

July 15, 2010
Approval: 7/22/10

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 10/16-3

12:20 p.m., February 19, 2010

3. Zimbabwe - Restoration of Voting and Related Rights and Termination of Ineligibility to Use the General Resources of the Fund

Documents: EBS/10/23

Staff: Kramarenko, AFR; Powell, FIN; Ogada, LEG; Desruelle, SPR

Length: 30 minutes

Executive Board Attendance

T. Kato, Acting Chair

Executive Directors	Alternate Executive Directors
S. Itam (AE)	M. Majoro (AE) R. N'Sonde (AF), Temporary B. Lischinsky (AG), Temporary S. Duggan (AU), Temporary J. Prader (BE) J. Estrella (BR), Temporary
J. He (CC)	C. Perez-Verdia (CE) P. St-Amant (CO), Temporary A. Ducrocq (FF) S. von Stenglin (GR) S. Krishnan (IN), Temporary N. Giammarioli (IT), Temporary N. Imamura (JA), Temporary S. Rouai (MD), Temporary M. Choueiri (MI), Temporary E. Lambregts (NE), Temporary J. Bergo (NO) A. Lushin (RU) A. Al Nassar (SA) D. Kartikoyono (ST), Temporary
R. Weber (SZ)	D. Heath (UA) J. Talbot (UK)

B. Esdar, Acting Secretary

R. Mowatt, Assistant

Also Present

African Department: M. Atingi Ego, S. Coorey, L. Engstrom, V. Kramarenko, R. Nord, M. Plant, A. Sayeh, G. Verdier. External Relations Department: A. Thomson. Fiscal Affairs Department: J. McHugh. Finance Department: M. Fisher, J. Lin, R. Powell, A. Tweedie. Legal Department: Y. Liu, C. Ogada. Monetary and Capital Markets Department: S. Oppers. Secretary's Department: P. Cirillo. Strategy, Policy, and Review Department: D. Desruelle, G. Fernandez. Senior Advisors to Executive Directors: G. Aboobaker (AE), M. Di Maio (AU), H. Djoufelkit (FF), E. Meyer (UA), A. Ndyeshobola (AE), H. Teferra (AE), G. Ukpong (AE), Z. Zhang (CC). Advisors to Executive Directors: A. De Lannoy (BE), P. Fachada (BR), L. Lephoto (AE), S. Meyer (GR), I. Mwanawina (AE), B. Pereira (AU), V. Pillai (UK), J. Sulemane (AE), D. Tartari (SZ), E. Uanguta (AE).

3. ZIMBABWE—RESTORATION OF VOTING AND RELATED RIGHTS AND TERMINATION OF INELIGIBILITY TO USE THE GENERAL RESOURCES OF THE FUND

Mr. Itam submitted the following statement:

The Zimbabwean authorities are requesting the restoration of their voting and related rights suspended on June 6, 2003 and termination of ineligibility to use the general resources of the Fund. As per my note to Executive Directors dated February 3, 2010, as well as the Minister of Finance's letter dated January 26, 2010, thereto annexed, and the staff paper, Zimbabwe cleared all arrears to the General Resources Account (GRA) in February 2006. In February 2007 staff found that Zimbabwe was not in violation of Article VIII, Section 5, for its reporting of international reserves. The authorities are also committed to resolve the issue of arrears to the Poverty Reduction and Growth Facility-Trust (PRGF-T). The restoration of voting and related rights is important to restore business confidence, avert mounting social pressures and strengthen the reform efforts. It is also critical for the country's re-engagement with the international community and a comprehensive external debt and arrears clearance strategy.

The authorities have recorded significant progress in cooperation with the Fund on policies for macroeconomic stability. They implemented their Short-Term Emergency Recovery Program (STERP) in 2009, which aimed at economic recovery. The protracted deterioration in economic performance has been reversed with moderate economic growth in 2009. Inflation has stabilized at lower single digits. A Macroeconomic Policy and Budget Framework for 2010-2012 (STERP II) is being implemented with focus on consolidating macroeconomic stability and growth. The authorities are fully committed to completing unfinished programs such as legislative reforms, land audit, and national healing. Furthermore, the authorities are forging political consensus for the enforcement of property rights and the rule of law.

In conclusion, the authorities of Zimbabwe need the partnership of the international community, particularly the IMF, in going forward with required reforms; and the restoration of voting and related rights in the IMF and termination of ineligibility to use the general resources of the Fund is a crucial first step.

Mr. Hockin and Mr. Sajkunovic submitted the following statement:

We thank the staff for its report and Mr. Itam for his helpful note and buff statement. We judge that Zimbabwe has met the requirements for the

restoration of its voting and related rights and the termination of ineligibility to use the general resources of the Fund. That being said, we note that significant PRGT arrears remain and we encourage the authorities to continue to make good faith quarterly payments on these outstanding obligations.

As Zimbabwe will continue to be precluded from using GRA resources and will continue to face limits on technical assistance in light of its outstanding PRGT arrears, the decisions to restore Zimbabwe's voting and related rights and terminate its ineligibility to use the general resources of the Fund are largely symbolic at this juncture. This is appropriate. Zimbabwe has made notable improvements in macroeconomic management and policy cooperation with the Fund since February 2009. However, there is still much to be done to put the economy on a sound footing.

Going forward, a sustained track record of improvements in economic management and governance will be essential to further advance the process of normalizing relations with the Fund, particularly as it relates to addressing the PRGT arrears. We therefore see merit in the idea of a Staff Monitored Program (SMP) through which the authorities can continue to build such a track record of policy performance and reform. Thus we would welcome the staff's comments on whether consideration has been given to an SMP.

With these comments we welcome the positive initial steps that the authorities have taken in the last year and encourage continued momentum in the implementation of the reform agenda.

Mr. Prader and Mr. De Lannoy submitted the following statement:

We thank the staff for their concise paper and Mr. Itam for his insightful buff statement.

We support the proposed decision and agree with the staff appraisal. We will therefore limit our remarks to:

- the need to restore Zimbabwe's voting and related rights, as well as to terminate Zimbabwe's ineligibility to use the Fund's general resources;
- the need for the Zimbabwean authorities to work constructively with the Fund and donors to find a solution to the problem of remaining arrears to the PRGT; and

- the need for the Zimbabwean authorities to tackle the enormous socio-economic problems created by the misguided policies of the past decade vigorously and without delay.

We support the restoration of voting and related rights, as well as the termination of ineligibility to use the Fund's general resources. Zimbabwe's problems as a result of economic mismanagement, failed land reform and disturbing actions against the poorest sectors of the society, were self-inflicted. The current unity government has taken initial steps to remedy past misguided policies. Normalizing relations with the Fund would be an important step in the process of further stabilizing the economy. Not restoring Zimbabwe's voting and related rights, as well as not reinstating Zimbabwe's eligibility to use the Fund's general resources, would therefore be counterproductive at this stage, especially in light of the positive moves the authorities have already made so far.

Going forward, we urge the authorities to work constructively with the Fund and donors to find a solution to the problem of remaining arrears to the PRGT. These need to be cleared as soon as possible to completely normalize the relations with the Fund, so that Zimbabwe can again benefit fully from what the Fund can offer in terms of advice and financing.

We also urge the authorities to tackle the enormous socio-economic problems created by the misguided policies of the past decade vigorously and without delay. We agree with the staff's analysis on the major risks to the sustainability of the economic recovery and poverty reduction. Urgent and substantial progress in improving the business climate is necessary to enhance economic growth. The past has shown that Zimbabwe can do much better in terms of economic progress and poverty reduction.

Mr. Weber submitted the following statement:

The economic and political challenges for Zimbabwe remain enormous. Wide-ranging reforms and a track record of strong policy implementation are needed in many areas, in particular in macroeconomic management, fiscal sustainability, and central bank governance. The Fund can play an active role in helping the authorities devise and put in place appropriate policies aimed at stabilizing the economy.

While we feel that any opportunity to support Zimbabwe's economic stability and development should be seized, we are concerned that the present political environment remains too uncertain to be fully conducive to such

efforts. We deplore the slow progress in strengthening the rule of law, in which property rights have an important function.

We support the restoration of Zimbabwe's voting and related rights and the termination of its ineligibility to use the GRA. We take note that Zimbabwe has cleared all its arrears to the GRA and made significant improvements in liberalizing its exchange system and removing foreign exchange restrictions, in data reporting, and in strengthening macroeconomic policies. We also appreciate the improved and enhanced, if still limited, collaboration with the Fund.

We note that while the proposed Decisions provide an encouraging signal on which the authorities should build, their practical consequence is limited. Zimbabwe remains precluded from accessing PRGT and GRA resources. In order to regain its full place in the Fund, we encourage the authorities to address the unresolved issue regarding their significant arrears to the PRGT. Are the payments made recently and those planned on a quarterly basis sufficient to stop the accumulation of further arrears? Does staff have indications on how and in what time frame the authorities intend to settle their arrears to the PRGT?

Mr. Pereira and Mr. Lischinsky submitted the following statement:

We stand ready to support the restoration of voting and related rights of Zimbabwe, as well as the termination of ineligibility to use the Fund's general resources. We share the legal basis put forward by the staff in paragraph 7 (EBS/10/23). We also support Mr. Itam's call for ensuring a re-engagement of Zimbabwe with the international community to strengthen its reform efforts and timely avert enduring and mounting social pressures now exacerbated by this global crisis.

We are pleased to learn that the Short-Term Emergency Recovery Program (STERP) and the Macroeconomic Policy and Budget Framework (STERP II) for 2010-12 has facilitated the needed stability and has brought forward economic growth. Like the authorities, we believe that the key challenge going forward will be to build on necessary support (both domestic and external) for policies that would ensure sustainability of this incipient recovery and improvement in living conditions for the people of Zimbabwe. We note that progress has been made, but claim that consolidating democracy, human rights, and the rule of law remains of the essence.

We observe that Zimbabwe will still be precluded from using GRA resources as long as its PRGT arrears are outstanding. As Mr. Hockin and Sajkunovic rightly pointed out, termination of ineligibility could be largely symbolic. Zimbabwe needs sustained concessional donor financing to support their medium-term growth and poverty reduction objectives. We urge the staff to define with the authorities a plan to eliminate the PRGT arrears. Mr. Itam's reassurance that the authorities are committed to doing so is welcomed. We would also be interested in learning if a Staff Monitored Program could be envisaged as a bridge to expedite future access to concessional resources.

To conclude, we support the proposed decisions set forth in EBS/10/23. We thank Mr. Itam for his helpful buff statement and the staff for a concise paper. We wish the authorities all the best in their future endeavors.

Mr. Lee, Mr. Duggan and Mr. Pereira submitted the following statement:

The people of Zimbabwe have experienced considerable suffering under a regime of poor governance and economic mismanagement, levying a catastrophic social and economic toll. The transition government, while not ideal, has given rise to optimism that the critical failings of the last decade can be unwound and private property rights and the rule of law restored.

Zimbabwe does not have arrears to the GRA and, following recent policy changes, is meeting the substance of its obligations under Article VIII, Sections 2(a) and 3 on exchange restrictions and multiple currency practices. We also accept staff's assurances that the timeliness and accuracy of Zimbabwe's reporting on their international reserves position under the agreed template satisfies the authorities' obligations under Article VIII, Section 5.

We maintain that the test of cooperation with the Fund also encompasses a member's cooperation on basic macroeconomic policy requirements under Article IV that contribute to meeting the objectives of the Fund. While substantial challenges remain, liberalization of the exchange regime and most prices, sizable fiscal adjustment, the elimination of surrender requirements on foreign exchange transactions and constraints on the central bank's quasi fiscal activities have contributed to a rapid restoration of economic stability. We recognize the substantial contribution of IMF staff to shaping this reform effort. In light of this progress, we are satisfied that the economic policies being pursued in Zimbabwe under the leadership of Prime Minister Tsvangirai and Finance Minister Biti are broadly consistent with the authorities' obligations under the Articles. Therefore, we are now in a position

to vote in favor of Decision 1 on the restoration of voting and related rights and Decision 2 on the use of GRA resources.

The Executive Board's approval of the proposed decisions would represent a measured acknowledgement of the progress that has been made under the leadership of Prime Minister Tsvangirai, signaling support for his reform efforts and plans to reengage with the international community.

However, Zimbabwe's arrears to the PRGT trust will still cast a large shadow over their relationship with the Fund, with the three related remedial measures (i) 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 targeted areas approved by the Executive Board—remaining in place until the authorities are current on their obligations. We also note that Zimbabwe will be precluded from using GRA resources and their special SDR allocation will be held in escrow so long as PRGT arrears are outstanding. Therefore, while we welcome the symbolism of Zimbabwe's current quarterly repayment schedule, we urge the authorities to devise a credible arrears clearance strategy.

More fundamentally, questions remain about the constraints to reform under current political arrangements; the sustainability of the fragile political agreement; the governance of key institutions such as the RBZ; and whether commitments to land reform, the enforcement of private property rights and restoration of the rule of law will be converted into meaningful action. The Parliament's failure in December to approve critical reforms to the governance of the RBZ recommended by the Fund's technical experts—including the establishment of an oversight board chaired by a non-Executive member was a major setback.

Therefore, while welcoming the progress that has been made, we also urge the transition government to take additional substantive steps to demonstrate its commitment to reform, consistent with the recommendations arising from the 2009 Article IV report and the Fund's targeted technical assistance.

Mr. Bakker submitted the following statement:

We agree with staff that Zimbabwe has met the requirements for restoring voting and related rights and terminating the ineligibility to use general resources. Zimbabwe has settled its arrears to the GRA, and largely addressed our concerns pertaining to Article VIII, on both exchange rate

restrictions and multiple currency practices, as well as on data reporting. The restoration of voting rights constitutes an important signal from the Fund that the authorities are making steps in the right direction.

We also agree with staff's proposal to retain the declaration of non-cooperation and the partial suspension of Fund technical assistance. We note that Zimbabwe has substantial arrears to the PRGT. We encourage the authorities, with the assistance of donors, to step up efforts to reduce these overdue obligations.

We welcome the improvement in macroeconomic performance, but much more needs to be done to address the huge economic and social challenges. It is positive that inflation has been brought under control, and that financial intermediation has started to improve. Both are essential to help reversing Zimbabwe's lost decade. However, more needs to be done to put the economy on a sustainable footing, including by strengthening the enforcement of property rights, fostering stronger political agreement, resolving governance problems at the central bank and exercising responsible wage policies. We urge the authorities to make tangible progress in these areas, which will help to attract the needed donor financing.

A clear path towards arrear clearance and further improvement in key policies would pave the way for a further normalization of the relationship between the Fund and the authorities.

Mr. Alazzaz submitted the following statement:

I thank the staff for the concise paper and Mr. Itam for his helpful buff statement. I support the proposed restoration of Zimbabwe's voting and related rights and termination of ineligibility to use the general resources of the Fund. Indeed, this chair has supported similar proposals in 2006 and 2007 in view of Zimbabwe's clearance of its arrears to the General Resources Account in 2006.

That said, Zimbabwe's outstanding arrears to the PRGT remain a concern and I urge the authorities to strengthen their efforts to eliminate those arrears in a timely manner. In this regard, the authorities' quarterly payment plan and the payment of \$200,000 this month are steps in the right direction.

On the policy front, I am encouraged by the significant progress in cooperation with the Fund on policies for macroeconomic stability as detailed in the staff paper and Mr. Itam's buff statement. Indeed, the authorities have

taken a number of welcome measures, including the implementation of several TA recommendations of FAD and MCM. However, the challenges facing Zimbabwe are still daunting and I look forward to further improvement in cooperation between Zimbabwe and the Fund to help address those challenges.

Mr. von Stenglin and Ms. Meyer submitted the following statement:

We thank the staff for their report and Mr. Itam for the information he provided. We agree with the staff assessment and concur with the conclusion to lift the suspension of Zimbabwe's voting and related rights and the declaration of ineligibility to use the Fund's general resources. We also agree with the staff that the declaration of non-cooperation and the partial suspension of Fund technical assistance cannot be lifted as PRGT arrears are still outstanding. We understand that no request for the use of Fund resources will be recommended or approved by the Fund as long as Zimbabwe is in arrears to the PRGT and other official creditors. In this context, we urge the authorities to give priority to clear PRGT arrears as soon as possible.

Furthermore, we call on the authorities to seek close co-operation with the staff in the areas of technical assistance where the suspension was partially lifted in May 2009. We welcome the progress made in the area of payment systems in foreign currency and foreign exchange transactions and regret to learn from the staff paper about the still prevailing weaknesses with regard to central bank governance and the banking system. The authorities should spare no effort to regain the competitiveness of their economy and to conduct a sound fiscal policy with a view to a sustainable economic recovery and poverty reduction.

Mr. He and Mr. Zhang submitted the following statement:

We thank staff for the concise and well-focused report and Mr. Itam for his informative buff statement and his note to Executive Directors dated February 3, 2010.

We support the restoration of Zimbabwe's voting and related rights and the termination of ineligibility to use the General Resources of the Fund.

The prolonged suspension of voting rights without solid basis and the failure of the Board to state the further actions required for Zimbabwe in order for the sanctions to be lifted have, to some extent, damaged the Fund's image. This being said, we welcome the authorities' efforts in successfully addressing

the concerns some directors raised four years ago, including concerns on the exchange restrictions, multiple currency practices and data reporting. Furthermore, Zimbabwe's cooperation with the Fund on policies has improved. The authorities are firmly implementing the Fund's TA recommendations and other policy advice. They are looking forward to the support of the IMF and the rest of the international community in taking forward their reform agenda. The Zimbabwe's voting and related rights eligibility to use general IMF resources is critical.

Mr. Bergo and Mr. Bartkus submitted the following statement:

We thank staff for the report and Mr. Itam for his helpful buff statement.

We would argue that the IFIs should, as a general rule, base their decisions on objective and rules-based criteria. We can support the proposed decision to restore Zimbabwe's voting and related rights, and to terminate its ineligibility to use the general resources of the Fund. Zimbabwe has cleared its arrears to the GRA and also made efforts to address the previous concerns of Executive Directors related to exchange restrictions and multiple currency practices. While data reporting on reserves remains sporadic and needs to be further strengthened, staff was able to use this data for Article IV assessment purposes. Therefore we conclude that the formal conditions for lifting the sanctions have been met.

At the same time, the restoration of voting rights must be seen as a strong political signal, demonstrating the international community's support of further reform efforts in Zimbabwe to address the remaining enormous challenges and to achieve viable progress in implementing the Global Political Agreement. Like Messrs Prader and Weber, we urge the Zimbabwean authorities to increase their efforts in strengthening macroeconomic and financial management, as well as the institutional framework. Regarding the latter, we fully share the views of Messrs. Lee, Duggan, and Pereira on the necessity to improve the governance of the central bank, and also on the need to make progress in restoring the rule of law. We also note that addressing the arrears to the PRGT would help to further normalize relations with the Fund, creating better opportunities for the Fund to assist Zimbabwe in dealing with its challenges.

Mr. Giammarioli submitted the following statement:

We thank staff for the concise report and Mr. Itam for his helpful buff statement.

Zimbabwe has settled its arrears to the General Resources Account (GRA), it no longer has outstanding obligations to the GRA, and it has addressed concerns pertaining to exchange restrictions and multiple currency practices subject to the Fund's jurisdiction as well as to the possibility of a breach of the obligations related to data reporting. On this basis, we support the request by the Zimbabwe's Minister of Finance to restore the voting and related rights and to terminate Zimbabwe's ineligibility to use the general resources of the Fund.

The government of national unity's Short-Term Recovery Plan (STERP) has represented a major positive step in tackling the difficult economic and humanitarian crises faced by Zimbabwe since several years. While we acknowledge the recent achievements in terms of macroeconomic stabilization and growth, we underscored the slow progress and setbacks in legislative reforms, land audit, enforcement of property rights, and the rule of law. Therefore we urge the authorities to swiftly take action and renew their commitment to reform.

The positive signal to the international community represented by the restoration of voting and related rights should be accompanied by a comprehensive external debt and arrears clearance strategy. In this respect, we recommend the authorities to define a clear timeframe to settle their arrears to the PRGT. This would facilitate the normalization of the relationship with the Fund and strengthen the authorities' reform agenda.

Mr. Chua and Mr. Kartikoyono submitted the following statement:

We thank staff for their concise paper and Mr. Itam for his useful buff statement. While Zimbabwe has been in continuous arrears to the PRGT, we concur with staff on the following points.

Zimbabwe has settled its arrears to the GRA so as to sort out the breach of obligations.

The key objective of the sanctions has been achieved. Zimbabwe's exchange system has been liberalized considerably, the multiple currency practices have been eliminated, and the authorities have begun to comply with

its obligations for data reporting on international reserves based on a template agreed with staff.

Since early 2009, Zimbabwe's macroeconomic performance has gradually improved owing to the authorities' substantive policy implementation and reforms. More importantly, the relations of Zimbabwe's authorities with the Fund have been progressing well, and the authorities have implemented a number of the Fund's recommendations on several areas of development.

We therefore support proposed decision to restore the voting and related rights of Zimbabwe, as well as the termination of its ineligibility to use the Fund's general resources. We note that this step is critical for the authorities to unlock the international community supports and to restore confidence to the future of the country.

While the risks to the sustainability of economic recovery and poverty reduction remain, we note that the authorities have successfully embarked a series of basic policies that are needed for its economic development going forward. It is obvious that the continuation of this progress needs to be preserved and enhanced. The reengagement of Zimbabwe authorities with the international community would unquestionably be valuable in paving the way for implementation and execution of structural reforms, particularly for laying out a comprehensive external debt and arrears clearance strategy. As such, we encourage staff's further engagement in the form of Technical Assistance to improve the authorities' capacity in several key targeted areas, including external debt management, the RBZ operation and governance, and government fiscal management.

Mr. Virmani and Mr. Krishnan submitted the following statement:

We have read the staff paper proposing the restoration of voting rights and termination of ineligibility to use the general resources of the Fund for Zimbabwe and Mr Itam's buff statement. This chair has consistently supported the restoration of voting rights since the essential pre condition of clearance in full of arrears to the GRA was fulfilled in February 2006. Hence, we are in a position to support the two proposed decisions.

We agree with Mr Itam that the restoration of the voting rights is a crucial first step to enable a broader access to the international market and set the tentative economic recovery in Zimbabwe on a firmer path. The staff paper highlights some of the risks to the sustainability of the recovery. While

the proposed decisions may help alleviate some of the risks, we would urge that the authorities also act effectively to overcome the key risks and in particular take early steps to reform the governance of the Reserve Bank of Zimbabwe and improve the business climate in general, including the rule of law. We wish the authorities well in their efforts.

Mr. Pérez-Verdía submitted the following statement:

A decade of economic stagnation, high inflation and increasing poverty left a heavy burden for Zimbabwe's population. The accumulation of arrears to the Fund, beginning in February 2001, was a symptom of this decline.

The government of national unity has made notable advances over the last year. We are pleased to read in Mr. Itam's helpful note and in the staff report that progress is being made in the fiscal front and that the adoption of a multi-currency system, the liberalization of prices and the elimination of surrender requirements on foreign exchange transactions have resulted in increased revenue, the control of inflation and renewed financial intermediation. We take note on the engagement of Fund technical assistance in these particular areas.

However, we are puzzled by the seemingly slow progress in other relevant areas. In particular, improvements in governance and transparency of the RBZ, already signaled as an urgent task by Directors during the May 2009 Article IV consultation, are still lacking. We would appreciate staff's comments on the specific impediments to this particular reform. Improvements to the business climate, banking system vulnerabilities and wage increases are also areas that need stronger commitment.

We welcome the opportunity to advance in the normalization of relations between the Fund and Zimbabwe and support the restoration of Zimbabwe's voting and related rights. We also look forward to further engaging the Authorities in order to honor other outstanding debt obligations, including outstanding arrears to the PRGT and to other IFIs.

Mr. Rutayisire submitted the following statement:

We welcome today's discussion on the restoration of Zimbabwe's voting and related rights and the termination of its ineligibility to use the Fund's general resources. We thank staff for the report and Mr. Itam for his

helpful buff statement and insightful note to Executive Directors dated February 3, 2010.

The staff assessment, confirmed by the Zimbabwean authorities in their letter to the Managing Director on January 26, 2010, indicates that Zimbabwe has cleared in full its arrears to the GRA in February 2006 and remedied the breach of obligations that led to the suspension of its voting rights under Article XXVI, Section 2. It has no outstanding obligations to the GRA that could result in reemergence of GRA arrears. Furthermore, staff assessment shows that Zimbabwe has addressed the concerns expressed by Executive Directors over breach of obligations under Article VIII, Sections 2(a) and 3 on exchange restrictions and multiple currency practices as well as on the possibility of breach of Article VIII, Section 5 on data reporting. Based on these satisfactory corrective actions, we strongly support the proposed decisions on restoring Zimbabwe's voting and related rights and terminating its ineligibility to use the general resources.

We note the authorities' view that the restoration of voting and related rights is a major confidence building measure and a way to favor the implementation and execution of a comprehensive external debt and arrears clearance strategy. We join others in calling for a rapid resolution of Zimbabwe's PRGT arrears, and ask Management and staff to elaborate with the authorities an arrears clearance mechanism to this end.

We are heartened by the considerable progress in macroeconomic performance achieved since early 2009 under the Inclusive Government, notably through the implementation of fiscal adjustment, revenue-enhancing measures, adherence to cash budgeting, liberalization of the exchange system and prices, and efforts towards financial re-intermediation. The authorities should be encouraged to pursue their policy reforms and complete their ongoing programs of legislative reforms, land audit, improvement in business climate and national healing. We welcome the assurance given by Mr. Itam that the authorities are forging political consensus for the enforcement of property rights, the rule of law, and the governance of the RBZ. Like Mr. Pereira and Mr. Lischinsky, we support Mr. Itam's call for a prompt re-engagement of Zimbabwe with the international community to strengthen its reform efforts and avoid adverse pressures in this difficult global environment. Full re-engagement with the Fund will be critical in this regard. Can staff elaborate on how to best arrive at this objective? Can an SMP be envisaged at this juncture?

We wish the authorities success in their endeavors, and the people of Zimbabwe better living conditions and social prospects going forward.

Mr. Talbot and Mr. Pillai submitted the following statement:

Zimbabwe is slowly emerging from a period of poor governance and exceptional economic mismanagement. In this regard, we welcome the significant improvement in macroeconomic management through the recent reforms led by Finance Minister Biti. IMF Staff have also played an important part in setting Zimbabwe back on the path to stability through their wise counsel and provision of Technical Assistance.

We therefore thank staff for the paper and for their bilateral discussions with us. With arrears to the GRA cleared, and the breach of obligations under Article VIII largely addressed, we can support restoration of Zimbabwe's voting rights in the IMF and the lifting the declaration of ineligibility to use the Fund's general resources. However, Zimbabwe will be unable to access GRA resources until arrears to all official creditors are ready to be cleared and we would ask the IMF to make this point clear in the external communication of this Board Decision.

Zimbabwe also remains ineligible to use PRGT resources. We concur with other Directors that Zimbabwe needs to establish a credible arrears clearance strategy in this regard. Could staff clarify whether a formal Board decision is required to restore PRGT eligibility?

We agree with the staff that, despite recent progress, there remain considerable risks to the economic outlook and the political situation remains fragile. In the near-term, we would like to see staff continue with their efforts to provide TA. Mr Hockin and Sajkunovic, raise the issue of whether there should be a Staff Monitored Program. What progress would the staff like to see before such a program would be possible?

Mr. Ducrocq submitted the following statement:

Zimbabwe addressed most of the concerns raised by Executive Directors in March 2006, preventing them from supporting the restoration of the voting and related rights and the termination of its ineligibility to use the Fund's general resources, even though Zimbabwe had cleared in full its arrears to the GRA at that time:

- possibility of a breach under Article VIII, sections 2(a) and 3: since early 2009, Zimbabwe's exchange system has been significantly liberalized and exchange rates have been unified. The authorities intend to deal with one remaining exchange restriction as part of their efforts to regularize relations with external creditors;
- possibility of a breach under Article VIII, section 5: the authorities began to report international reserves data to the Fund consistent with the agreed template in 2007 and reporting delays have been reduced. The staff's report indicates that Zimbabwe has not been found in breach of its obligations under Article VIII, section 5;
- poor economic performance: we acknowledge that Zimbabwe's economic policies do not provide a basis for determining whether the GRA sanctions should be lifted. We also note that Zimbabwe's macroeconomic performance has improved since early 2009. However, economic challenges remain enormous and a strong and sustained commitment to economic reforms is needed from the authorities.

Against this background, we are ready to join the consensus and support the proposed decisions on the restoration of voting and related rights and the termination of ineligibility to use the general resources.

We take note, however, that Zimbabwe will still be precluded from using GRA and PRGT resources as long as its PRGT and official creditors' arrears are not cleared. Therefore, we encourage the authorities, in collaboration with the international community, to accelerate the implementation of the road map towards the clearance of these arrears in an orderly and consistent manner.

Lastly, we note that the political situation remains difficult and uncertain, including in the area of macroeconomic management and collaboration between the Ministry of Finance and the central bank. We therefore encourage Management and EXR to practice caution in their communication and avoid any misperception of the signal that the IMF and its shareholders want to convey through this decision.

Ms. Agudelo and Mr. Estrella submitted the following statement:

In February 2006, the authorities of Zimbabwe cleared all arrears to the General Resources Account (GRA) of the Fund. More recently, as the staff have emphasized, and since early 2009, Zimbabwe's exchange system has

been significantly liberalized and exchange rates have been unified. The authorities have largely addressed exchange restrictions and multiple currency practices. Even more, data reporting delays have been reduced to 3–6 months, and the possibility of a breach of obligation under Article VIII, Section 5 on data reporting has also been addressed.

Therefore, we support the proposed decision to restore Voting and Related Rights of Zimbabwe, suspended in June 2003. We believe this decision will help build confidence in Zimbabwe and pave the way for the authorities to implement a comprehensive macroeconomic and structural reform agenda as well as an external debt and arrears clearance strategy.

Having said that, we encourage the authorities to continue to meet its obligations under the Poverty Reduction and Growth Facility–Trust (PRGF-T), since substantial arrears to the PRGF-T remain (SDR 89.5 million at end-2009).

We welcome the signing of the Global Political Agreement, the subsequent constitution of an Inclusive Government on February 16, 2009, and the authorities' launching of the Short-Term Emergency Recovery Program (STERP) in March 2009. As has been emphasized by the authorities, the Inclusive Government has been implementing important policy reforms to ensure reduction in inflation and a substantial increase in capacity utilization and the restoration of peace. We welcome the intention of the Inclusive Government to work on a more comprehensive medium to long-term development plan.

Mr. Yamaoka and Mr. Imamura submitted the following statement:

We thank the staff for their report and Mr. Itam for his helpful statement.

We welcome the improvements in the political situation in Zimbabwe under the coalition government formed last year and also in policy implementation by the authorities in key fiscal and economic areas. Despite uncertainties and daunting challenges going ahead, we encourage the authorities to continue their efforts to stabilize the economy.

We support the restoration of voting and related rights and the termination of ineligibility to use the general resources, given that we see that justifiable reasons to continue the sanctions no longer exist based on our assessment as follows:

- The GRA arrears had already been cleared fully in 2006.
- The authorities' cooperation to provide economic data, particularly data on international reserves as highlighted by doubts about the source of the fund used to clear the arrears to GRA, has been broadly improved in line with the spirit of the conditions to lift the sanctions, discussed, though not agreed, by the Executive Board in February 2007.
- The Executive Board's concerns on the possibility of a breach of other obligation under Article VIII have been largely addressed.

We expect that the Executive Board's approval of the proposed decisions would provide the country with a good opportunity to normalize its engagement with the international community, including the Fund. In this context, we strongly encourage the authorities' efforts to clear remaining arrears to PRGT.

We wish the authorities success in their future endeavors.

The Acting Chair (Mr. Kato) invited the representative of Zimbabwe, Mr. Biti, Minister of Finance of Zimbabwe, to address the Executive Board.

The Minister of Finance of Zimbabwe (Mr. Biti) made the following statement:

On behalf of the Zimbabwean government, I wish to thank the Fund for responding positively to our request to consider the restoration of Zimbabwe's voting and related rights with the IMF, and extending an invitation to us to attend this Executive Board meeting. We wish to assure the Board that Mr. Itam is fully authorized by the Zimbabwean authorities to represent the country and present its views as the Board deliberates upon Zimbabwe's request.

The restoration of our voting and related rights is a critical step in our re-engagement efforts with the international community. Zimbabwe requires the support and cooperation of the Fund and the rest of the international community to help stabilize and improve its macroeconomic framework, put the economy on a sustainable growth trajectory, strengthen our reform efforts, formulate and implement a comprehensive external debt and arrears clearance strategy, and support our poverty reduction efforts.

Our request is premised on the progress thus achieved in clearing all arrears to the General Resources Account (GRA) in February 2006, staff's conclusion that Zimbabwe has not been found to be in violation of Article VIII, Section 5 on reporting of international reserves; and has addressed the exchange restrictions and multiple currency practices. We are also committed to addressing the PRGT arrears, as demonstrated by the recent quarterly payments. The country's economic prospects are improving with the implementation of our reform program, which has benefited greatly from the recommendations of the limited TA which the Board approved on May 4, 2009. We appreciate and look forward to invaluable policy advice from the Fund.

I wish to assure Executive Directors of our commitment to proceed with the policy actions and reforms necessary to realize our development agenda, and request a positive consideration of our request.

The Acting Chair (Mr. Kato) invited the Board to pose questions to the representative of Zimbabwe and his delegation. After noting that there were no questions, he excused the delegation from the Executive Board.

Mr. Lushin made the following statement:

We support both decisions proposed in the staff paper. We are of the view that Zimbabwe's voting and related rights as well as eligibility to use the Fund's general resources should have been restored four years ago following the clearance of arrears to the GRA by Zimbabwe. A four-year delay in adoption of this decision is regrettable.

Looking forward, we note that interaction between the Fund and Zimbabwe will still be limited owing to the existence of PRGT arrears. This is unfortunate given the enormous challenges facing Zimbabwe after many years of economic mismanagement. We call upon the authorities to further improve their macroeconomic performance and address the governance issues. This is necessary so that the authorities could constructively engage the Fund and donors in finding a solution to the problem of PRGT arrears. This, in turn, would clear the way for Zimbabwe to a full-fledged Fund-supported program that will be indispensable in addressing the country's development needs and reducing poverty

Mr. Rouai made the following statement:

We thank the honorable representatives from Zimbabwe. We thank staff for the concise report and Mr. Itam for his helpful buff statement and we support the proposed decisions to restore of Zimbabwe's voting and related rights and terminate its ineligibility to use GRA resources. Like other Directors, however, we agree on the limited practical effect of the proposed decisions since Zimbabwe remains precluded from Fund's support.

In this regard, we welcome the continued cooperation with the Fund and the improvement in macroeconomic performance since early 2009. We remain, however, concerned by Zimbabwe's outstanding arrears to the PRGT and we encourage the authorities to strengthen their efforts with the objective of eliminating these arrears in a timely manner. We would appreciate staff elaborations on the possible use of SDR allocation, together with donors' support, as part of the strategy of reengagement in Zimbabwe detailed in the joint IMF/WB/AfDB note of last June.

We note from recent press reports the promulgation of new rules requiring foreign investments to have 51 percent local ownership and we are concerned about the implications of such rules on the promotion of FDIs. The staff's clarifications are welcome.

Finally, we note that the Board decision on Zimbabwe's overdue financial obligations to the PRGT will expire soon and we wonder why staff did not combine the planned review with today's discussions.

Mr. Heath made the following statement:

My authorities are pleased that Zimbabwe has corrected the breaches in its obligations under the IMF's Articles, notably Article VIII, obligations on foreign exchange restrictions and the commitments on data reporting. We encourage the Zimbabwean authorities to resolve the outstanding exchange restriction under its inactive payments arrangement with Malaysia, hopefully expeditiously.

As Mr. Itam highlights, economic governance in Zimbabwe has improved markedly, and the Prime Minister's and Finance Minister's leadership has demonstrated that the credibility is there to take tough measures. The government has reined in hyperinflation, implemented a significant fiscal adjustment, liberalized prices, and unified and liberalized the exchange rate system. This dramatic improvement in economic governance

gives us confidence that Zimbabwe will continue its economic reform program going forward. I have valued my discussions with Mr. Biti over many months, and we appreciate his presentation again here today.

We therefore support the restoration of Zimbabwe's voting rights and the termination of its ineligibility to use general resources of the Fund due to the breach in its obligations under Article VIII. We also concur with the continued declaration of non-cooperation and partial suspension of Fund technical assistance given the continued PRGT arrears.

We note that Zimbabwe's share of the SDR allocation could finance PRGT arrears clearance once a plan for clearing MDB arrears is finalized. Finally, we urge the Zimbabwe authorities to continue to address the economic challenges the country faces, including central bank independence, fiscal pressures and sustainability, banking system vulnerabilities, and an uncertain legal environment. In due course, we look forward to a reaching of agreement with the external creditors.

Ms. Choueiri made the following statement:

We thank the staff for the clear report and Mr. Itam for his helpful buff statement. We support the proposed restoration of Zimbabwe's voting and related rights and termination of ineligibility to use the general resources of the Fund. Indeed, our chair had supported similar proposals in 2006 and 2007 in view of Zimbabwe's clearance of its arrears to the General Resources Account in 2006.

Our decision was based on two facts: First, that Zimbabwe was no longer in breach of those financial obligations under the Articles of Agreement that gave rise to the decision to suspend voting rights; and second, that it no longer had any outstanding obligations to the GRA that could result in arrears re-emerging. These circumstances still apply today. Nonetheless, we are concerned that Zimbabwe still has substantial arrears to the PRGT, and we strongly encourage the authorities to work on eliminating these arrears in a timely manner.

We welcome the significant improvement in macroeconomic performance since early 2009 as well as the important progress in cooperating with the Fund on policies for macroeconomic stability. We encourage the authorities to pursue and deepen this cooperation to help address the important risks facing the sustainability of the economic recovery, which were just

mentioned by Mr. Heath. We welcome the commitment of the authorities in this regard, as just reiterated by H.E. Minister Biti.

Mr. von Stenglin noted that his chair's endorsement of the proposed decision represented an appreciation of the progress that had been made by the government under the leadership of the Prime Minister and the Finance Minister. Board approval would send a strong signal of support for their reform efforts and plans to reengage with the international community. Management and staff were to be commended for their efforts in assisting the government of Zimbabwe to embark on the needed reform path. Given the difficult fragile political situation in Zimbabwe, he supported Mr. Ducrocq's notion that the Fund should carefully communicate the news of the decision. Any misperception should be avoided. Mr. Itam should also convey an appropriate signal to the authorities.

Mr. Prader agreed that the press release had to be cautious. At the same time, one could not underestimate the importance of the restoration of voting rights, and he therefore disagreed with the view that it had little practical consequence. The decisions were not only of symbolic importance, but had a potentially large leverage effect in terms of support from the donors. As civil servants, the Board tended to underestimate the importance of its actions.

The Acting Chair (Mr. Kato) agreed with Mr. Prader, noting that that was why Minister Biti had taken the trouble to come from Zimbabwe to attend the Board meeting. He also clarified that the press release would be on a factual basis.

The staff representative from the African Department (Mr. Kramarenko), in response to comments and questions from Executive Directors, made the following statement:

There were a number of questions related to the consideration of an SMP. First of all, the purpose of an SMP is to help member countries establish a policy implementation track record for a Fund financing arrangement. Therefore, an SMP would need indications of donor support for an eventual Fund-supported program, which would in turn require that arrears to official creditors be cleared or programmed to be cleared. The SMP would also possibly involve some need for donor financing as well, to help the authorities achieve their stated objectives.

Another important requirement for an SMP is that a consistent policy package needs to be in place. In this regard, the authorities would need to achieve a significant strengthening in RBZ governance before a consistent package could be actually put in place. Obstacles to progress in this area are of a political nature, as there is no agreement among the government coalition partners on how to resolve RBZ governance issues, and the internal discussion on that issue is continuing.

There were questions about plans to clear PRGT arrears. Currently the authorities are working on a comprehensive strategy for arrears clearance, including clearance of arrears to the PRGT, and the forthcoming Article IV mission which will take place in early March will assist the authorities in the preparation of such a strategy.

There was also a question related to possible use of SDR resources for the clearance of arrears. First of all, it should be noted these resources are non-concessional, so all the ramifications related to debt sustainability going forward should be taken into account. Nevertheless, there are good reasons for potentially using the SDR allocation if needed as bridge financing in the process of arrears clearance.

There was also a question about why this discussion was not combined with the discussion of overdue financial obligations. In staff's view, it would be important to inform the Board about recent policy challenges. The Article IV consultation is coming up in March, so we thought we would draft a more substantial report and thus be in a better position to assess the authorities' policies immediately after the Article IV mission. Therefore, a request for a postponement of the consideration of overdue obligations to the PRGT will be sent to the Board relatively soon, and the report will be issued shortly after the Article IV mission.

The staff representative from the Finance Department (Mr. Powell), in response to comments and questions from Executive Directors, made the following statement:

There was one question on the finance side, asking whether payments that have been made recently and those planned on a quarterly basis are sufficient to stop the accumulation of further arrears to the PRGT. Going back to April 2009, the authorities indicated a willingness to pay \$100,000 per quarter to the Fund in token payments, starting with the Fund's financial quarter May to July 2009.

Since that date, Zimbabwe's overdue obligations to the PRGF, now the PRGT, have remained broadly stable at SDR 89.3 million. No new principal payments are falling due to the Trust, so forthcoming obligations reflect interest on overdue PRGT obligations which are charged at the SDR rate, which is currently 0.23 percent, as well as net SDR charges and assessments. The planned quarterly payments—\$100,000 per quarter—are currently projected to meet these forthcoming obligations and avoid any increase in

arrears. Should interest rates rise, however, payments would need to increase to avoid any further increase in the outstanding arrears.

The staff representative from the Legal Department (Mr. Ogada), in response to a question Mr. Talbot had asked in his gray, said that a formal board decision would indeed be required to restore Zimbabwe's PRGT eligibility. Under the procedures for addressing overdue financial obligations to the PRGT, a decision by the Executive Board carried by majority of the votes cast was required to reinstate a member to the PRGT list. Such a decision on reinstatement would be made in accordance with the Board decision that the Board took last month on Eligibility to Use the Fund's Facilities for Concessional Financing.

Under that decision, Mr. Ogada continued, a member that had been removed from the PRGT eligibility list in the context of sanctions imposed for overdue obligations to the PRGT, such as Zimbabwe, might be considered for reentry into the list, provided that it did not meet the criteria for graduation from the PRGF eligibility list.

Mr. Talbot remarked that while the point was taken that the press release should be kept factual, it was also important to understand the message that it would provide to the outside world. In that press statement it should therefore be made clear that, although the declaration of ineligibility to use GRA resources would be lifted, Zimbabwe was actually still ineligible to use GRA resources because of their arrears position.

Mr. Itam made the following statement:

First, I simply want, as the honorable minister did, to thank Directors for considering their request. But, like Mr. Prader has said, I think one has got to be cautious about the press release. Zimbabwe and the world look at this as an important step. One should be careful, while being factual, to not at the same time confuse the public. I think the Zimbabweans certainly will go along with indicating the rules of the Fund that need to be followed. At the same time, let us not minimize the importance that the country attaches to the decision, as evidenced by the Minister having flown all night to come for a meeting and leave again tomorrow.

Speaking on behalf of the countries that I do represent, we welcome this move. The challenges remain enormous, and the debt strategy should be sufficiently comprehensive to clearly address the PRGT arrears as well as other official arrears. But this cannot be done by Zimbabwe alone; it has got to be done in concert with the international community, recognizing that this is the next logical step of this decision. Certainly neighboring countries, particularly led by South Africa and others, look forward to working closely with Zimbabwe on moving forward in addressing the challenges.

Mr. Weber remarked that many Directors, including himself, had called for more detail on how the authorities intended to tackle the PRGT arrears and what the strategy mentioned in the report would entail. Of particular interest would be some indication of the time frame over which this would happen. He further concurred that communication was important. Many issues had been raised during the Board meeting, including the call for arrears clearance and the call to tackle governance issues, and the message should therefore be well calibrated to reflect those things also.

The Acting Chair (Mr. Kato) responded that, as staff had explained, a mission was scheduled to visit Zimbabwe in March, and through that engagement the staff would obtain an updated view of the authorities' thinking on the arrears clearance strategy. Zimbabwe had arrears of more than \$1 billion to other IFIs, and given the available financial reserves at hand, a detailed, comprehensive strategy would be required. The Fund was in a position to assist the authorities in drawing up such a strategy, and the Board would be updated on developments on a timely basis.

The Executive Board took the following decisions:

Zimbabwe—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. (EBS/10/23, 2/4/10)

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

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

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)

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

APPROVAL: July 22, 2010

SIDDHARTH TIWARI
Secretary