector	140	684	1,000	...
Reserve money	7	125	146	...
Velocity (M3)	12.5	3.4	3.3	...
External trade (US\$ millions; annual percent change)				
Merchandise exports	-9.3	-0.5	26.6	3.6
Merchandise imports	24.4	22.9	10.7	-5.9
Balance of payments (US\$ millions; unless otherwise indicated)				
Merchandise exports	1,633	1,625	2,056	2,131
Merchandise imports	-2,630	-3,232	-3,579	-3,367
Current account balance (excluding official transfers)	-945	-1,323	-1,310	-999
(percent of GDP)	-24.0	-30.1	-25.6	-17.9
Overall balance	-624	29	-664	-463
Official reserves 5/				
Gross official reserves (US\$ millions; end-of-period)	6	312	173	173
Gross official reserves (months of imports of goods and services)	0.0	1.0	0.5	0.5
Debt				
Total external debt (US\$ millions; end-of-period) 6/	5,794	7,145	7,662	8,041
(percent of GDP)	147.5	162.5	149.8	144.4
Total external arrears 6/	3,781	4,575	5,132	5,603
(percent of GDP)	96.2	104.0	100.4	100.6

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ This is the "active policy scenario" under staff recommended policies, in EBS/10/##.

2/ In constant 2009 prices.

3/ For 2008, annual average January–September 2008.

4/ Zimbabwe dollar values converted into U.S. dollars at the UN exchange rate at end-2008.

5/ Gross official reserves as reported by the authorities are adjusted for encumbered deposits, securities, banks' current accounts/RTGS, and required statutory reserves.

6/ Includes arrears and amounts for unidentified financing.

ATTACHMENT I:**Zimbabwe—Overdue Financial Obligations to the PRGF-ESF Trust****Decision No.14422-(09/93)
Adopted September 4, 2009**

1. The Fund has again considered Zimbabwe's overdue financial obligations to the PRGF-ESF Trust.
2. The Fund notes that Zimbabwe has been in continuous arrears to the PRGF-ESF Trust since February 2001 and regrets that its arrears to the Trust have increased further. However, the Fund welcomes the authorities' commitment to regular payments to the Fund of about US\$100,000 per quarter starting with the Fund's financial quarter of May-July 2009. The Fund strongly encourages the authorities to continue to fulfill this commitment and urges the authorities to increase these payments in line with the improvement in Zimbabwe's payment capacity. The Fund attaches the highest importance to Zimbabwe's prompt settlement of its arrears and urges the authorities to take action to discharge these arrears as soon as possible.
3. The Fund welcomes a significant improvement in Zimbabwe's macroeconomic policies leading to a nascent recovery, while noting that substantial risks remain amidst a very tense political situation. Considering political risks, governance problems at the Reserve Bank of Zimbabwe, and a weak business climate, the Fund encourages the authorities to build a track record on cooperation on policies to demonstrate a sustained departure from past policies and continue the close policy dialogue with the Fund through quarterly staff visits. The Fund underscores that achieving a sustainable economic recovery in a low-inflation environment will require the continuation of prudent fiscal policy, wage restraint and a comprehensive civil service payroll audit, further improvements in expenditure management, a strengthening of the financial system in the context of the multi-currency monetary framework, and a significant amelioration in the investment climate, including through enforcement of property rights and better governance.
4. In light of the improved cooperation on policies and of the authorities' assurances that they intend to implement most of the recommendations of recent technical assistance missions, the Fund decides to continue its technical assistance in targeted areas specified in Decision No. 14327-(09/44) adopted May 4, 2009. The Fund will again consider Zimbabwe's overdue financial obligations to the PRGF-ESF Trust within six months of the date of this decision.

ATTACHMENT II:**Zimbabwe—Restoration of Voting and Related Rights**

Decision No.14556-(10/16)
Adopted February 19, 2010

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. (EBS/10/23, 2/4/10)

Zimbabwe—Termination of Ineligibility to Use the General Resources of the Fund

Decision No.14557-(10/16)
Adopted February 19, 2010

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. (EBS/10/23, 2/4/10)

ATTACHMENT III:

OVERDUE FINANCIAL OBLIGATIONS TO THE POVERTY REDUCTION AND GROWTH TRUST—TIMETABLE OF REMEDIAL MEASURES¹

Time After Emergence Of Arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the Executive Director concerned. The member's access to Fund resources, including PRGT and HIPC resources, is suspended.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of failure to meet obligations to the Trust and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation to the Trust is overdue.
6 weeks	The Managing Director notifies the member that, unless the overdue obligations are settled promptly, a report of the arrears to the Trust will be issued to the Executive Board. The Managing Director would also consult with and recommend to the Executive Board that a communication concerning the member's situation should be sent to selected or all Fund Governors if the member is not cooperating with the Fund.
2 months	The Managing Director issues a report to the Executive Board requesting that the Board limit the member's use of PRGT resources.
3 months	The Executive Board gives the report substantive consideration. A factual statement noting the existence and amount of arrears is posted on the member's country-specific page on the Fund's external website. This statement also states that the member's access to Fund resources, including PRGT and HIPC resources, is and will remain suspended until the arrears are cleared. A press release is issued on the Executive Board's decision to limit the member's use of PRG Trust resources. A similar press release will be issued when there is a decision to lift the limitation.
6 months	The Executive Board reviews its decision on limitation and may remove the member from the list of PRGT-eligible countries. Reinstatement of the member to the list will require a new decision of the Executive Board. A press release is issued following the Executive Board's decision to remove a member from the list of PRGT-eligible countries. A similar press release will be issued when the member is reinstated on the list.

Time After Emergence Of Arrears	Action
12 months	The Executive Board may issue a declaration of noncooperation with the PRG Trust, depending on the Board's assessment of the member's performance in settling its arrears to the Trust and its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Upon a declaration of noncooperation, the Fund may decide to suspend its technical assistance. The Managing Director may also limit technical assistance provided to a member if in his judgment that assistance is not contributing adequately to the resolution of the problems associated with overdue financial obligations to the Trust.

¹ Based on Decision No. 12545-(01/84), adopted on August 22, 2001.