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TURNAROUND ELIGIBILITY NOTE

FOR

THE REPUBLIC OF ZIMBABWE

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Southern Africa Country Department 1
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CURRENCY EQUIVALENT

Currency Unit = USD
US$1 = US$1

GOVERNMENT FISCAL YEAR
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ABBREVIATIONS AND ACRONYMS

ACR	Anglo Consolidated Resources
AfDB	African Development Bank
AfXMB	African Export and Import Bank
AIDS	Acquired Immune Deficiency Syndrome
AML	Anti-money Laundering
ANC	Africa National Congress
BEFSIP	Business Environment, Financial Sector and Investment Policy
BRICS	Brazil, Russia, India, China and South Africa
CA	Continuous Assessment
CAE	Country Assistance Evaluation
CDC	UK Development Finance Institution (formerly "Commonwealth Development Corporation")
CPIA	Country Policy and Institutional Assessment
DEMPA	Debt Management Performance Assessment
DFID	Department for International Development
DRM	Disaster Risk Management
ECD	Early Childhood Development
EIB	European Investment Bank
EU	European Union
FTLRP	Fast Track Land Reform Programme
FPR	Fidelity Printers and Refinery
FTC	Federal Trade Commission (United States)
FY	Fiscal Year
GCSE	General Certificate of Secondary Education
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
GoZ	Government of Zimbabwe
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IEE	Indigenization and Economic Empowerment Act
IFC	International Finance Corporation
IFI	International Finance Institution
IMF	International Monetary Fund
IPRSP	Interim Poverty Reduction Strategy Paper
ISN	Interim Strategy Note
NARIC	National Academic Recognition and Information Center
NDP	National Democratic Party
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PPP	Public Private Partnership
RBF	Results-Based Financing
ROSC	Reports on the Observance of Standards and Codes
SADC	Southern African Development Community
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SME	Small and Medium-sized Enterprises
SMP	Staff Monitored Program
SOE	State-Owned Enterprise
SPB	State Procurement Board
STEAM	Science, Technology, Engineering, Arts, and Mathematics
TA	Technical Assistance
TAR	Turnaround Regime

TB	Tuberculosis
TF	Trust Fund
UDI	Unilateral Declaration of Independence
UK	United Kingdom
UN	United Nations
UNICEF	United Nations Children's Emergency Fund
UNODC	United Nations Office on Drugs and Crime
US	United States
USAID	United States Agency for International Development
VAT	Value Added Tax
WBG	World Bank Group
ZANU-PF	Zimbabwe African National Union – Patriotic Front
ZAPU	Zimbabwe African People's Union
ZEC	Zimbabwe Electoral Commission
ZERT	Zimbabwe Economic Revival and Transformation Program
ZIDERA	Zimbabwe Democracy and Economic Recovery Act
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
UNDP	United Nations Development Programme

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REPUBLIC OF ZIMBABWE
TURNAROUND ELIGIBILITY NOTE

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EXECUTIVE SUMMARY

1. **This note presents the case for Zimbabwe to access exceptional support under the IDA 17 Turn-around Regime (TAR).** It summarizes recent developments, presents Zimbabwe's turn-around profile, makes the case for Zimbabwe's eligibility under the IDA17 TAR, and highlights opportunities, risks, and directions for future support[1]. Providing exceptional IDA support now would capitalize on a window of opportunity to help Zimbabwe transition from persistent fragility to a sustainable development path, capitalizing on renewed government commitment for reform.

2. **The proposed exceptional allocation under the IDA17 TAR would support Zimbabwe's reengagement with the Bank through two sequential steps: (i) assist Zimbabwe to clear its arrears to International Finance Institutions (IFIs), and (ii) access finance to support structural reforms and return the country to a sustainable development path.** By first supporting Zimbabwe to clear its arrears, the Bank would help create conditions for the country to receive new Official Development Assistance (ODA) and private financial flows, which are critical for addressing Zimbabwe's poverty and growth challenges, exacerbated by the recent economic downturn and historic drought. By helping the country pull back from a cycle of isolation and fragility to a trajectory of sustainable growth and development, TAR resources will help unleash the country's economic potential for prosperity.

3. **An upfront condition of WBG reengagement is Zimbabwe's clearance of arrears of over $1.1 billion to IDA and IBRD.** That said, regardless of the scope of the Bank's reengagement, clearing arrears would be a "win-win" for the WBG and the Government of Zimbabwe (GoZ). Clearing the IBRD arrears will strengthen the WBG's financial position. Repayment of an expensive IBRD debt stock would also be financially beneficial to the GoZ, since much of the arrears accumulated due to relatively high interest rates when the IBRD loans originated in 1980s.

4. **Zimbabwe needs a financing of US$300 million from the TAR facility to support its arrears clearance plan, and current stabilization needs.** Zimbabwe's indicative IDA17 annual allocation of US$58m is insufficient as a Bank contribution to the Government's arrears clearance plan, and cannot adequately support the country's reform agenda (detailed below). Assuming full clearance of existing IFI arrears, Zimbabwe will still need to service US$280m IDA in current obligations, and a new loan facility covering IBRD arrears (i.e., all existing IBRD debt will be repaid with the arrears clearance). Zimbabwe's annual debt service to IDA would be approximately US$20m, and its debt service for the loan facility to clear IBRD arrears would be approximately US$100m per year.

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[1] The IDA17 turn around regime conditions are formulated in IDA 17th Replenishment Final Report: *Maximizing Development Impact* (March 2014); and in the *Background Note on Implementation Arrangements for Allocating IDA resources to Countries facing "Turn-Around" Situation* (October 2013).

5. **Zimbabwe's turnaround case is exceptional: it is not based on the resolution of broad-based civil conflict nor a political crisis, but an opportunity to capitalize on political commitment to fundamental policy change after years of ideological policy improvisation and fragility.** Zimbabwe seeks an exit from prolonged instability, isolation, and fragility. The GoZ has demonstrated a commitment to major changes in the policy environment after a long period of disengagement from Bank lending. For example, after the 2013 election, the Mugabe administration has embarked on significant macroeconomic and structural policy shifts, reversing long-held ideological positions that stymied developmental gains. Recent, pro-development reforms have targeted the financial sector, mining, land, indigenization, and fiscal management. Since 2013, Zimbabwe also completed two IMF Staff Monitored Programs (SMPs), maintained a multicurrency regime, and rebuilt the central bank. Authorities presented a plan to clear arrears of preferred creditor IFIs during 2016. Zimbabwe's CPIA has risen steadily from 1.4 in 2008 to 2.9 in 2015.

6. **The timing is critical and the stakes are high for Zimbabwe: should the current arrears clearance and re-engagement attempt fail, this will miss a major opportunity to nurture the growing economic pragmatism and risk a return to ideology-driven policies.** Under the status quo and without TAR support, Zimbabwe risks further economic decline and deterioration of poverty and social conditions, leading to high levels of deprivation and possibly social strife and state failure. The IFIs have made several unsuccessful attempts to reengage with the authorities during the last decade. However, only this latest government re-engagement plan, presented at the Annual Meetings in Lima 2015, received President Mugabe's political support, highlighting the importance of this opportunity to promote development in this fragile state.

7. **The World Bank faces several major risks in this two-steps process, but the risks to both the country and the institution of not re-engaging are higher.** In the two step process of re-engagement, the WBG faces: (i) *substantial* risks associated with the Bank's preferred lender status; (ii) *high* risks of increasing political turmoil or a disorderly transition; (iii) *high* risk of GOZ's inadequate sustained commitment to implement reforms during the turn-around; (iv) risks of further external shocks; and (v) risk of weak development effectiveness in Bank support. The Bank can tackle these risks in sequence. The first risk will be mitigated by close coordination among GoZ, the three IFIs (WBG, IMF and AfDB) and the financiers of the arrears clearance process. The second and third risk stems from underlying fragilities in Zimbabwe that have long stymied its transition toward an inclusive economic and governance model. There can be a strong role for the Bank to help strengthen the sources of resiliencies and reinforce the virtuous loops of this transition, taking into account the political economy and partnerships. In summary, the risks of continued isolation, however, will offset the risk of potential policy reversals and additional shocks which donors can mitigate though program reform designs.

A. BACKGROUND

8. **Zimbabwe is emerging from a 16-year hiatus in engagement with IFIs and many bilateral creditors, on account of payment arrears accumulated since 2000.** During this period, fiscal excesses, widespread corruption and a disorderly land reform ushered in the deepest peacetime contraction of any economy (real GDP fell by 49 percent between 1999 and 2008), a steep decline in social indicators, and record hyperinflation, which led Zimbabwe to abandon its currency in 2008. In the early 2000s, many western donors imposed political and economic sanctions on Zimbabwe given increasingly problematic elections, a sharp rise in human rights violations, and the controversial nature of land reform.

9. **Zimbabwe has achieved a gradual economic and social recovery since late 2008.** At the height of the hyperinflation in 2008, the then ZANU-PF government abandoned the Zimbabwe currency and introduced the multicurrency regime. Following a violent, highly contested election in 2009, the Southern African Development Community (SADC) brokered the formation of a Government of National Unity (GNU), in which the MDC Finance Minister continued implementation of the multicurrency system. The GNU proceeded to introduce other reforms that stabilized the economy and ushered in growth averaging 8.7 percent per year during 2009-12. In 2012, the authorities re-opened dialogue with IFIs, started making token payments against arrears, and embarked on the first SMP with the IMF. Social indicators steadily recovered, and poverty estimations suggested that, in 2011, welfare had regained levels similar to 2001. A new Constitution was enacted in early 2013 that improved the separation of powers[2], introduced term limits (after Mugabe), boosted requirements for gender equity, strengthened public financial accountabilities, reestablished the independence of the central bank, and reaffirmed the commitment to compensate expropriated land holders.

10. After returning to power in the 2013 elections, which were fraught with irregularities, the Mugabe administration has continued this reform path toward correcting some of its earlier policy inconsistencies. Mugabe's administration has completed two IMF SMPs, maintained the multicurrency regime, recapitalized the central bank and improved banking supervision[3], and presented a plan to clear arrears of preferred creditor IFIs during 2016. Zimbabwe's CPIA has risen steadily from 1.4 in 2008 to 2.9 in 2015.

11. **Signaling its commitment to reform, the GoZ prepared a new development plan in 2103: the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET).** The authorities have used this largely aspirational document to develop a new Zimbabwe Economic Recovery and Transformation Program supporting far-reaching reforms to accelerate development, including:

[2] The 2013 Constitution introduced a Constitutional Court, formalized Administrative and Labour Courts (omitted in the Lancaster House Constitution agreed at independence) and established several independent Commissions (Land, Human Rights, Gender) that should report to Parliament.

[3] During the period leading to hyperinflation, the central bank had ceased to function independently undertaking extensive quasi-fiscal operations among other excesses.

(i) re-engagement with the international financial community by clearing IFI arrears and rescheduling Paris Club debts, and preparing an Interim Poverty Reduction Strategy;

(ii) securing fiscal balances by reducing the large public sector wage bill, reforming state owned enterprises (SOEs), and strengthening public financial management;

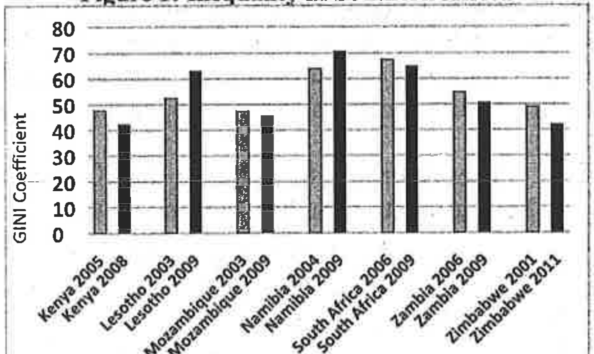
(iii) stabilizing the financial sector, restoring monetary institutions and deepening financial inclusion;

(iv) reforming the investment climate, both more broadly and in key sectors like mining and land; and

(v) rehabilitating and extending Zimbabwe's already extensive infrastructure networks in energy, transport, and irrigation.

12. **The authorities have been able to achieve noteworthy gains in renewing state and economic institutions**, such as: (i) maintaining comparatively low fiscal deficits even in face of serious economic headwinds; (ii) closing six politically connected but troubled banks; (iii) formalizing artisanal gold exports and improving transparency in the diamond sector, where security forces have long been extracting rents; (iv) strengthening public financial accountability; (v) relaxing some elements of the indigenization regime; and (vi) opening active discussions on tenure security and land compensation with expropriated farmers.

Figure 1: Inequality in Southern Africa



Source: Zimstat (2013), Poverty and Poverty Datum Line Analysis in Zimbabwe 2011/12

13. **Zimbabwe's economic recovery has a inequality, and renewed investments in social services.** Zimbabwe's Gini index declined from 48.9 in 2007 to 42.3 in 2011, and is now among the lowest in the sub-region (Figure 1). This shift to a more equitable distribution of income coincided with *a substantial decline in extreme poverty* from 48 percent in 2007 to 23 percent in 20011. Zimbabwe continues to benefit from large public and private investments in social services. At over 11 percent of GDP, Zimbabwe's spending on primary and secondary education remains among the highest in Africa. In health, recent changes in financing mechanisms helped fuel a reduction in maternal mortality by a third in four years.[4]

14. **With the full support of the President[5], authorities formulated a credible plan to**

[4] Maternal mortality declined from 960 deaths per 100,000 live births in 2010-11 to an estimated 614 deaths in 2014

[5] In the 2015 State of the Nation address, the President said: "Let me reiterate that Government recognises the importance of strengthening re-engagement with the international community. Indeed, current re-engagement efforts with both bilateral and multilateral partners, including the African Development Bank, the Afro-Asian Bank and the World Bank under various initiatives, should see improvement of relations and the opening up of new financing avenues, for long overdue reforms and development co-operation." http://www.zanupf.org.zw/state-of-the-nation-address-by-his-excellency-the-president-of-the-republic-of-zimbabwe-cde-r-g-mugabe/

clear IFIs arrears, which received broad support from development partners. In late 2013, the Government requested a formal review of Zimbabwe's eligibility and qualification for HIPC, which concluded in August 2014 that the country did not qualify (using end 2013 data). In October 2014, the authorities increased "token" payments to the Bank to achieve *pari passu* with payments to the IMF – an issue that had been unresolved since 2012. These increased payments have since been made regularly on a quarterly basis. In April 2015, the Government launched a joint exercise with preferred creditors to explore options for arrears clearance, and presented a plan to creditors and donors in October 2015. The plan was amended in May 2016 to include repayment of the IMF arrears ($120 million) using Zimbabwe's SDR resources at the Fund; repayment of IBRD arrears (US$896 million) using a term facility syndicated by African Export and Import Bank (AfXMB) and Lazard Fréres; and repayment of IDA and AfDB arrears (US$260 and US$601 million, respectively) with a bridging facility from AfXMB, to be refinanced from a future IDA development policy operation and AfDB's Transitional Support Facility.[6] The plan, which also includes the authorities' intention to approach the Paris Club after IFI arrears clearance, was broadly endorsed by major creditors in October 2015 and again in May 2016.

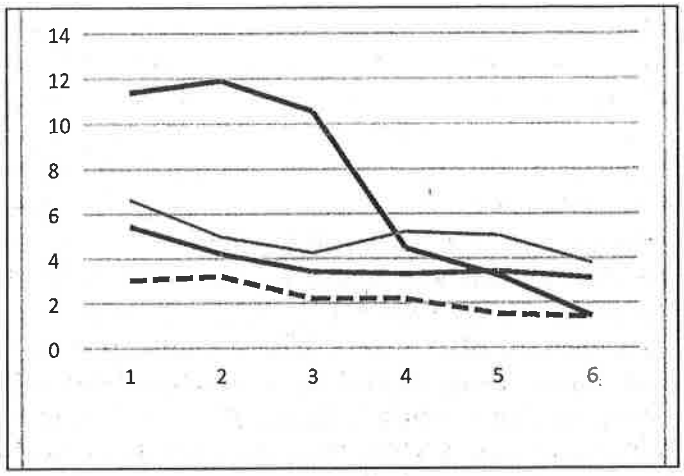
15. **Zimbabwe has improved relations and engagement with Western partners, who recommend further improvements in the rule of law and political and human rights.** Interactions between authorities and donors warmed during the Government of National Unity and since the 2013 re-election of ZANU-PF. Donor programs are more closely aligned with government at all levels, and authorities increasingly consult with development partners on important areas of policy and program development, such as health, social protection and food security. In 2014, the European Union (EU) resumed direct relations with the Government[7], and later signed the first National Indicative Program with Zimbabwe. The AfDB, CDC (UK), OPIC (US), Norfund, and Proparco (France) have re-started direct financing to the private sector, and the EIB recently approved recommencing lending to the private sector. A steady flow of high level trade and cooperation missions from Western partners have visited Zimbabwe in the last year, and senior Government officials have travelled to the US and European capitals to meet with counterparts. Nevertheless, donors remain concerned about governance and the rule of law, and strongly encourage faster and deeper economic reform implementation.

Figure 2: GDP Growth

[6] Because Zimbabwe is neither HIPC eligible nor qualified (at end 2013) it is not eligible to benefit from resources in the IDA17 arrears clearance set aside.

[7] But retained travel restrictions on the President and his wife, as well as restrictions on the Zimbabwe defense industry.

16. **However, growth has slowed dramatically since 2013, and Zimbabwe now faces serious headwinds.** Economic growth decelerated after 2013 (Figure 2), when the initial effect of stabilization ran its course, and the country has experienced a series of exogenous shocks. A credit boom following dollarization was not matched by improvements in competitiveness. By 2011, the current account had reached 23 percent of GDP, and by end September 2014, the share of non-performing loans was 20 percent. Then global commodity prices weakened; the US dollar appreciated against regional currencies, including the rand (South Africa is Zimbabwe's largest trading partner); and the country was hit by droughts in 2013, 2015 and 2016 – the latter being the worst in over 30 years (Box 1). Economic growth fell to 1.1 percent in 2015, leaving per capita growth negative for the first time since dollarization in 2009.



17. **In addition, the authorities committed some policy missteps along this reform path that exacerbated the slowdown.** During 2011-15, the public sector wage bill rose by 15 percent per year as salaries recovered and employment expanded. Then in 2012, Zimbabwean exports became uncompetitive after the commodity super cycle came to an end and the South African Rand subsequently lost ground versus the US dollar. At the same time, the Government extended the implementation of the indigenization regime from mining to the broader economy; private investment contracted by almost 10 percentage points of GDP. The authorities have since made some corrections, by expanding the coverage of sectors eligible for alternative compliance mechanisms. Given the low share of discretionary spending, the wage bill accounts for 81 percent of total spending, fiscal policy[9] has not been able to contain aggregate demand sufficiently in response to the exogenous shocks, and the economy is facing the brunt of the adjustment in the financial and real sectors.

Box 1: The Impact of El Niño

The current El Nino, which follows a drought in the previous seasons, has caused severe losses in crop and livestock. Rainfall totals have been less than 60 percent of the long term average, making this the driest season in 35 years. Child malnutrition[8] has risen to 5.7 percent – the highest level recorded over the past 15 years. Approximately 2.8 million people (18 percent of the population) are expected to be at risk of food insecurity by mid-2016. The expected knock-on effects on school enrollments, livestock, and other social impacts will extend for several years, and deepen the recovery required to further reduce poverty.

18. **Since 2011, the central government fiscal (cash) deficit has remained moderate due to an increasing revenue base.** Revenue to GDP ratio (28 percent) is comparable to

[8] Global Acute Malnutrition rate of children aged 6-59 months.

[9] In the absence of exchange rate policy (under the multicurrency regime), structural corrections will require adjustments in real sector competitiveness which take time and in fiscal policy.

Zimbabwe's non-SACU neighbors and tax revenue to GDP remains significantly higher than the sub-Saharan African average. But political wrangling over the large public wage bill prevented sufficient adjustment in spending. Meanwhile, the Government used treasury bills to repay state owned enterprises arrears, the recapitalize the central bank and deal with rising non-performing loans in the banking sector.

19. **The current account has been contracting rapidly since 2013 – by 4.5 percentage points in 2014-15 – and the economy is now facing cash shortages that are threatening the recently stabilized banking system.** Another recent misstep in Government's response[10] sparked a slow run on banks which exacerbated the cash shortage. Import payments are severely delayed, a rudely imposed import bans are affecting revenues and there have been recent incidents of domestic unrest in response to delayed civil servant payments.

20. **Though Zimbabwe has the ingredients to accelerate inclusive growth, these recent economic difficulties, a required structural adjustment, and the effects of the El Nino drought risk reversing gains in poverty and social welfare.** Zimbabwe continues to have enormous potential for sustained, inclusive growth capitalizing on its skilled human resources, comparatively equitable distribution of wealth, and rich endowment of natural resources – including ample arable land, the second highest water storage in Africa, and more than 40 exploitable minerals, six of which are globally significant deposits. The country is in the midst of a longer-term economic transformation from a more inward-oriented, natural-resource dominated, capital-concentrated economy, to one squarely facing the challenges of global competition, where the domestic private sector is focusing on the human capital and services sector as new sources of growth; the role and size of the state is being re-examined; and there is broader-based participation by small holders and small firms. However, Zimbabwe's slowing GDP growth, which barely covers population growth, and the effects of the economic adjustment and cash shortages risk exacerbating poverty, especially in rural areas. The El Nino drought is expected to create severe food insecurity for just under a fifth of the population. Poverty, which was estimated to have fallen from 72 to 66 percent during 2011-14, is now expected to increase by over 5 percentage points.[11]

B. FRAGILITY, RESILIENCE AND DEVELOPMENT

[10] In the face of a rapidly growing parallel market for cash, in early May 2016, the authorities introduced a series of measures aimed to incentivize the repatriation of export earnings, prioritize import payments, unify the practices regarding access to currency across the banking sector, stem the illicit outflows of physical specie, and promote more electronic payments. However, they also announced plans to expand the current use of 'bond' coins (local coins trading at par with US cents, backed by an external dollar-denominated facility) to time bound 'bond' notes (backed by a similar facility). The latter heightened rather than attenuated the demand for cash holdings.

[11] The number of poor people in the country has risen from 9.7 million in 2011/12 to about 10.8 million in 2015. Since 2012, however, poverty has likely increased in rural areas while urban poverty has continued to fall slightly. The number of poor people in the country went up from 9.7 million in 2011/12 to about 10.8 million in 2015.

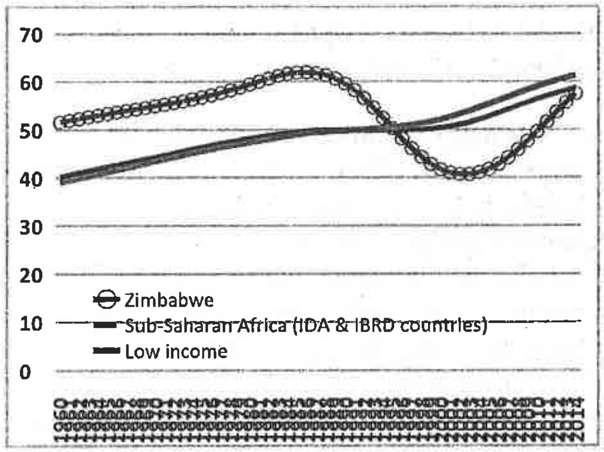
Box 2: Institutional resilience in the health sector

Before the onset of the crisis, Zimbabwe had one of the most efficient health systems in Africa. But by 2010, the country had the third worst maternal mortality outcome in the world (960 fatalities for every 100,000 live births). During 2011-15, donors established a fund to work with Government which raised child immunization from 37 percent in 2009 to

21. **Zimbabwe's fragility has not been caused by – nor resulted in – large scale violent conflict, but is associated with a record peacetime decline in welfare.** The seeds of this decline can be traced back to before independence and the violent liberation struggle for political and civil rights. Though achieving majority rule, this struggle did not effectively change the economic or political model. At independence, Zimbabwe's maintained a disproportionate representation for its minority non-African populations (whites, mixed race and Asians), and a highly unequal distribution of wealth remained entrenched. In addition, the siege-*cum*-statist economic model based on a highly elaborate system of price and wage controls, investment controls, high levels of protection and subsidies remained largely in place for ten years. Many regulations impeding private sector development today were developed before independence to protect legal monopolies granted to parastatal enterprises. The deficiencies of this model were masked by a post war economic boom; little was achieved to broaden effective economic participation.

2012, result-based financing was introduced in rural clinics, and saw outpatient visits rise by 80 percent and the coverage of ante-natal checkups more than threefold. Maternal mortality rates fell by over a third to 614 in 2014 and under-five mortality by a fifth in the same period. The rapid catchup in life expectancy (Figure 3) and improvements in CPIA rating for health -- from 1 in 2009 to 3.5 in 2015 – underscore Zimbabwe's resilient institutions and its potential for a quick recovery.

Figure 3: Life expectancy at birth (1969-2015)



22. **At the same time, the country has demonstrated resiliencies that helped to avoid broad-based violent conflict in the face of severe economic and social stresses.** Zimbabwe benefits from a high level of social capital within families and communities, a skilled and well-educated population, and a successful and engaged diaspora. The country receives relatively large and stable remittances of around 5 percent of GDP, which has exceeded ODA to the country in recent years. In addition, the country has a strong and fairly modern institutional framework that rebounded from the economic collapse – despite persistent corruption. The Bank's analytical and technical assistance work over the past seven years suggests that Zimbabwe's institutional capacity fared surprisingly well through the crisis. Further, the rapid renewal of technical and operational capacity in the public sector, and strong recovery in social services, points to a fertile environment for future development support (Box 2 and Figure 3).

23. **Recent reforms are helping to correct earlier policy inconsistences and demonstrate the benefits of a new economic path, but the stability of Zimbabwe's future development will depend on titling the balance between the underlying fragilities and resiliencies.** In particular, the country will need to:

- Accelerate the shift from **coercion** as policy reform tool, in response to factionalism buttressed by a politicized security apparatus, toward **consensus-building** practices that can balance diverse social, political and economic interests and create durable agreements ;
- Broaden policy makers' limited experience with measures that can **grow an inclusive economy** *versus* those that simply **redistribute assets** secured by excluding participation of other groups;
- Build on Zimbabwe's **very strong "coping" social capital** to help strengthen the **weak "bridging" social capital,** and finally move towards a resolution of long-standing ethnic divisions that remain politically divisive and limit the flow of ideas and capital across the society;
- Adapt the strong basis for institutionality away from the principles of **rule *by* law** based on the cultural foundations of political leadership in Zimbabwe, to those of **rule *of* law,** which build on the country's liberation traditions, a capable judicial system, and its strong education outcomes to achieve equal treatment for all; and finally;
- Balance the intricacies of **global/regional interests** in Zimbabwe's development trajectory against the **local needs/demands** of the local population.

C. ELIGIBILITY ASSESSMENT

24. This request for Zimbabwe to access exceptional IDA turn-around support is based on two key factors: 1) the country's fragility has posed a significant obstacle to development; 2) the GoZ has demonstrated a commitment to a major change in the policy environment after a long period of disengagement from Bank lending.

Characteristics of the turn-around

25. **As noted above, the turn-around in Zimbabwe is a special case as it is not accompanied by the political transition seen in other fragile and conflict situations.** Instead, it reflects a gradual and internal shift in fundamental economic policy across two administrations, one of which has governed the country for a prolonged period. This shift has been driven by neither IFIs nor donors but by technocrats backed by the President and key private sector allies. Despite not having fully anticipated the policy implications of the 2008 dollarization, authorities have remained committed to reform across two administrations even as difficult conditions emerged. Indeed, today's "perfect storm" of economic and climate headwinds have led to the spread of economic realism among many stakeholders – suggesting that now is a favorable time for the Bank and donors to re-engage Zimbabwe to catalyze real change.

26. **Specifically, reformers in the ruling party have been able to gradually convince the senior leadership to reconsider certain ideological policies in favor of economic realism.** The adoption of the 2013 Constitution evidenced aspects of this economic realism, such as a commitment to improve transparency in public finances, strengthen central bank independence, and compensate expropriated landholders. The administration has since been gradually

undertaking pragmatic reforms that attempt to recapture parts of the state dominated by deep vested and political interests. The nature of these reforms require deep political compromises, where before there was only factionalism and coercion. Key reform areas include:

- *the mining sector*, where the authorities have gradually reduced the role of political middle men (often very senior party members and security forces) in the value chain for gold and diamonds;
- *banking*, where the authorities have closed all six politically-connected and troubled banks and significantly strengthened banking supervision;
- *investment climate reforms,* including relaxation of some requirements under the controversial indigenization regime,[12] and a broad-based effort to rapidly implement *Doing Business* reforms that has seen over 12 pieces of legislation prepared in the last six months;
- *state-owned enterprises*, where forensic audits have already led to several board/management changes, and initiated radical institutional changes to strengthen accountability and transparency in the management of parastatals[13]; and
- *land reform,* where the authorities have opened negotiations on compensation with expropriated farmers, begun distributing tenure security instruments to resettled farmers, opened a dialogue with the private sector on the resumption of an agricultural land market, while struggling to contain continued invasions by party rank and file.
- *public procurement* reform, which is being led directly by the Office of the President and Cabinet, who recently removed the entrenched and powerful head of the State Procurement Board, and prepared a new law modernizing public procurement.

Turn-around Assessment

27. The TAR Paper (2013) provides two filters for confirming a country's eligibility for exceptional IDA support. The first filter should confirm that aspects of fragility have been, and are, significantly impeding development. The second should confirm that the turn-around is sufficiently robust to warrant exceptional support, and that exceptional support is indeed required.

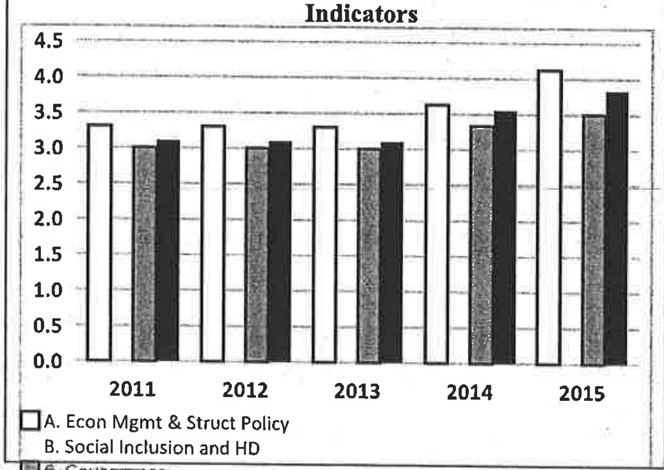
Filter 1: Fragility is a significant obstacle to development

[12] Guidelines issued in late 2015, and publicly acknowledged by the President in early 2016, allow firms to substitute a variety of measures (e.g. employee share ownership schemes, community trusts, local purchasing, financing for agriculture, etc.) and significantly extend the compliance periods for the controversial 51 percent indigenous ownership requirements. It also decentralized implementation to line ministries reducing the discretionary powers of the controversial Ministry of Indigenization.

[13] The Government is preparing to implement a centralized ownership model, which would remove SOEs from a single direct line of reporting to line Ministers, and broaden the accountability to public and private board of governors.

28. **As suggested above, Zimbabwe's multi-dimensional fragility has had a profound impact on its development trajectory over the last two decades.** The main impact has been seen in Zimbabwe's long, costly and unfinished transition away from a persistent model of extraction and exclusion toward an inclusive state and economy. The country has undergone five waves of redistribution of political and economic rights (see Box 6) – some incomplete like the liberation war for full representation and the land reform, some pro-poor like the 1980s expansion in social services and labor protections, but others which simply succumbed to rent-seeking as a political survival strategy. The country experienced a decade of economic decline 1998-2008 during which fiscal excess, widespread corruption and a disorderly land reform ushered in the deepest peacetime contraction of any economy, a steep decline in social services and indicators, and record hyperinflation, which saw the country abandon its currency in 2008. Increasingly problematic elections, a sharp rise in human rights violations, and the controversial nature of the land reform also saw political and economic sanctions imposed by many western donors in the early 2000s. A lengthy isolation from the international community restricted aid flows, and resulted in a build-up of arrears to multilateral and bilateral partners. Zimbabwe was first classified as a fragile state in 2007 when the nomenclature was introduced to the Bank.

Figure 4: Zimbabwe Post-Conflict Performance Indicators



29. **In the face of these difficulties, Zimbabwe's recent rebound and the authorities' early progress on reform make a persuasive case for TAR support, especially given the country's resiliencies, its favorable institutional framework and commitment to equity.** By facilitating participation in the authorities' arrears clearance plan, the TAR would permit the Bank to re-engage with Zimbabwe. Such support is necessary to help reinforce and accelerate Zimbabwe's transition out of fragility. First, re-engagement would allow the Bank to help Zimbabwe face the current headwinds, smooth the macroeconomic and structural adjustment, and re-establish the pro-poor tenor of its economic recovery. Second, the authorities have demonstrated an openness to development innovations missed over the past decades. Many of these enshrine modern principles of (i) transparency; (ii) social inclusion and consensus-building (e.g. a recent study tour to see how other countries have facilitated broad-based participation in both procurement reform and procurement monitoring, or the role of user committees in managing health clinics); and (iii) economic empowerment. Third, the Bank could remain engaged on the remaining policy areas in which the Government is still searching for a balance between ideology and pragmatism. Finally, re-engagement would also allow IFC and MIGA to resume support to the Zimbabwean private sector, encourage private investment in infrastructure, and FDI to help renew the productive sector.

Filter 2: Current conditions warrant exceptional support

30. **In line with instructions in the TAR Paper (2013), this section provides evidence that Zimbabwe has fulfilled three key objectives under this filter**: (i) the country is in the midst of a turn-around that is line with the requirements of the facility; (ii) authorities have and are taking appropriate steps to accelerate the transition; and (iii) the national strategy associated with the turn-around has broad international support. Adopting the recommended format, the section is structured around four sections addressing: 1) Zimbabwe's satisfactory early performance in recovery and portfolio performance; 2) evidence of a reasonable expectation for continued stability; 3) existence of an effective national counterpart; and 4) existence of concerted international support and a defined role for the Bank.

Satisfactory early performance?

31. **As suggested throughout this document, Zimbabwe is in the midst of a turn-around driven by a commitment to policy change, and has taken steps to enable an economic and social recovery.** These steps can be grouped into four broad categories: 1) addressing fiscal sustainability; 2) rebuilding the state; 3) updating economic strategy; and 4) re-engaging multilaterals. Box 4 below highlights the multiple steps taken by the GoZ in these categories, ranging from, *inter alia*, strengthening public financial management to supporting anti-corruption measures to implementing labor reform to re-engaging IFIs on arrears clearance. In particular, the authorities' re-engagement with the IMF – including through the SMPs and increased "token" payments to achieve pari passu status -- represent the GoZ's clean break from the past toward fundamental policy change, and anchor Zimbabwe's turn-around. The breadth and depth of changes suggest this is an opportune time for the Bank and donors to re-engage Zimbabwe and help it accelerate its development trajectory.

Box 3: Eligibility under item (ii) commitment to a major change in policy environment, following prolonged disengagement from Bank lending.

Major change #1: **<u>Addressing fiscal sustainability</u>**

- Maintaining the multicurrency regime introduced in 2008, despite impact on cash budgeting and the more difficult macroeconomic adjustment to trade and exchange imbalances
- Maintaining moderate government deficits, less than 5 percent since 2015
- Implementing measures to tackle large wage bill – civil service audit, employment controls, some wage restraint (starting in 2015)
- Measures to strengthen revenue collection, including amending the revenue act (in 2015) to introduce OECD transfer taxation rules across mining and other industries.
- Strengthening the poverty focus and efficiency of spending: introducing program budgeting in all line ministries with three completed in health, social protection and education underpinned by joint public expenditure reviews (since 2012), and preparing Poverty Reduction Strategy Paper (in 2016).

Major change #2: **<u>Rebuilding and recapturing the state</u>**

- Implementing new Constitutional provisions on PFM, resuscitating the IFMIS (in 2009) and achieving timely expenditure reporting (starting in 2012), completing new chart of accounts (started in 2015)
- Empowered Auditor General function with new supreme audit institution Act (2011) and with independent Commission (in 2015).
- Initiated program to modernize public procurement (starting in 2012) and drafted new bill (2016)
- Initiated SOE reform program (2015) – drafted new corporate governance bill, consolidated performance monitoring of all SOEs, completed 4 forensic audits, 6 performance audits and 10 turnaround strategies in selected enterprises.

- Established five of the six new constitutional commissions and implemented some electoral reforms.
- New mining sector law and fiscal framework under preparation, diamond (2016) and gold (2013) sector reorganization and transparency-enhancing reforms under way.
- Strengthening the financial sector: closed six politically connected banks (in 2013-14), enacted amendments to modernize Banking Act on supervision and crisis management (in 2015), implemented AML/FTC reforms (2015), prepared a strategy for financial inclusion (2015), introducing credit reference and secured transactions systems (in 2016).

Major change #3: Updating economic strategy

- Implemented major labor reform to reduce the cost of separation and increase flexibility (in 2015)
- Adjusted indigenization policy to allow for alternative compliance mechanisms and longer compliance periods (in 2015, and ongoing).
- Accelerated *Doing Business* reforms, led by the Office of the President and Cabinet
- Made significant progress on land compensation negotiations (with ICSID awardees and other expropriated farmers) and work on developing appropriate tenure security for new land holders advanced.

Major change #4: Re-engaging multilaterals

- 2012 Began token payments to IFIs, agree 1st SMP with IMF
- Nov 2014 Completed 1st SMP and negotiate 2nd SMP with IMF
- Dec 2014 Adjusted token payments to reflect *pari passu* for IMF, Bank and AfDB
- Oct 2015 Announced decision and financing plan to clear IFI arrears by end 2016
- Dec 2015 Completed 2nd SMP with IMF
- May 2016 Provided some financial assurances for arrears clearance resource

32. **Importantly, Zimbabwe's reform efforts have translated into measurable gains in policy and institutional performance.** Zimbabwe's aggregate score on the Country Policy and Institutional Assessment (CPIA) rose from 1.4 in 2008 to 2.9 in 2015, approaching the average for Sub-Saharan IDA countries (Figure 4). Zimbabwe's gain was evidence across CPIA categories, from *Economic Management* to *Structural Policies* to *Public Sector Management & Institutions* to *Policies for Social Inclusion/Equity* (Figure 5). In a few areas – gender, the environment, budgeting, PFM, and revenue mobilization – Zimbabwe has surpassed IDA and sub-Saharan African averages. Yet the country still has a long way to go to recover its earlier performance.

Figure 5: Overall CPIA Scores

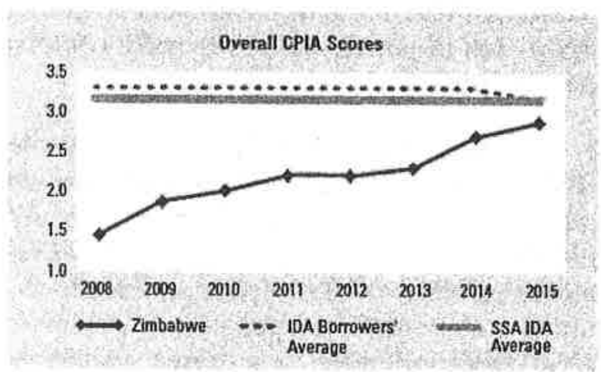
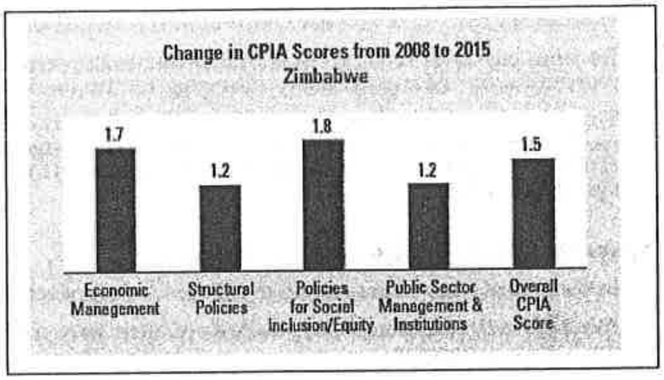


Figure 6: Change in CPIA Scores 2008-15

33. **Though limited, the Bank's engagement in Zimbabwe has been broadly satisfactory.** As detailed in paragraph 49, the current program of the FY13-15 ISN has been centered on the Zimbabwe Reconstruction multi-donor Fund (ZIMREF). Engagements totaling US$53 million have supported a range of activities, from strengthening PFM to improving bank supervision, expanding access to primary health care and water supplies and protecting biodiversity. All of the trust-funded recipient-executed programs are rated satisfactory in implementation, and disbursements rates are beginning to pick up as new programs come on stream. Paragraph 50 and Annex 3 provide details on the Bank portfolio of activities its contributions to the government reform program.



A reasonable expectation of continued stability?

34. **Though Zimbabwe faces significant political uncertainty in the run-up to the 2018 elections, the Bank can reasonably expect that the overall policy direction will remain largely the same, independent of who assumes power.** Uncertainty in Zimbabwean politics is linked to Mugabe's age, succession politics within the ruling party, the upcoming elections in 2018, the pace of adjustment and economic recovery and how the program is perceived by the electorate. Zimbabwe's Constitution provides clear guidance on the steps for an early election following the demise of a sitting President. However Mugabe's reluctance to disclose a succession plan and lack of contenders in ZANU-PF with sufficient clout to unify the party, increases political instability, particularly given his personal role as a balancer of factions. If Mugabe dies in power, the ruling party could split and form new coalitions with the existing opposition parties.

35. **Although a political transition has the potential to take the country into a new direction, it will likely strengthen economic pragmatism.** Mugabe himself has been the main ideological anchor for ZANU-PF policies, so any transition of power will probably see the party shift toward economic realism. The main difference in how the two existing factions might approach reform will be the pace and depth of reforms (rather than direction). One faction is likely to a more cautious approach on economic reforms, but more aggressive on governance, and the other vice versa. To a degree, a solid and growing Bank and engagement in Zimbabwe may also help to counterbalance any tendencies of a successive administration back to ideological-based positions.

36. **Though elections in Zimbabwe have been fraught with irregularities, the risk of widespread based violence and a spike in human rights violations around the next elections remains moderately low.** Since independence in 1981, Zimbabwe has held elections on a consistent schedule – with the next Parliamentary and Presidential election scheduled for 2018. Except for in 2008, most elections have been relatively peaceful, without violent conflict, though an atmosphere of voter intimidation has been present. Strong coping mechanisms and a rigid

security apparatus have kept violence to a minimum. Some progress has been made on electoral reform with support from the EU and UN, but development partners will push for additional steps. As of today, the ruling party is expected to act with restraint so as to not risk international outcry as it seeks to reengage with international financial markets.

An effective national counterpart?

37. **The technical capacity in Zimbabwe's public administration remains comparatively high, which augurs well for the design and implementation of future IDA operations.** As noted above, the experience under the A-MDTF, ZIMREF, the Health Sector Development Project and the Kariba Dam Rehabilitation Project suggest that institutional capacities have rebounded to earlier levels. Bank staff routinely remark on the breadth and depth of their technical counterparts in line ministries. The preparation of the current Interim Poverty Reduction Strategy Paper, largely managed by a group of young, technical staff from across the line ministries, is a notable example that has impressed local donors. However, an important lesson from past experience, emphasized in the 2004 CAE, is that the public administration should be viewed neither as a mirror of the political leadership, nor a completely reliable source of influence on policy directions.

Box 4: Preparation of an I-PRSP

The GoZ conducted a highly participatory process to develop an Interim Poverty Reduction Strategy Note (I-PRSP) to inform policies and spending in Zimbabwe through 2017. In spring 2016, an I-PRSP Secretariat and an inter-ministerial task force held country-wide consultations involving high-ranking officials and more than 1,700 stakeholders. Completed in summer 2016, the I-PRSP used the participant feedback on causes of poverty and the performance of poverty programs and high-quality poverty maps by the Zimbabwe National Statistics Agency to inform a country poverty diagnostic and analysis. The GoZ intends to prepare a full PRSP beginning in September 2016, to deepen the analysis, set clear strategies to achieve the Sustainable Development Goals, and define the priority actions for the period 2019-2023.

38. **The political leadership is demonstrating an increasing confidence in and willingness to engage the Bank on policy options and design.** The support the Bank was able to provide under the AMDTF and the ZIMREF have been instrumental in building trust with the authorities areas previously considered off limits, including expenditure policy, land reform, mining sector, investment policy, agricultural reform, to name a few. However, the Bank must not underestimate the widespread politicization and corruption that continues to plague the public sector, nor how long it will take to redress effectively. In this regard, the Bank should continue to undertake careful political economy analysis on areas in which reforms appear sticky, and be prepared to work in innovative ways.

39. **Zimbabwe may still opt to follow less-than-orthodox development strategies as it seeks to balance growth and equity, but the Bank can continue to be a strong partner in this case.** Given its political history, autonomy will likely continue being the most important political value in Zimbabwe, even above performance. In the past, this has made working with the Government singularly challenging, but today, the Bank has increased its own capacity to work with a variety of country-owned, non-orthodox, development strategies. Such capacity will be critical to effectively engage Zimbabwean authorities and broader population and to further strengthen the country's relationship with the Bank.

Concerted international support?

40. **The GoZ has taken steps to ensure its turn-around strategy, which is reflected in its national development plan, has strong international support.** Over the past three years, the GoZ's relationship with Western creditors has improved,[14] and authorities formulated a viable plan to clear arrears, which received support of the country's development partners (see paragraph 14).[15] The GoZ has also begun systematic overtures to all development partners, with fairly positive results. For example, in late November 2014, donors participated the review process for ZimASSET, which had hitherto been a closed process. Donor programs are now more closely aligned with government at all levels, and authorities increasingly consult with development partners on some areas of policy and program development. Senior government leadership provides high level access for trade and political delegations, and the President has received delegations from Denmark, France, the UK and the US.

41. **Although most donors are still restricted from channeling development finance through government systems, there is joint oversight and management of key multi-donor funds** implemented by the UN, AfDB and the World Bank, and growing coordination in parallel financing. The Government receives direct support from Denmark for judicial development; from the Bank on public procurement, PFM and water and sanitation; and from the Global Fund for AIDS, Tuberculosis and Malaria. The AfDB, CDC (UK), Proparco (France) and OPIC (US) have resumed financing to the private sector through small exposures. In recent years, BRICS have invested heavily in Zimbabwe, but this support has recently declined, as they also encourage re-engagement with the multilateral institutions.

42. **Going forward, the Bank should consider that rapprochement with the international community will remain fragile, at least until the 2018 elections.** For the Government, continued sanctions and restrictive measures targeting individuals and companies provide grist for domestic and Pan-African politics. For many bilaterals, further improvements are needed in governance, human rights, land tenure security and compensation. As noted above, some progress has been made on electoral reform with support from the EU and UN, but development partners will push for accelerated steps. The Government has made some progress on land compensation issues, and it is expected that agreements will be reached with interested development partners as part of the discussion of Paris Club negotiations.

D. OPPORTUNITIES AND RISKS

43. **Exceptional IDA support for Zimbabwe would enable multiple opportunities. First, clearance of arrears would have a positive impact on Zimbabwe, and on IBRD and IDA.** Zimbabwe's lack of access to financing by both the public sector and the private sectors, which face high costs of capital, has been a key constraint to development. The country's inability to respond to shocks and invest in long-term development interventions generate additional sources

[14] Relations with the Government of National Unity had warmed significantly, but following the election in 2013, which returned ZANU-PF to power, there was a period of some uncertainty.

[15] Nevertheless, outstanding debt to Paris Club creditors amounts to US$3.2 billion, of which US$2.8 billion is in arrears (see Annex 2).

of fragility. Meanwhile, legacy IBRD debt, incurred between 1981-94 when interest rates were higher[16] and Bank instruments less flexible, doubled over the 16 year hiatus. During this time, the Bank made several attempts to engage the authorities on the need to clear arrears, but this is the first opportunity that has the full backing of the President. Zimbabwe remains IBRD's only country in non-accrual status, and one of three IDA countries in arrears.

44. **The increased willingness of the GoZ to work with multilaterals means the Bank would be well positioned to help the country to**: (i) improve economic policy; (ii) strengthen transparency and accountability; and (iii) keep the restructuring and recovery process pro-poor. Current engagements through ZIMREF and the Health Innovation Results TF have already helped to: (i) create common ground on institutional renewal; (ii) rebuild project implementation capacity; and (iii) improve efficiency of social spending. A blank slate will allow selectivity in new lending, while increasing government technical capacity will allow introducing development innovations that Zimbabwe may have missed during the past 16 years.

45. **The foundations for inclusive growth may be stronger in Zimbabwe now than in the rest of Southern Africa.** As noted above, the Gini indicators in Zimbabwe are now among the lowest in the sub-region; the country has completed a large-scale (if disorderly) land reform; the population is relatively well educated; and an increasing number of small holders and small firms are well prepared to be inserted into value chains. Clearly, reforms are still needed to improve the business climate, but these foundations for broad-based growth are strong. Moreover, a stable and growing Zimbabwe can provide an important anchor in a sub-region, which is facing persistent inequalities and unmet social demands.

Ongoing engagements

46. **Since 2000, the Bank has provided limited support to Zimbabwe through a variety of non-lending instruments and trust funds, governed by three Interim Strategy Notes (ISNs) presented to the Board in 2005, 2007, and 2013.** The current ISN FY13-15 focused on: (i) private sector development and job creation; (ii) strengthening systems for public sector management and service delivery; and (iii) reducing vulnerabilities, improving resilience, and strengthening human development. It also set out three scenarios: (i) the 'status quo'; (ii) 'enhanced re-engagement' where the WBG would work with other partners to help the government to develop a social and economic reform program needed to move towards arrears clearance and full reengagement; and (iii) a third 'deterioration' scenario in which the Bank would scale back its work.

47. **The current program is centered on the Zimbabwe Reconstruction Multidonor Fund (ZIMREF),** approved in 2014, which has helped the Bank to deepen policy dialogue in areas previously considered off limits, such as mining, energy, and land and agricultural policy. This program has received steadily increasing engagement of the Office of the President and Cabinet. Under the ZIMREF, eight activities for a total of $61.4 million have been approved, and US$40.4 million mobilized (see Box 6). These include three of the first investment projects to be

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[16] The average interest on the outstanding IBRD balances is around 7.9 percent.

directly implemented by Government with donor funds in many years. However, these projects are not yet fully funded, and could be good candidates for early financing after re-engagement.

Box 5: ZIMREF ongoing support

The **Business Environment, Financial Sector and Investment Policy** (BEFSIP) TA Program (US$3.2 million) supports implementation of Doing Business reforms, credit and capital market reforms, and policy dialogue in mining, land, and agriculture.

The **Capital Budgets TA Program** (US$4.3 million) supports the development of a modern public investment planning system, roll out of state-owned enterprise governance reforms; and identification a pipeline of feasible projects in transport and energy;

The **PFM Enhancement Project** (US$20 million, of which US$10 million has been mobilized), is strengthening PFM systems including coverage and reporting, internal and external audit, and Parliamentary and civil society oversight;

The **Public Procurement Modernization Reform Project** (US$4 million of which US$2 million has been mobilized), is supporting the modernization of public procurement regulatory framework and practices, and piloting e-procurement;

The **Results-based Budgeting TA Program** (US$2.1 million) is rolling out program-based budgeting to all line ministries by 2019 (three of which are already complete), and supporting reforms in health and education.

The **Poverty Monitoring TA Program** (US$3.0 million) is supporting the preparation of the I-PRSP and financing the next household survey.

The **National Water Development Project** (US$20 million, of which US$10 million mobilized) is improving water supply in 7 small towns, and helping to commercialize the Zimbabwe National Water Authority and establish a water sector regulator.

The **Climate Change TA Program** (US$1.5 million) will help to mainstreaming climate changes in investment planning.

48. In addition, the Zimbabwe program includes the Health Sector Development Support Project funded by the Health Results Innovation Trust Fund (US$45 million), the Batoka Gorge Hydro Electric Scheme TA, funded by Cooperation for International Waters in Africa (US$6 million), and the Hwange-Sanyati Biological Corridor (GEF) Project (US$5.6 million). Zimbabwe also benefits from the Kariba Dam Rehabilitation Project, through a loan to Zambia for the jointly owned Zambezi River Authority.

Areas for future Bank support

49. **In line with the government reform priorities and accounting for the Bank's comparative advantages, future IDA support under this exceptional support program would be targeted toward the following areas:**

- **fiscal consolidation** and **investment climate reforms** through both investment (PFM) and development policy financing;

- **expanding access to social services** – probably in health services building on the ongoing Health Sector Development Support Project – and **rebuilding and reforming social assistance programs**;
- **raising rural productivity** through support to strengthen agricultural systems and rebuilding land administration systems; and
- **rehabilitating and expanding infrastructure services.** A 2011 AfDB flagship report estimated that Zimbabwe will need around US$14 billion over the next 10 years to rehabilitate its infrastructure.

50. **Zimbabwe is also keen to join ongoing regional projects**, such as the African Centers of Excellence II, which has already selected one of Zimbabwe's universities, and a Regional Tuberculosis (TB) project.

51. **IDA is well positioned to partner with IFC and MIGA, including through guarantees, to help the GoZ to address its needs in infrastructure**, particularly given authorities' willingness explore private sector participation. By IDA18, ongoing work on restructuring water, energy and transport utilities as well as policy frameworks should provide a strong basis for IFC and MIGA to support private sector investments. One key potential project is the Zambia-Zimbabwe Batoka Gorge Hydro Electric Scheme (see Table 4).

52. **Ongoing Bank engagements already correspond with emerging IDA18 priorities, suggesting Zimbabwe is a good fit for scaling-up Bank activities through exceptional IDA support.** Table 1 provides examples of how Bank activities, many funded by ZIMREF, align with such priorities. Among others, the Public Procurement Modernization Reform Project supports the IDA priority of *improved public expenditure and financial management*, a climate change TA program will help advance *climate resilient development*, and the Health Sector Development Support Project includes interventions to *improve reproductive health services*. Providing TAR support to scale-up activities aligns well with IDA's direction and commitment to fragile states.

Table 1: Alignment of emerging IDA18 priorities with ongoing Bank activities in Zimbabwe

IDA18 priorities	Current co program

Improve availability & affordability of reproductive health services	Health Sector Devt Support Project
Reduce gender gaps in access to and use of financial services	Support for the National Financial Inclusion Strategy under BEFSIP
Promote country level action for more and better data and evidence	Poverty Monitoring TA Program will support move to open data and finance the next household survey
Enhance service delivery performance in SOE *- performance agreements, audits*	SOE reform program under Capital Budgets TA will implement new Corporate Governance rules for SOEs and possible new ownership framework
Improve public expenditure and financial mgmt and procurement *Open Contracting* *PEFA*	New Public procurement framework under Public Procurement Project – Ongoing PEFA under PFM Enhancement Project Results-based Budgeting TA
Support climate resilient devt *Increase share of adaptation and mitigation co benefits*	Climate Change TA will prepare Hwange Sanyati Bio Corridor GEF
Increase focus on renewable energy	New renewable energy policy under the Capital Budgets TA
Impact analyses for SMEs and entrepreneurship	BEFSIP TA is supporting an Enterprise Survey (informal and SME modules), Microfinance diagnostic and work on SME tax policies

Engagement risks

53. **The risk of not re-engaging with Zimbabwe at this juncture are manifold and would affect both the country, and the Bank adversely.** Without support from the international financial institutions, the current downturn risks dismantling the multicurrency system, which has helped stabilize and recover this economy. Much of the social and institutional gains are likely to be lost, as is the commitment to reform, under such economic pressures. The sense that the international community may be again holding out for "regime change" could well harden positions inside the ruling party who will, as before, capitalize on this for political benefit.

54. **On the side of the Bank, arrears would continue to grow, as the authorities will not be able to raise resources outside of the joint IFI program.** The Bank will have missed the most promising opportunity in 16 years to clear the large arrears to IBRD and to recover significant amounts of lost income – which may not sit well with rating agencies. IDA will also have missed out on an opportunity to clear long standing arrears, and to help unleash an era of broad-based growth in Zimbabwe. Its reputation as a rules-based, multilateral could also suffer if it is seen as responding primarily geo-political considerations to the detriment of its broader mandate.

55. **The provision of exceptional TAR support gives rise to six, interrelated risks for the Bank and Zimbabwe's reform program:**

- **IDA/IBRD preferred creditor status:** A staggered versus simultaneous process for clearing Zimbabwe's arrears, in which IMF arrears are cleared first, leaving IDA and IBRD arrears open to the risk that the required IMF program is significantly delayed, would risk a shift in market perception about the equality of the preferred creditor status among those institutions. This comes at a time when IDA is appropriate the market for its first rating. To mitigate this risk, the Bank team is regularly consulting the GoZ, IMF, AfDB and the creditors providing the financial resources for arrears clearance to ensure the close coordination and implementation.

- **Shareholder support:** Given the limited progress on key electoral and security related reforms, some shareholders may remain skeptical about the classification of Zimbabwe as a turnaround situation. The Bank will present a detailed review of key economic and governance developments in the relevant documents and conduct informal briefing of the Board as part of the decision making process.

- **Political instability:** Political turbulence associated with the reform program, Mugabe's possible transition, the 2018 elections, and voter disillusionment on the pace of the reform could lead an existing or a new government to redirect the country's economic or social strategy toward state capture and factionalism, jeopardizing Zimbabwe's path out of fragility and recovery. The Bank will maintain an open dialogue with all main political actors, and as noted above, expects that with any political transition, economic pragmatism will grow. Risks in the run up to a transition and to the 2018 elections, however, still remain high and are monitored in Table 3).

- **Economic mismanagement:** Independent of other shocks, Zimbabwe's current or future government may relax its commitment to economic reform, and revert to ideological positions that stymie economic recovery and social and poverty gains. The Bank has already established a good track record and a deepening policy dialogue with the political leadership in government which should, together with available resources to support reforms, which should render this risk moderate. Nevertheless, any shifts in reform commitment could be taken into account in program design. These risks are captured in the monitoring framework to which the TAR allocations are subject.

- **External shocks:** Further external shocks such as a protracted regional slowdown or new droughts would impede Zimbabwe's economic recovery, despite IFI re-engagement and the government's implementation of a far-reaching reform program. These headwinds could worsen social conditions and exacerbate poverty, leading stakeholders to question the benefits of reform, and the government's re-engagement with the Bank and IFIs. Such risks could be effectively addressed in the program design following re-engagement.

- **Development effectiveness:** Equipped with new financial flows from IFIs, the GoZ may face pressures, especially before the 2018 elections, to misallocate funds outside the reform program for political purposes. This risk is especially acute for the provision of unrestricted budget support. The Bank will care to taken into account earlier lessons of engagement with Zimbabwe, undertake periodic political economy assessments as part of new lending within the TAR period, and address these risks in program design, following re-engagement.

Table 2: Risks and Mitigation

Risk	Impact	Rating	Mitigation
IDA/IBRD Pre creditor status	Staggered vs simultaneous arrears clearance creates a shift in market perception about the equality of the preferred creditor status among IFIs	Substantial	Close coordination between GoZ, IFIs and financiers (of the resources to clear arrears) leads to a minimum time gap, in line with precedents set in earlier arrears clearance operations
Shareholder support	Some shareholders may be reluctant to classify Zimbabwe as a turnaround given limited progress on electoral and security governance.	High	Relevant documents to present a detailed review of key governance developments. Informal Board briefing as part of TAR decision process.
Economic mismanagement: (return to economic mismanagement)	Recovery falters, social gains are lost and a new round of ill-governed redistribution occurs	Substantial	Limit access to the TAR to IDA17 and return to normal PBA for IDA18
Political Instability: (disorderly political transition)	Economic strategy shifts dramatically	Substantial	Keep lines of communication open with all political actors, including emerging oppositions
External shocks (external shocks)	Benefits of re-engagement are questioned and anti-IFI sentiment rises	Moderate	Focus on social protection and direct poverty interventions Communication strategy should help to mitigate reputational risks
Development effectiveness: (new IFI flows create spending pressures)	Fiscal imbalances crowd out private sector recovery	Moderate	Limited budget support and concentrate on investment lending for social programs and regionally-relevant infrastructure

E. MONITORING FRAMEWORK

56. The Bank will monitor a series of indicators and milestones that would assess Zimbabwe's continued progress in achieving a better development trajectory. *Table 3 provides a comprehensive list of indicators, which will need to be streamlined following an internal review and in consultation with the authorities.*

Table 3: Monitoring Framework

Issue	Indicator (source)	Timing	Partners
Political development: From coercion to consensus-building			
Improvement in electoral processes in 2018 *Elections have been plagued by both violence, intimidation at the local level and voting system irregularities.*	• *"No coup"* Constitutional provisions hold, if President dies in office. • New voter rolls in place by early 2018 & Zimbabwe Electoral Commission independence increases with increasing budget allocations. • Number of alleged human rights violations level off or decline from 2014 average and/or no unwarranted arrests of key opposition leaders	Early 2018	UNDP, European Union, Universal Periodic Review (UN)
Acceleration in constitutional alignment *Alignment of laws with 2013 Constitution slow, and at times, laws do not adequately fulfil constitutional requirements*	• • New Public Procurement Law passed. Access to Information Act, Presidential Powers Act amended and/or new Local Government Bill enacted	Dec 2016 tbd	European Union
Security sector reform initiated *The security sector is highly politicized, and a large share of public sector wage bill.*	• • Uniformed services personnel audit completed • Public Order and Security Act amended Steps toward de-politicization of security forces	Mar 2017 tbd tbd	US and UK embassies
Macroeconomic governance: *Growing an inclusive economy vs redistribution*			

Accelerate fiscal consolidation *Weak fiscal controls are at the root of most of Zimbabwe's macroeconomic imbalances. The public sector (including off-budget funds) is too large, and dominated by a bloated wage bill. Transparency in government domestic borrowing is low and the central bank may be again exploring quasi-fiscal operations.*	• Fiscal deficit (commitment basis) remains moderate. • Commitment controls on public spending and controls on SOEs borrowing are strengthened. • Reserve Bank and treasury bill accounts published. • Wage bill continues to fall as a share of public spending. • Coverage of expenditure reporting expands gradually to cover local Governments and off-budget funds.	Nov 2016 (2017 Budget submission) and quarterly, after	IMF
Economic policies facilitate, not impede ongoing restructuring *Zimbabwe has remnants of import-substitution state-led economic model, focused mainly on natural resource extraction, despite having a well-educated population that could support a competitive services sector and export oriented manufacturing. Dollarization has accelerated to improve competitiveness, but public and private investment policies are stymied by vested interests, often contradictory and hinder private enterprise.*	• Fertilizer imports liberalized • Fewer company-specific incentives outside a transparent fiscal framework. • Trade protection levels remain moderate or decline. • New mining legal and fiscal framework in place • Amendment to indigenization regime enacted, including transparency requirements • Capacity and requirements for fiscal risk analysis of PPPs in place	Oct 2016 Nov 2016 Dec 2016 Dec 2016 Dec 2016 June 2017	
More effective pro-poor spending *Zimbabwe has traditionally channeled a large portion of public spending toward social services – however the allocation of these has become more inequitable over the crisis years, with the re-introduction of user fees, distribution of personnel toward urban vs rural areas, shifts in funding toward tertiary vs primary services.*	• Share of wage bill in education and health expenditures decline • Definitions of pro-poor spending agreed, monitored and reported in the national budget • Harmonized Cash Transfer Program fully funded, expanding and used to target other social assistance program. • Poverty Reduction Strategy prepared and approved	Ongoing. Nov 2016 Jun 2017 Dec 2017	DFID, UNICEF and UNDP

Land reform matures and agricultural policy improves. *Zimbabwe has not yet (i) established tenure security for new landholders; (ii) clarified the state's role in land administration; (iii) been able to prevent continued land seizures; nor (iv) addressed the compensation for expropriated farmers.*	• Number of *indiscriminate land invasions* by politically-connected persons falls • Tenure security instrument "99-yr lease" for A2 (commercial resettlement farms) finalized and being issued. New fertilizer policy approved by Cabinet Both ICSID claims settled and disbursing National Land Policy issued clarifying state's role as admin • Compensation level agreed and annual allocation budgeted for in 2018 national budget	Ongoing Oct 2016 Nov 2016 Jan 2017 Dec 2017 Dec 2018	Food and Agriculture Organization, United Nations Development Program, European Union

A.

F. PROPOSED PARAMETERS FOR THE PROVISION OF SUPPORT

Exceptional allocation and duration

57. **The Bank will seek a Board decision on Zimbabwe's Eligibility for IDA-only Borrowing Status as part of the arrears clearance process.** Zimbabwe was a blend country at the time it entered into non-accrual status in 2000.

58. **As noted, Zimbabwe's indicative IDA17 allocation of US$58 million per year[17] will be insufficient** for the Bank's envisaged contribution to the Government's arrears clearance plan (US$250 million), to secure a future *net* transfer to the country, and to support the reform agenda. Following arrears clearance, Zimbabwe will still have around US$280 million IDA coming due, and will need to service the new loan facility used for IBRD arrears clearance (all existing IBRD debt will be repaid with the arrears clearance)[18]. The IDA has an annual debt service of approximately US$20 million.

59. **An exceptional allocation of US$100 million per year for each year of IDA17 (to be back-loaded in FY17) and US$150 million for FY18 is proposed.** This exceptional allocation is obtained by evaluating *country performance*, determining the *per capita allocation* and applying the *country-specific scale factor* ("α"). The proposed allocation for IDA18 cycle would depend on applying the same *country-specific scale factor* to the relevant per capital allocation based on the IDA18 replenishment volumes, and any other revisions to the turn-around facility and fragile state allocations at that time

60. **The *country performance index* is 3.9 which is the weighted average of Zimbabwe's PCPI and the Portfolio Performance Rating.** Zimbabwe's PCPI is 3.9 for 2015. Given that Zimbabwe has been in arrears since 2000, all outstanding projects have been closed or cancelled, and the country has no active portfolio[19]. In these cases, the *TAR Paper*[20] recommends considering lower weights in the initial years of the eligibility period, or using the average IDA performance rating. In this case, the normal weight of 20 percent is proposed for FY18. Moving quickly to the normal weight in FY18 will provide a strong incentive for the Government to

[17] Assuming that: (i) Zimbabwe re-engages in FY17, (ii) 2015 CPIA is 2.9, (iii) the risk of debt distress is "in debt distress"; (iv) all other inputs (GNI per capita, population, etc) are updated as of May 2016; and (v) the PCPI does not affect the regular allocation; the country's FY17 allocation would be (a) as an IDA-only country, SDR41.2 million (US$58.1 million), all in grants; or (b) as a blend status country, SDR46.2 million (US$65.1 million) all in credits. The difference arises because in Blend status, Zimbabwe would not receive grants (regardless of the risk of debt distress), and therefore would not be subject to the grant discount of 20 percent.

[18] . It should be noted that Zimbabwe's arrears clearance plan represents a significant net financial gain to the Bank in terms of accumulated interest payments on relatively expensive old IBRD debt, while the Government's choice not to pursue HIPC allows IDA to refocus the set aside resources on the remaining two candidate countries.

[19] The five ongoing trust-funded projects are all recently committed, and to date all rated Satisfactory. Even if adjustments proposed in the *FCS Paper March 2013* paper for young portfolios were applied using all IDA average performance ratings, the results would be the same. The five projects are the Health Development Project (Health Results Innovation Trust Fund, $40 million, FY12), Hwange Sanyati Biological Corridor Project (GEF, $6 million, FY14), Public Procurement Modernization Project (ZIMREF, $1.6 million, FY16), National Water Project (ZIMREF, $10 million, FY16) and Public Financial Management Enhancement Project (ZIMREF, $10 million, FY16).

[20] Pg. 8, footnote 18

achieve satisfactory performance in implementing the first few projects (including the trust-funded projects in FY17). This would yield a PPR of 15.5 percent.

61. With a country performance rating of 3.9, the notional maximum per-capita allocation for Zimbabwe is US$19 million, which yields a total allocation of US$294.4 million per year with a population of 15.6 million[21].

62. **A country-specific factor ("α") of 0.3 is proposed for FY15-17 given the special case for this turnaround, and for 0.5 for FY18.** Some of the key considerations are that: (i) Zimbabwe is not in a post-conflict situation; (ii) the development financing needs are high as described above; (iii) but absorptive capacity is limited by the need to maintain/achieve debt sustainability and to renew institutional capacity for implementing IDA projects; and (iv) there has been no exceptional support provided by IDA in recent years owing to the outstanding arrears.

63. **The proposed duration of exceptional assistance is four years (FY15-18), with a review taking place as part of the CPF preparation during FY18.** It can be argued that Zimbabwe has been in a turn-around from around FY15, when the authorities first moved to achieve *pari passu* in their token payments, and opened formal discussions with the Bank on options for arrears clearance. Indeed, the reform momentum that has been achieved today reflects actions by the authorities since the administration re-assumed power in late 2013. However, it was not possible to consider an application for the turn-around facility until this time when assurances about the arrears clearance have been received. In the interim, the Bank has reserved Zimbabwe's notional IDA17 allocations for FY15 and FY16.

64. **It is proposed to backload Zimbabwe's entire IDA17 allocation in FY17, once the arrears are cleared.** An exceptional allocation for the entire IDA17 would amount to US$450 million. This would allow sufficient financing for an exceptional Development Policy Operation that could support the mass of policy reforms (beyond the IMF's staff monitored programs) completed during this period, and allow the Bank to respond positively to the authorities' proposed arrears clearance plan. Such an operation might also be extended beyond the immediate amount needed for the arrears clearance plan, to allow the Bank to resume a net positive transfer to Zimbabwe fairly shortly after.

65. **The exceptional allocation for FY18 will be subject to the IDA18 replenishment process.** It is expected that the provisions regarding the Turn-around Facility for IDA18 will remain generally the same. Zimbabwe's allocation for that year will also depend on its policy and institutional performance through the PCPI, and early portfolio performance (including performance on ongoing trust-funded projects). Moving to the required 20 percent weight as early as FY18 will provide a strong incentive for the government to achieve strong implementation on the first few projects.

Indicative program

66. The indicative pipeline of lending operations over the two years is shown below in Table 4. The program reinforces Zimbabwe's efforts to clear its arrears, and provides early

[21] World Development Indicators

budget support (Re-engagement DPO I) to help the country regain debt sustainability amidst significant macroeconomic headwinds. The National Water Project and the PFM Enhancement Project aim to complete ongoing operations, initially financed under the ZIMREF multidonor trust fund. New lending would be directed to those priority areas identified above – energy, social protection, health sector, rural development and land administration.[22]

Table 4: Indicative FY17 and FY18 Program of Support

(US$ millions)

FY17 *(Total IDA17 allocation back-loaded)*	300
Reengagement DPO I	270
Social Protection P4R	30
FY18	150
Batoka Gorge Hydro Electric Scheme Project	100
ZIMREF National Water Project Additional Financing	10
ZIMREF PFM Enhancement Project Additional Financing	10
Health Development Project II	30
Agricultural Development with Land Admin	tbd

Country strategy development

67. During the first period of access to the turn-around facility (FY17-18), the Bank will prepare a Systematic Country Diagnosis, building on the analytical work undertaken in the Analytical Multidonor Trust Fund and the Zimbabwe Reconstruction Fund. The authorities are undertaking a new household survey during 2016, and preparing an Interim Poverty Reduction Strategy Paper.

68. **This will be followed by the preparation, together with the authorities, of a Country Partnership Strategy during FY18 to be finalized after the 2018 general elections.** The current ISN III priorities of "fostering an enabling environment for (i) private sector development and job creation; (ii) strengthening core systems for public sector management and service delivery; and (iii) reducing vulnerability, improving resilience and strengthening human development" remain relevant. But with re-engagement, some attention would be placed on helping to close large infrastructure gaps, in particular where Zimbabwe is a necessary element to sub-regional systems (transport, water, energy).

69. **Client demand is expected to be very strong, both on the part of the client, but also to partner with other donors.** IDA's comparative advantage going forward will be: (i) the analytical knowledge about Zimbabwe's challenges built up during the non-accrual period; (ii) an in-depth understanding of Zimbabwe's policy and institutional frameworks and close working relationship with counterparts coming out of the technical assistance work under ZIMREF; (iii) experience implementing projects with government system (ZIMREF is one of the first funds with direct government implementation); and not least (iv) the World Bank's global reach and long history in Zimbabwe, dating back to 1955.

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[22] The program could also include two ongoing regional projects that could now include Zimbabwe: the first is the regional African Centers of Excellence II Project for East and Southern Africa (already prepared),[22] and the second is the Regional TB Project.

70. **Nevertheless, it will be important to capitalize on the portfolio "blank slate" to ensure a strong strategic focus in the Zimbabwe pipeline/program going forward.** However it is expected that IDA will use the full breadth of instruments, including investment lending, development policy lending, and guarantees, in the country program.

Annex 1: Fragility Assessment

Summary

1. **Zimbabwe could be on the cusp of emerging from a decades-long fragility trap in which the interplay of its fragilities and resiliencies has maintained a low level equilibrium in political and economic governance.** And the World Bank, together with the IMF and African Development Bank, with their multilateral perspective, financial strength, and at the same time, country-specific poverty and development focus, could be the critical factor in helping the country reach toward a new equilibrium. However, past experience in Zimbabwe has shown that interventions by the Bank and the other IFIs can also have a lasting negative impact, if not fully informed about the underlying political economy. This assessment is an attempt to unravel the roots and drivers of Zimbabwe's fragility trap to help inform decisions about multilateral re-engagement going forward.

2. **Zimbabwe's fragility may be ascribed to three main roots and several drivers that help to perpetuate these fragilities and deepen their impact on development and poverty.** The structural roots of fragility are found in: (i) Zimbabwe's own socio-economic history which entrenched a state and economic model of extraction and exclusion; (ii) the socio-cultural foundations of political leadership; and (iii) an unexpected geopolitical consequence – a combination of location, resources and the sub-region's broader history – that has created a volatility in the country's international relations.

3. **Zimbabwe has deep resiliencies which have helped to avoid broad-based civil conflict in the face of severe economic and social pressures, but also have been a factor in maintaining the fragility trap.** For example, Zimbabwe's mineral wealth has been used to justify the fiscal excesses but it has not engendered major violent conflict as has been the case in many other countries.[23] Also, the Zimbabwean people's remarkable coping mechanisms has also translated into a coping mentality in the government that serves mainly postpone politically difficult reforms. Mugabe's ability to balance political and security factions within the ruling party has served to prevent all out conflict but has also maintained Finally, robust institutions have been as much instruments of legal suppression through the "rule by law" as arbiters of domestic disputes (rule of law). These imbalances can be categorized into five major tensions that the Bank should be aware of when it resumes lending.

[23] Military intervention in the diamond rush in the mid 1990's resulted in 83 fatalities.

4. **The results of this interplay has been a protracted transition from an extractive-exclusionary development model toward a more inclusive one, but which is now at another crossroads.** This transition has taken the form of five major ways of unsustainable/unsustained redistribution. After a period of economic recovery, these fragilities have come to the fore even as Zimbabwe is facing major headwinds. In the current situation the Bank, together with the other multilaterals, have an opportunity to help tilt the balances toward greater resilience and contribute to unlocking Zimbabwe's fragility trap.

A. Sources of fragility

5. The sources of fragility manifest themselves in visible symptoms of capturing the state and economy, through weak social ownership of the state; patronage, corruption and policy instability; and volatile international relations. Table 4 summarizes how the sources of fragility have worked through six main drivers to create the negative dynamics in governance and development in Zimbabwe.

Table 5: Sources, drivers and symptoms of fragility in Zimbabwe

Sources of fragility	Drivers	Symptoms
Winner-take-all political and economic history	• Natural resource wealth • State led economy • Politicized security apparatus	Capture of the economy by state-approved elites Weak social cohesion
Socio-cultural foundations of political leadership	• • Weak social ownership of the state Mugabe's balancing skills	State capture, patronage and corruption Policy instability
An unexpected geopolitical consequence	• Natural resource wealth • Sub-regional political history	Volatile international relations

A classic model of extraction and exclusion

6. **Zimbabwe has a long and persistent history of winner-take-all politics that employed the state as a tool to capture the benefits of the country's abundant natural resources.**[24] The pre-colonial history was characterized by waves of violent conflicts in which some ethnic groups' resources were sporadically captured to benefit other groups. Colonization, first through the British South Africa Company and later through annexation in 1923, formalized the modern state based on government-sponsored extraction of benefits for the British Empire and European settlers, and initiated the exclusion of Africans and the emergence of an African working class. During the Central African Federation (1953-63), the repression of indigenous Africans increased with the *use of laws* to reinforce the exclusionary state. The rise of hardliner Ian Smith and the Unilateral Declaration of Independence (UDI) in 1966 toughened limitations on indigenous Africans in a departure from global trends on civil rights, which led to international sanctions during 1965-79. During this period, a siege-*cum*-statist economy developed in which the government played a crucial role through regulations and state-owned enterprises in managing the economy.

[24] Zimbabwe's resource wealth comprises 50 million hectares of fertile arable land, plentiful water sources and over forty exploitable minerals.

7. **After independence, Zimbabwe maintained elements of the earlier extraction-exclusion model.** The new constitution maintained disproportionate political representation for former economic elite minorities for a decade, and deferred land reform which would have addressed the historic marginalization of indigenous Africans. Although the new constitution and broad-based social programs which helped to improve equity in access to services, little was achieved broaden effective economic participation among both rural and urban workforce. Protectionism and price and wage controls were maintained. The government continued to dominate the economy through state-owned enterprises, not in terms of share of production but their strategic role in many value chains. Elite capture of key economic sectors persisted (albeit with different groups), urban-rural inequalities widened, and corruption became widespread.

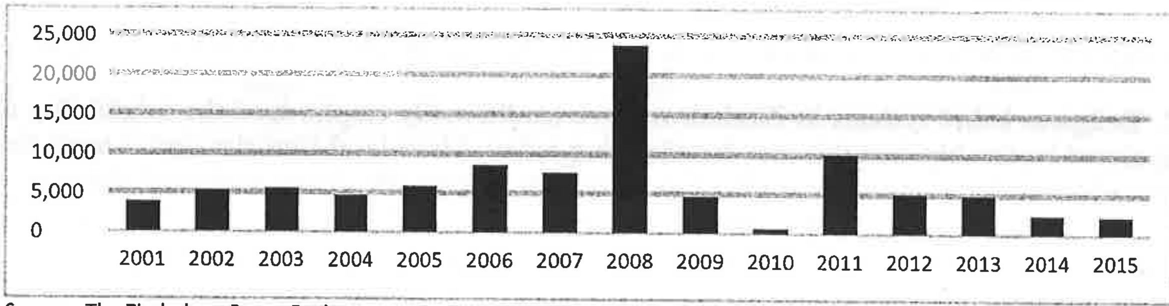
8. **A politicized and repressive security sector has been a critical factor in preserving this model, by suppressing "voice" through human rights violations.** During the colonial period, specific laws were developed to control the majority African population, and suppress nationalist movements. After independence, however, many of these laws were maintained and, in some cases, later strengthened. In addition, the military arms of liberation movements were embedded into the new political parties which ensured that the security sector has been aligned politically since.

Box 6: A repressive legal framework

Once in office, Mugabe continued the 'state of emergency' that had existed in Rhodesia under the Emergency Powers Act (1960), which was replaced by the Presidential Powers (Temporary Measures) Act (1986) for 10 years. The Law and Order Maintenance Act (1960) and its more repressive replacement, the Public Order and Security Act (2002) have given the state the right to detain persons without charge for half a century. Another repressive law that remained largely unchanged is the Unlawful Organizations Act (1959; the 1971 version was last amended in 2001). The Preventive Detention Act (1959) was repealed, but its clauses inserted into the Presidential Powers (Temporary Measures) Act (1986), Vagrancy Act (1960 was last amended in 2001) and Law and Order Maintenance Act (1960 last amended in 1992). After the liberation war, these laws remained largely untouched.

9. **The ruling parties have employed this politicized security force and repressive legal framework to preserve political power through a precise use of violence, which avoided all-out conflicts, but has been very effective in suppressing political pluralism.** Notable examples of this precise use of violence include during the liberation war in which military units coerced villagers to participate in the struggle. Again during 1983-87, over 20,000 people from the Ndebele minority were systematically executed by elite faction of the Zimbabwean army, ostensibly to stem violent dissident activity. In 2005, Operation Restore Order displaced over 700,000 urban settlers in advance of highly contested election. And again in 2008 there was a dramatic rise of human rights violations during an election that led to the withdrawal of the leading candidate from the presidential run-off (see Figure 7). Of the 31 countries, surveyed in *Afrobarometer* 2014/15, Zimbabwe has the third highest share (25 percent) of respondents who "personally fear becoming victims of political violence or intimidation" during election campaigns. Significantly fewer Zimbabweans – 58 percent versus African average of 82 percent – believe that they are "often/always free to join whatever political party they want"; and more believe – 82 percent versus an African average of 63 percent – that they "have to often/always be careful what they say".

Figure 7: Numbers of alleged human rights violations in Zimbabwe (per year)



Source: The Zimbabwe Peace Project

10. **The persistence of the extractive-exclusionary model has constrained the development of "bridging" social capital between different ethnic groups.**[25] Zimbabwe today remains a largely divided society along racial terms, although ethnic relations among the African population are improving. Pre-colonial tensions between the Shona and Ndebele peoples resurfaced as dual nationalist movements and persisted during the liberation struggles. Disagreements on approaches to post-independence treatment of white elites emerged across these groups,[26] and resurfaced around the Gukurahundi massacres during 1983-87.[27] Memories of racial segregation and unequal civil rights during colonial Rhodesia that had eased during the early years after independence, resurfaced during the Fast Track Land Reform Programme (FTLRP) in the early 2000s. Lingering resentments, trauma and other grievances further weaken the "bridging" social capital, even within the five Shona ethnic sub-groups.[28] ZANU-PF has traditionally led by Zezuru and Karanga individuals, while the third largest Shona sub-group, the Manyika, has been side-lined from top posts. As a result, all major opposition candidates to have run against Mugabe for the presidency have been Manyika.[29] The society is thus susceptible to ethnic divisions as means of political organization: starkly different narratives about the past, present and future are built around these divisions.[30] The success of ethnicity-based politics has created a disincentive for serious national reconciliation. These divisions not only affect political and social life, but stymie the flow of capital and ideas in the private sector.

Social-cultural foundations of leadership

11. **Just as Zimbabwe exhibits characteristics of both a fragile state and a middle income country, the disposition of political leadership in Zimbabwe also has a dual character.** As is common in other parts of Africa, it draws from traditional culture where leaders are imbued with wide-ranging privileges, from obligatory respect to immunity from rule of law to material benefits, and where ethnicity continues to be an important factor in bloc formation. At the same

[25] Africans make up 99.6% of the population: Shona (85 percent), Ndebele (12 percent), and smaller ethnic groups[25] together comprise around 1 percent, while non-Africans make up a mere 0.4% percent. Zimbabweans of mixed race form a separate social group, which does not identify itself as either black or white.
[26] Mainly pertaining to how to demobilize, but also with respect to reconciliation or continued struggle against non-integrationist whites.
[27] During 1983-87, over 20,000 Ndebele people were executed by an elite force "Fifth Brigade" of the Zimbabwe National Army, ostensibly to stem violent dissident activity in Matabeleland.
[28] Zezuru, Karanga, Manyika, Korekore and Ndau (in order of population shares)
[29] Edgar Tekere, Abel Muzorewa, Morgan Tsvangirai, Simba Makoni, Ndabaningi Sithole and Arthur Mutambara.
[30] Seth Kaplan, "Flagging, Assessing, and Addressing State Fragility: A Societal and Institutional Approach"

time, it draws from a strong civil tradition, where political parties have institutional frameworks (constitutions, even) for managing their internal affairs, and performance (within the party's institutional framework) can allows anyone to rise to the fore, not just those from the social elite.

12. **Religious belief systems in Zimbabwe have traditionally emphasized the infallibility of appointed leadership, but this may be changing today.** Many local Christian sects[31] teach that political leadership is appointed by God and should be respected[32]. Some traditional faiths even support a common narrative about the divine election of Mugabe by a spirit medium upon his release from prison.[33] These values have hitherto helped to dull social pressures for political change, owing to the importance of religious beliefs in everyday civic life. However, the traditional norms about leadership privileges may be losing sway in Zimbabwe today. The *Afrobarometer 2014* results show that more Zimbabweans (80 percent vs African average of 75 percent) think the President should be bound by a country's laws. And the rise of the #ThisFlag movement – where a minor local pastor was able to mobilize a national strike -- points to a growing potential of religious leaders on politics and governance

13. **Leaders in Zimbabwe have not generally emerged from broad-based social or political movements; instead comprise a small groups have imposed direction on a larger group.** In other societies, political parties often formed around broad social movements, such as civil rights, trade unionism, religious causes, or even anti-immigration campaigns. But in Zimbabwe the most successful have been often overcome by small groups of dissenters who take control of a larger arena. For example, in 1964 Ian Smith took control of the Rhodesian Front in a "castle coup" and moved quickly to take a hardline position against majority rule, despite a broad discomfort with this direction in the European population. Similarly, the African nationalist movements emerged from a narrow group of African elites who were eligible to vote as early as 1934, but which later coerced, often through violent means, the cooperation of the rural population into the liberation struggle. The #ThisFlag movement is led by a local pastor whose own congregation is less than 500 persons.

14. **Among this narrow leadership cadre, factionalism became the main driver in the Zimbabwe's political evolution and a key factor in the current ruling party's longevity.** Factionalism refers to the splintering and coming together of sub-groups to form and reform political parties. In the African nationalist movements in Zimbabwe, new leaders formed around splinter groups based on ethnicities and/or personality. Two separate liberation movements jointly negotiated independence, but contested the first election largely on ethnic grounds. After independence, the dissident military action by one group resulted in a brutal reprisal against its ethnic group in 1983-87. This reprisal was itself led by a splinter faction of the armed forces.

Box 7: A long history of factionalism

Between 1934 and 1964, African nationalist movements emerged, which were systematically repressed, and intermittently formed and reformed essentially from the same limited leadership. The African National

[31] 93% of Zimbabweans are Christian of which 38% are members of the Apostolic Sect, 21% are Pentecostal, 17% are Protestant and 8% are Catholic. (Source: Zimbabwe Demographic and Health Survey 2010-11)

[32] Holland, H. 2008. *Dinner with Mugabe: The untold story of a freedom fighter who became a tyrant*. Penguin Books.

[33] Machingura, Francis. 2012. *The Messianic Feeding of the Masses: An analysis of John 6 in the context of Messianic Leadership in Post-Colonial Zimbabwe*. University of Bamberg Press.

Congress (ANC) was the first to emerge in 1934 from an African elite who were eligible to vote. The creation of the Federation in 1953 saw the ANC split into pro-Federation and anti-Federation groups, the latter becoming the first nationalist party open to Africans of all classes. In 1957, these groups reunited to form the Southern Rhodesia African National Congress which led violent protests in 1958-59 which triggered a ban and new repressive legislation. It was then resurrected as the National Democratic Party (NDP) in 1960, now an elitist party focused on urban Africans. Another split in 1961 saw the creation of the short-lived Pan-African Socialist Union. Following a second ban, NDP transformed into the Zimbabwe African People's Union (ZAPU) under the same leadership, but with a now pan-Africanist and militant stance. After a third ban in 1962, the party split again with the formation of Zimbabwe African National Union (ZANU). While ZAPU favored international lobbying, ZANU believed in direct confrontation. In 1964, violent confrontations broke out between the two parties, both were banned and the leaders, including Mugabe, detained for a decade. By 1971, both ZAPU and ZANU were again divided into two factions: for, and against, re-unification. Within ZAPU, violence broke out between these factions. The pro-unification factions broke away from both parties and merged to form the ill-fated Front for the Liberation of Zimbabwe which soon disintegrated. In 1976, the military wings of both parties united but also soon succumbed to factional conflicts again.

15. **Mugabe has retained control through his well-recognized ability to encourage and balance competing factions over time**[34] Because Shona culture emphasizes coalition leadership and the ability to balance diverging interests, Shona have eventually emerged as leaders, both in the ruling party and the opposition.[35] Mugabe, who was the first Shona nationalist leader to emerge, has tried to build consensus within the party only in times of threat. More commonly, he has instead expelled or eliminated rising contenders for leadership, and encouraged splits among the remaining. During the 1990s, after the *Gukurahundi* offensive (see para 8), the two main liberation movements unified into the ZANU-PF party, but internal factions emerged which represent the former competitors. These groups alternated political favor between them until 2015, when Mugabe again expelled the Ndebele faction, and "created" a new faction among younger, less ethnically leaning people around the First Lady. The security sector remains divided with different agency heads clearly aligned to different ethnic groups.

16. Factionalism plagues even the opposition, which won power and helped to form the Government of National Unity during 2009-13, but is today divided into two groups, one of which expelled the other from Parliament in 2015.

17. **This balancing act has been effected through systematic state capture and patronage, periodic redistributions as a vote garnering mechanisms, and deliberate under-resourcing of key minority groups.** Mugabe's balancing skills may have prevented more widespread violent conflict, but it also preserved the extraction-exclusion model and rents required to move around existing and emerging factions. After the initial period of post-war growth, when the leadership concentrated on rewarding the broader population, Mugabe responded to political challenges with force, and to economic and political challenges by using the resources of the state (and later the economy) to maintain and alternatively appease competing groups within the ruling party. Waves of capture and redistribution – some pro-poor and others less so – saw social benefits, government assets and jobs, natural resources, and commercial assets and public services successively allocated mainly for political gain. The most notable of such allocations

[34] Broadly from the 1980s' Ndebele former ZAPU faction and Shona ZANU faction to the emergence of the Zezuru Mujuru faction and Karanga Mnangagwa faction in the nineties.

[35] Former nationalist party leaders came from minority ethnic groups (Nkomo was Ndebele while Sithole was Ndau) and did not attempt to balance factions that emerged, but rather opted to exclude a faction opposed to their leadership, which being led by a Shona became more popular.

were mining resources, agriculture finance and land, and control of state-owned enterprises. The 2013 Constitution requirement of one farm per household has not applied to senior government officials, who continue to seize agricultural assets from non-indigenous and now also indigenous farmers. Of the central bank's estimated US$3 billion in losses in quasi-fiscal operations during 2003-08, one-tenth is estimated to have been through concessional financing to farming activities of the ruling elite.[36] As recently as 2014, heads of many SOEs were receiving exorbitant salaries and benefits, while employees were unpaid and the enterprises declared losses.

18. **The combination of the above foundations and conduct of leadership has both resulted in, and been perpetuated by, a weak social ownership of the state.** Weak ownership of the state, in part due to its history of exclusion, may have enabled corruption to grow, and may become a potential driver of fragility in a less coercive state. Though socio-cultural traditions strongly condemn crimes (including petty crimes) against individuals, there appears to be a broader permissiveness for corruption against the state. The *Afrobarometer* survey of 31 countries in 2014 found that 53 percent of Zimbabweans (versus the 63 percent African average) believe that tax fraud is 'wrong, but understandable', and only 35 percent of Zimbabweans believe it is a punishable crime (as compared to the African average of 49 percent). Only 60 percent of Zimbabweans report that citizens should always pay taxes, below the African average of 72 percent, and the fourth lowest response (above Lesotho, Sudan, and Egypt). Nevertheless, Zimbabwe has among the highest levels of tax revenue to GDP, suggesting a strong compliance with official rules. One explanation of this dichotomy is that the strong state security may have been important in enforcing compliance with institutions and laws. Non-state crime and violence[37] have remained moderate in the country, despite extreme economic difficulties. As such, it may be difficult to predict how such compliance would evolve under a less repressive state in the future.

19. **Today, an elderly president, recurring economic pressures and a more vocal civil society have combined to deepen short term political fragility, but could also be a turning point.** The advancing age of the President and the lack of a recognized successor is leading to heightened intra-party conflicts. High profile, public battles between party officials have dominated the news for the last two years, and the ruling party' institutional mechanisms for regaining balance are over stretched. Meanwhile a broad shift toward more pragmatic (vs ideological) economic policies are disturbing the party's entrenched vested interest and exacerbating the internal political turmoil. At the same time, the recovery period during 2009-12 saw Zimbabwe's successful diaspora and many return migrants re-engage politically through civil society or the private sector.

An unexpected geopolitical consequence

20. **Zimbabwe's strategic location, natural resource wealth and aspects of its historical development have combined to create an unexpected geopolitical significance that complicated its regional and international relations.**[38] Because of its location, Zimbabwe has

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[36] Altana, Daniel & Kojo, Naoko. 2008. *Zimbabwe: A Preliminary Review of Parastatals*. The World Bank

[37] The homicide rate in Zimbabwe ranks 75 among 218 countries reviewed by UNODC – with a rate half of Botswana's and a quarter of South Africa's.

[38] Chitiyo, K & Kibble, S. 2014. *Zimbabwe's International Re-engagement: The Long Haul to Recovery.* The Royal Institute of International Affairs.

historically been, and continues to be, an important political player and infrastructure node in southern Africa. For example, independent Zimbabwe played an important role in conflicts in Mozambique, the Angolan Civil War (1998-99) and the second Congo War (1998-2003), which not only placed it on a different sides from international powers, but also helped shape transport corridors through in Zimbabwe that are still relevant today. The country serves as a key nexus of the North-South Corridor (depicted in the adjacent figure) which is the main trade route in southern Africa, due to the continuing peace and stability of backbone countries (South Africa, Zambia and Zimbabwe).[39] Zimbabwe's location is also critical for other infrastructure networks like water and energy. After South Africa it has the largest water storage capacity in the Africa and, together with Zambia, has the potential to contribute more to regional energy needs through both general and transmission.

Figure 8: Road Transport Corridors of East & Southern Africa

21. **The diversity of the country's mineral wealth stands out from other countries in the region.** Zimbabwe has over 40 exploitable mineral deposits, where other countries (Zambia, Botswana) are more concentrated in fewer, large deposits. In addition Zimbabwe's deposits are largely untapped. Zimbabwe's deposits include some of the most productive gold geology in the world: the largest diamond find this century; the second largest and among the most economic platinum reserves; the third largest chrome reserve; and the eight largest lithium reserves (global demand is rising for both chrome and lithium). This mineral wealth has attracted dissimilar international commercial and political interests throughout Zimbabwe's history and continue to complicate its international relations. Most recently, Zimbabwe often finds itself at a nexus between BRICS and the West over the potential exploitation of it these assets.

22. **Zimbabwe's historically larger European population has also been an important factor in charting its rather volatile international relations.** Zimbabwe's colonial history is a fairly common one, except for the large scale post-World War II immigration of over 200,000 Britons which increased the European population by more than half to about 6 percent of the population. This was an important factor in the early institutional development of the Zimbabwean state and the private sector that ultimately helped Zimbabwe gain an element of technical leadership within SADC that persists today, despite the country's economic difficulties. However, the larger European population has also served to maintain a high level of outside political interest in political and other developments in Zimbabwe, even to the point of charting post-independence constitutional developments. Today this interest is heightened in some quarters by the strong role of the Zimbabwean diaspora in these countries. [40]

23. **Within the region, the political and economic relationship between South Africa and Zimbabwe has been historically complex.** Historically, the liberation movements of both countries were well aligned. Later, however, the ongoing apartheid struggles in South Africa led

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[39] Despite being relatively cost inefficient for the many of the nine countries it serves.

[40] A few other countries, have at one time or the other, maintained a heightened interest in Zimbabwe depending to their perspective on regional trends in which the country was either emblematic or instrumental. During the liberation war, support mainly came from the socialist bloc (China, North Korea and Soviet Union) and certain Western nations (Denmark, Norway, Sweden and West Germany). Meanwhile, US restrictions on its role in international aid to Zimbabwe include specific provisions on Zimbabwe's engagement in the Congo war. Australia played an important role in Zimbabwe's withdrawal from the Commonwealth group.

regional pressures to constrain the newly independent Zimbabwe from fully responding to redistribution demands at home. Meanwhile, the apartheid Government sponsored military excursions to destabilize the new nation to its north, while Zimbabwe continued to support liberation movements in South Africa, Mozambique and Angola. After its own transition in 1991, South Africa revoked a crucial trade agreement with Zimbabwe that was detrimental to Zimbabwe's economy. Since then, political relations between the ANC and the ZANU-PF have fluctuated depending the ANC leadership (labor, capital, etc.) in South Africa. In 2009, the southern neighbor was crucial in pushing ZANU-PF to accept the formation of the Government of National Unity. Meanwhile, South Africa has been the main destination for the Zimbabwean diaspora, serving as an important pressure valve during economic distress. Today, 2-3 million Zimbabwean immigrants work in South Africa and are now the primary source of remittances. The collapse of Zimbabwe's agricultural production following disorderly land reform dampened similar land pressures in South Africa. South Africa and Zimbabwe have had counter-cylical economic performance, partly related to the failure of Zimbabwe to make the most of the commodity boom, and the appreciation of the US dollar against the South African rand. After a long period of very neutral political coexistence, Zimbabwe and South Africa have formed a binational commission in 2015 to formally improve relations.

24. **Finally, Zimbabwe's position as the only officially dollarized economy in Africa is a new element in its geopolitical profile.** Following the collapse of its currency and the establishment of a multicurrency regime, Zimbabweans opted for the US dollar as the dominant means of exchange. However, the recent strengthening of the US dollar and depreciation of the South African rand has made Zimbabwean exports and tourism regionally uncompetitive, while commercial interests from across the continent and beyond have been attracted to the Zimbabwean economy as a source of hard currencies. The impact is being felt in today's acute cash shortage.

25. **These various trends have yielded a certain volatility in Zimbabwe's foreign relations that has been a contributor to the country's fragility.**[41] For example, the fact that country has been under economic or political sanctions for thirty of the past fifty years, partly explains the development and persistence of the state-led and protectionist economy. In addition, large swings between support and sanction have been the norm for international partners. After the 1965 unilateral declaration of independence – the first for the United Kingdom (UK) since the United States in 1776 – the United Nations (UN) implemented its first-ever trade sanctions against an autonomous state, which continued from 1965-79.[42] Then in 1979 UK-brokered peace agreement secured conversely disproportionate political representation for non-African minorities for the next decade, and huge pledges of aid. During the next two decades, the country enjoyed good relations with the West (notwithstanding rising governance and human rights violations in the 1980s) and received US$1.5 billion in ODA from 1981-97, including over $700 million from the World Bank in the first decade. Then Zimbabwe's controversial land reform, problematic elections in the early 2000, its non-payment of foreign debts, led to new sanctions from donors and IFIs.[43] The situation continued until the establishment of the Government of

[41] Source: Chitiyo, K & Kibble, S. 2014. *Zimbabwe's International Re-engagement: The Long Haul to Recovery.* The Royal Institute of International Affairs.
[42] During this period, the US broke rank and permitted chrome imports from Zimbabwe.
[43] Zimbabwe's ceased access to the World Bank and IMF in 2000 and 2002, respectively, following payment defaults. In 2002, the European Union imposed targeted measures,[43] and in 2003, the US enacted the Zimbabwe

National Unity in 2009, when relations with the West thawed significantly. After Zimbabwe adopted a new constitution in 2013, the EU reopened direct relations with the Government, and eased most of the travel and trade restrictions.

26. **In turn, the Zimbabwean government has countered this volatility with its own brand of international activism, while capitalizing politically on the sanctions at home.** Allowing external payment arrears to linger for a decade and a half is viewed by the authorities as much a form of activism, however perverse, as championing a permanent seat for Africa on the UN Security Council. In some senses, it reflects a demand for perceived autonomy that has superseded the demand for good economic performance. Meanwhile, the variability in international relations has in fact served to prolong the appeal of the old guard's liberation credentials, to the detriment of the political pluralism many of the sanctions are meant to encourage.

27. **This interplay has complicated the work of aid agencies in Zimbabwe, but it also puts the onus on institutions like the Bank with a multilateral reach to help bridge the gaps.** Today, international perspectives on Zimbabwe still often move between extremes, missing the more nuanced realities on the ground. The Bank, and others can play a role in helping to bring those realities to the fore in way that helps partners to balance more effectively regional and global interests for the benefit of Zimbabwe's development.

B. Sources of resilience

28. **Zimbabwe's avoidance of all out violent conflict and its rapid rebound after stabilization points to sources of resilience that merit deeper analysis.** These resiliencies take the form of a high level of social capital *within* families and communities, well developed and resilient institutional frameworks, skilled and well-educated population and, a successful and engaged diaspora.

29. **The country has high social capital with family and ethnic groups that has helped to develop remarkable coping mechanisms.** The Zimbabwean people have demonstrated a remarkable resilience to the record economic pressures they have experienced over the past decades. One opinion maker has attributed it to the long history of period droughts, well accepted to be every three or so years, that required communities to band together. Today, the strong social 'bonding' within family structures amplifies the multiplier effect of urban incomes and diaspora remittances on the vulnerable households and the rural poor.[44] Zimbabwe has relatively large and stable remittances of around 5 percent of GDP, exceeding official development assistance to the country in recent years. Recognizing that migration has its self been a coping mechanism, in addition, these remittances have been fairly robust even in the face of a weakening global and South African[45] economies. The recent violence at a Zimbabwe-South Africa border post following an import ban on consumer products reflects the importance of labor and trade flows in the coping mechanisms to households in the country.

Democracy and Economic Recovery Act. A build-up of Paris Club arrears led to a withdrawal of direct ODA by its members.

44 Magunha, F. 2012. Understanding remittances as a Form of Social Protection: An analysis of Kinships and Transnationalism amongst the Zimbabwean Diaspora. African Studies Bulletin 74, pp 63-79

45 There are over 2 million Zimbabwean migrants working in South Africa.

30. **These coping mechanisms also operate at the institutional level, but in this case they have served to postpone, rather than motivate, difficult reforms.** Many of the ruinous fiscal and monetary practices that ultimately caused the record hyperinflation in the mid 2000s, emerged gradually as the authorities explored stop-gap measures and avoided taking more difficult policy reforms. The over exploitation of diamond reserves was another such mechanisms.

31. **Another important source of resilience is the comparatively skilled and well educated population.** Zimbabweans have a high and it appears very inelastic demand for education as evidenced by the out of pocket contributions. Together with the fiscus, the country continues to invest some 11 percent of GDP in education, among the highest in Africa. The country has the third highest average adult years of schooling in the region, after Botswana and South Africa. Although this point is not fully substantiated, many analysts suggest that it is this high level of education that has helped the country avoid violent conflict. In addition, this education has seen Zimbabwean emigrants smoothly absorbed into regional and international receiving countries where they have prospered professionally and economically. Indeed there are education systems in the subregion which would suffer greatly if the Zimbabwean educators should leave suddenly.

32. **Beyond remittances, the Zimbabwean diaspora and return migrants are a potential source of future political, social and institutional progress.** This group has remained engaged in both developments in Zimbabwe. And after 2009 there was a wave of return migrants that have contributed to both the institutional renewal and economic growth. Today, this diaspora is a strong source of social and political development in the country.

33. **Zimbabwe still has a strong and fairly modern institutional framework for development that has rebounded from the economic collapse, despite persistent corruption.** The Bank's experience with analytical and technical assistance work over the past seven years suggests that Zimbabwe's institutional capacity has fared surprisingly well through the crisis. The rapid renewal of technical and operational capacity in the public sector (see Box 7 on PFM reforms), alongside a strong recovery in social services points to a rather fertile environment for future development support. In health, for example, the introduction of results-based financing in 2012 has seen dramatic improvements in access, quality and efficiency in maternal and child care. Other fairly large donor-financed and UN-implemented trust funds in social protection, health and education have helped to Zimbabwe to regaining outcome levels of the early 1990s in key areas. Zimbabwe continues to have one of the best performing AIDs program and has reduced HIV prevalence to around 15 percent in 2014 from over 40 percent in 1998. Life expectancy recovered from a low of 43.1 in 2003 to 53.3 in 2012 (the earlier high was 61.6 years in 1986). Maternal mortality declined from 960 deaths per 100,000 live births in 2010-11 to an estimated 614 deaths in 2014; under-five mortality from 94 per 1,000 in 2009 to 75 in 2014. Overall, the CPIA has rebounded from 1.4 in 2008 to 2.9 in 2015.

Box 7: Advances in public financial management

After 1999, when the GoZ was in the process of implementing an Integrated Financial Management System (IFMIS), all the pillars of public financial management eventually collapsed. The budget was not useful, there was no accounting, no reporting, no commitment control, no financial reports, no audit reports; the Public

Accounts Committee (PAC) of Parliament was incapacitated and cash management was ad hoc. The IFMIS had been replaced by manual procedures and by 2006, the Auditor General issued a disclaimer for all public accounts.

In January 2009, the GoZ began rebuilding its PFM systems, and achieved significant improvements in the legal framework by enacting the PFM Act of 2010 whose tenets were enshrined in the 2013 Constitution. The SAP accounting system was restored, a budget calendar was introduced, the national budget is now prepared on time each year, and consolidated financial statements are produced and published in the Gazette on monthly and quarterly basis on a timely basis. Expenditure variances have declined steadily from above 50 percent in 2009 and 2010 to 5 percent in 2014. In 2015, the authorities presented program-based budgets for three line ministries alongside the traditional budgets, to further improve the efficacy of fiscal planning and ensure a tighter oversight of spending against priority program areas.

A backlog of public audits has been cleared and legislation passed to strengthen the independence of the Office of the Auditor General. In 2014, the Public Accounts Committee of Parliament managed to review all 32 audit reports and submit their recommendations for a full parliamentary debate. A new toolkit was developed to assist members to focus on key findings and to score the reports of the various ministries and parastatals. In 2015, the Auditor General presented the audited accounts of central government within the required 6 months after the close of the fiscal year, and owing to training of journalists and civil society organizations- -the hard copies ran out in the first day. The CPIA rating for quality of budgetary and financial management has improved to 3.5 in 2015.

34. **Some accountability institutions are also demonstrating a certain resilience.** With small flows of donor support, the judiciary, the supreme audit institution and, to some extent, the Parliament have been able to re-establish some lines of public accountability. The Parliament and the Office of the Auditor General have effectively resuscitated public scrutiny of government finances as evidenced by the increasing number of articles highlighting details of corruption as well as the increasing number of suspensions and arrests based on recent audit reports. Citizens are able to bring claims against the State and a majority of those cases reaching the High Court are successful. Court cases are assigned by lottery and judicial decisions are published electronically. The Chief Justice's administrative reports are made public and have resulted in a number of suspensions of magistrates in 2015. Traditional rural leadership also continues to provide reliable conflict management in areas with limited judicial presence. Although still dominated by the ruling party, Parliament is also rapidly reemerging as an effective mechanism for open policy debate as evidenced by heated reviews of some strategic new legislation.

35. Building on this institutional framework, Zimbabwe's political system has generally imposed rule by laws and regulations, in that even when state or economic capture is being imposed, it is executed under an recorded institutional framework. Security crackdowns have largely been imposed under fairly repressive legislation for law and order retained from the colonial period. All the political parties generally comply with their own constitutions, and even attempt to resolve their internal disputes in the court systems. This "institutionality", however,

does not extend however to rule ***of*** law. The political elite routinely flaunt court decisions with impunity and human rights violations, although substantially declining remain high. While the judiciary retains adequate structure and capacity, and carries out its mandate credibly in most cases, it is undermined in cases and claims that involve the ruling elite.

36. **Finally, Mugabe's factional balancing skills have also been a source of stability by keeping the ruling party and the security forces together.** The President's factional balancing skills have helped to unify the fractious ZANU-PF at critical moments in the party's history and are likely to have prevented all out conflict on several occasions. Unlike his party, ZANU-PF, he remains popular in Zimbabwe. An Afrobarometer survey conducted in May 2015 found that 57 percent of Zimbabwean respondents "approve" or "strongly approve" of Mugabe's job performance, 33 points higher than at the beginning of the GNU in 2009. This popularity may have also has helped to minimized the risk of violent coups.

C. Impact on poverty and development

37. **The interplay of the above-described fragilities and resiliencies in Zimbabwe has been a costly and unfinished transition toward a truly inclusive state and economic model.** Over time, Zimbabwe has seen five major attempts – some pro-poor, others not – to recast its economic model and broaden the participation by different groups, each failing for particular reasons related to the underlying fragilities (and sometimes the resiliencies) described above. Box 6 summarizes these attempts.

38. **The first attempt to dismantle the extractive-exclusionary state model, was the violent liberation struggle in the 1960s and 1970s.** However, while this struggle for political and civil rights led to majority rule, but many elements of repression were maintained that were later used against the broader population (see paragraphs 9 and 10, above).

39. **The second thrust towards a more inclusive development was the surge in social services and labor protections in the mid-1980s.** The 1980s saw a massive expansion in social services and some infrastructure services to underserved populations, and the strengthening of labor protection for formal sector workers by virtually eliminating the right to fire employees. Spending on education and health nearly tripled, the public-sector wage bill rose by 60 percent from 1979 to 1990, and central government increased its expenditure from 33 to 45 percent of GDP.[46] Unfortunately, this took place through an unsustainable fiscal expansion emphasizing the role of the state, rather than a broadening of participation in the economy. This expansion

[46] Davies, Rob and Rattsø, Jørn. 2000. 'Zimbabwe: Economic adjustment, income distribution and trade liberalization'. Centre for Economic Policy Analysis

Box 6: Five waves of redistribution

- Before 1979. The violent liberation struggle for political and civil rights achieved majority rule with caveats, but constrained redistribution & retained repressive laws.
- (1980s) Surge in social services and labor protection through unsustainable fiscal expansion. Social spending tripled, the public wage bill rose by 60% and central govt expenditure rose to 45% of GDP. Improvements in social indicators masked large rural-urban inequalities. Donors focused on economic reconstruction, and less on broadening the benefits of growth. Only 14% of $630m WB loans (1981-91) addressed rural poverty, social services or small scale production.
- (1990s) Redistribution of public wealth to political class through capture of an expanding state. First corruption scandal in 1988. By 1999/2001, 56% saw corruption worsening (compared with 36% African avg. By 2014, TI ranked Zimbabwe 156 of 175; and WGI, 204 out of 210. By 1993, government accounted for half of total investment and central govt expenditure reached ½ of GDP.
- (2000s) Control of natural wealth: agricultural land and minerals. FTLRP settled 160K small holders but collapsed agricultural production by 43% (2000-08). Battles over key extraction and trading rights deterred new mining investment.
- (>2008) Redistribution of commercial assets and public services. Indigenization Act enacted in 2008, expanded in 2012. Some focal banks captured by political elite during credit boom, and the recovery of public finances allowed a further expansion of public sector employment and wages.

resulted in significant improvements in social equity financed by large deficits, but improvements in social indicators masked large and persistent inequalities in rural-urban welfare (while extreme poverty appears to have decreased nationally, from 47 percent in 1995 to 22 percent in 2011, rural extreme poverty stood at 23 percent as compared to 4 percent in urban areas).

40. **It is notable that, during this period, donors focused almost exclusively on economic reconstruction, at the expense of investments that might have capitalized on social progress to broaden the benefits of growth.** Only 14 percent of the US$628 million that the Bank lent to Zimbabwe during 1981-91 addressed rural poverty, social services or small scale production.

Moreover, "the Bank was unable to launch a lending program for agriculture, and gave insufficient attention to social safety nets (CAE, 2004 p. v)."

Table 6: World Bank loans and credits to Zimbabwe during 1981-91

Project	US$ m	Approval date
Manufacturing Rehabilitation Imports Program	65.0	Mar-81
Transport Rehabilitation Imports Program	42.0	May-81
Small Farm Credit	30.4	Sep-82
Petroleum Fuels Supply Technical Assistance	1.2	Sep-82
Power	105.0	Dec-82
Manufacturing Export Promotion	70.6	Feb-83
Rural Afforestation	7.3	May-83
Highway (01)	26.4	May-83
National Agricultural Extension & Research (01)	13.1	Jul-83
Railway Development	40.0	Aug-83
Urban Development	43.0	Jun-84
Small Scale Enterprises (01)	10.0	May-85
Health	10.0	Jul-86
Power (02)	44.0	Jan-88
Highway (02)	32.7	May-88
Agricultural Credit & Export Promotion	36.3	May-89
Urban (02)	80.0	Jun-89
Forest Resources Management & Development	14.5	Mar-90
Railways (02)	38.6	Dec-90
Family Health (02)	25.0	Jun-91

Source: Operations Portal2

41. **A third effort to reallocate the benefits of then slowing growth came through a massive redistribution of public wealth to the political class, largely through a rise in corruption and state capture.** With less discriminatory rules after independence, a black capitalist class emerged and began to surpass the African political elite in prestige. This coincided with growing political challenges in the 1990 and 1995 elections, and led to a gradual relaxing of ZANU-PF Leadership Code,[47] and a steady rise in corruption. The first memorable post corruption scandal came in 1988. Although it precipitated the resignation of several high level officials (and a suicide), Mugabe and ZANU MPs charged the state media with 'overzealousness' and reassigned an editor. In the 1999/2001 *Afrobarometer* study, over half of Zimbabwean respondents (56.1 percent) indicated that corruption was getting worse – compared with an average 37 percent for all the 9 countries surveyed. By 2014, the Transparency International Corruption Perceptions Index ranked Zimbabwe 156 of 175 countries, and the World Governance Indicators Control of Corruption Index, 204 out of 210 economies. Zimbabwe continues to score 1.5 out of 6 in the CPIA on state capture by narrow vested interests,[48] with poorly defined boundaries between public and private interests.[49]

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[47] The ruling party adopted a strict code of behavior in 1984, which among, *inter alia,* prohibited party leaders from receiving gifts in the conduct of party and government duties, withholding disclosure of personal financial assets to a party or government body investigating corruption, owning businesses (with the exception of petty businesses), receiving more than one salary, owning more than one house (with the exception of polygamous arrangements), or owning more than 50 acres of land.

[48] CPIA Question 16 (c).

[49] Today ZANU-PF leadership has business interests in almost all sectors of the economy. The Mugabe family owns vast farming estates, but is also believed to have a vast fortune invested in Malaysia. The Mujuru family at one time dominated the gold and diamond sectors. Mnangagwa has been responsible for the party's businesses, which are shrouded in secrecy, even from other members of the party leadership. The military has been involved in a wide range of mining activities, including diamonds and platinum. Some parts of the growing informal sector were also

42. **This redistribution to the political class coincided with and capitalized on a further expansion of the state into the economy.** Although the share of parastatals in ownership of assets was still estimated to be relatively small, by 1993, government investment accounted for one-half of total investment,[50] and the central government had grown steadily to over one-half of GDP. Together with control over statutory monopolies, investment rationing, and credit allocation policies, these factors provided fertile ground for misusing resources and privileges. The sharp decline in public services associated with Zimbabwe's collapse began during this period, and started to reverse many gains earlier achieved.

Box 9: The cost of corruption and mismanagement

Decades of deferred maintenance and lack of long-term financing have taken a heavy toll on Zimbabwe's infrastructure, which once was among the best in Africa. Electricity output fell to around half the level of demand, and today about 40 percent of the roads need rehabilitation. Zimbabwe used to have some of the highest access rates to water and sanitation in Africa; but these have rates dropped to 46 percent for water supply and 30 percent for sanitation. In 2008 and 2009, the deterioration of water and sanitation services resulted in a cholera outbreak that affected 100,000 people and claimed 4,300 lives.

43. **The fourth wave of redistribution centered on controlling Zimbabwe's natural resources, agricultural land and minerals, but revealed the limitations of redistribution without growth.** As the President aged and the succession endgame intensified, the elite capture of agricultural land and mineral wealth has become a central battle ground for competing political factions. The controversial history of the Fast Track Land Reform Program, which started in 2000, and its achievements in decongesting communal reservations and settling over 160,000 small land holders are well known – as are the accompanying failures to reconfigure critical elements that support production systems (i.e., irrigation, financing, tenure security, extension services and market linkages). Agricultural production fell by 43 percent from 2000 to 2008. In the mineral sector, raging battles over key extraction and trading rights have deterred investment in exploration. Both diamond mining and artisanal gold trading have been dominated by competing political elites, who have used alternating control of state institutions (Central Bank, Ministry of Finance, security forces and judiciary) to periodically redraw regulatory lines in their favor. In this mix, artisanal miners have intermittently been allowed to flourish when politically expedient, and subject to hard crackdowns when not. Most recently, authorities revealed very low revenues from the largest diamond find this century, which has now been largely exploited.

Box 10: A tale of two minerals

The Marange diamonds. For several decades, De Beers is thought to have concealed the largest diamond find in this century, Zimbabwe's Marange fields and its 156 kimberlites. In 2006, after the fields become the property of Anglo Consolidated Resources (ACR), a British-registered company with connections to a key political family, the alluvial diamonds were discovered, leading to an unprecedented rush of over 60,000 artisanal miners. Among this chaos, key political elites, including the First Lady, the army chief and his predecessor, and the Central Bank governor, were able to assume some control. In 2007, the Ministry of Mines revoked ACR's rights, and in 2008 a brutal army operation

captured by party members – from the near monopolization of the gold black market by Mnangagwa, to allocation of urban market stalls and bus-stop touting rights to party members only.

[50] *Zimbabwe, A policy agenda for private sector development* (World Bank, 1993)

leaving at least 83 miners dead drove out artisanal miners. They were replaced by seven companies, which were half-owned by the State, but in fact were joint ventures between foreign entities and political elites. During the next eight years, some 100 million carats of diamonds are believed to have been mined, of which the state received revenues on only 49 million carats, amounting to reported losses of around US$15 billion. In February 2016, the Government moved to consolidate its holdings in existing diamond-mining firms, following a decision not to renew expiring concessions.

Trading artisanal gold. Artisanal gold mining has occurred in most parts of Zimbabwe since pre-colonial times, and now involves around half a million miners. In the late 1990s, the Central Bank's subsidiary, Fidelity Printers and Refinery (FPR), was designated the sole purchaser and exporter of gold. In the early 2000s, lack of financing for gold purchases fueled widespread smuggling, which was ultimately captured by political elites through a system of exclusive purchasing concessions. Later, when these concessionaires began to develop political bases among miners, the government re-centralized gold buying at the Central Bank and outlawed artisanal mining in 2007. Then under GNU (2009-12), the opposition-held Ministry of Finance revoked the Central Bank monopoly, and liberalized gold purchasing and exporting. This time, politically connected commercial banks handled the trade until 2012, when rising prices fueled speculation. The black market resurfaced again, dominated by the original politically-connected concessionaires. After regaining power in 2013, ZANU-PF re-instated the FPR monopoly (widely read as a move by one competing faction to cripple another's financing source), and took a different approach to reduce smuggling. Today, artisanal miners are no longer required to be registered to sell gold, their royalties having been reduced by over 90 percent, and security forces are deployed at milling centers to compel sales of gold to the state. Gold purchases by FPR have increased by 150 percent and continue to grow.

44. After dollarization, the most recent redistribution efforts have been focused on commercial assets and public services, illustrating the limits of such efforts without growth. In 2008, the Indigenization and Economic Empowerment Act required 51 percent of company share ownership to be ceded to black Zimbabweans. The collapse in private investment in the middle of the stabilization boom (2012) coincides exactly with the extension of that regime from the minerals sector to the whole economy. Subsequently, a few local banks were captured by political elite, but swiftly fell into troubled waters, as the post-dollarization credit boom burst and threatened the stability of the financial system. A recovery of public finances allowed for a further expansion of public sector employment and wages, and further exploitation of SOEs (including well-timed water and telecom subsidies for political gain). But as growth has slowed post stabilization, fiscal excesses are being increasingly financed through quasi-compulsory Treasury Bill – Arrears swaps, which have strengthened the impact of the headwinds facing the economy.

45. These waves of largely ill-governed redistribution efforts have resulted in not only an unfinished transition, but also a labyrinth of challenges and opportunities for the future. On the one hand, Zimbabwe has strong foundations for future inclusive growth based on large investments in social services, the (disorderly) land reform, a successful diaspora, and the emergence of many micro and small enterprises – albeit many are informal and were established in response to the economic collapse. On the other hand, waves of state and economic capture have created a fairly large and entrenched system of patronage and corruption that will take time and increasing political turbulence to unravel. They have also damaged already weak social cohesion and maintained ethnic divisions as viable politics. And they have exacerbated the weak

social ownership of the state, which could, even in the presence of broader freedoms, continue to hinder political participation and further undermine national institutions.

D. Lessons and conclusions

46. **The above analysis helps to present a case that some of the underlying causes of fragility and resilience in Zimbabwe are ongoing**. Most notable are:

- the tendency to **coercion versus consensus building** in political strategies, stemming from the historical benefits factionalism combined with a neatly politicized security apparatus;
- the limited experience of the political elite with **growing an inclusive economy versus redistributing gains** secured by excluding the broader participation of other groups;
- a tenuous balance between **weak "bridging" social capital** *between* ethnic groups, and very **strong "coping" social capital** *within* families and communities;
- a strong institutionality based on the **rule *by* law** (not **rule *of* law**) reinforced by the education system, and religious beliefs about political leadership; and
- Zimbabwe's geo-political significance, in particular, its symbiosis with South Africa and importance to other neighbours create a **complex balance of global regional interest versus local needs.**

47. Going forward, any re-engagement should both carefully monitor these elements and take them into consideration in designing the partnership strategies.

48. Re-engagement should also account for lessons of the 2004 Country Assistance Evaluation (Box 11), such as to ensure analytical work adequately informs Bank interventions, and confirm widespread consensus over targeted reforms before delivering lending.

Box 11: Excerpts from IEG's Zimbabwe Country Assistance Evaluation, 2004.

While the Bank's program did help liberalize trade, reform agricultural marketing arrangements, deregulate domestic investment, and establish a find to mitigate the social impact of adjustment, the assistance did not support macroeconomic stability, expenditure reform, and a reduction in poverty and inequality. Also, civil service reform did not improve efficiency nor contribute to fiscal sustainability, parastatal reform was disappointing, and structural reforms were poorly sequenced.

The Zimbabwe experience provides four lessons. First, given the necessity of macroeconomic stability, especially achieving fiscal sustainability, the Bank should have undertaken a PER prior to 1995, should have been more forceful in ensuring that credible steps to achieve fiscal sustainability were incorporated in adjustment lending, and should have formed a judgment not only about the macroeconomic/fiscal targets, but also about the likelihood of their implementation. Second, the Bank should have given greater attention to reducing glaring inequalities and poverty by undertaking in-depth analytical work on poverty and more proactively addressing land reform before 1998. Third, the Bank should not have relied on commitments with technocrats in the absence of political consensus for reforms. Fourth, in the absence of ownership from the political leadership, the Bank should have insisted that conditions be fulfilled and not proceed to lend on the basis of promises.

Annex 2: Reform Progress and CPIA

1. This Annex details reforms related to Zimbabwe's turn-around based on the categories in Box 4 in the main text: 1) Addressing fiscal sustainability; 2) Rebuilding and recapturing the state; 3) Updating economic strategy; and 4) Re-engaging multilaterals.

Addressing fiscal sustainability

2. **Authorities have remained committed to dollarization since introducing the multicurrency regime in 2008 despite difficult economic headwinds**[51] This commitment of both the Government of National Unity and later the ZANU-PF regime has remained strong, despite imposing constraints on the budget, and requiring a difficult macroeconomic adjustment to exogenous developments in the financial sector and terms of trade. However, dollarization led to a rapid expansion of banks' balance sheets, but this has not been accompanied by gains in competitiveness because of structural reasons, including a poor investment climate, and continuation of payment practices from the hyperinflation period. Non-performing loans (NPLs) started to rise halting credit to the private sector. The current account began to adjust in 2012 and was followed by the onset of deflation. From 2015, a decline in commodity prices, two severe droughts and the devaluation of the regional currencies, accelerated the need for external adjustment. By this time, the central bank was estimating the real exchange rate to be overvalued by 45 percent.

49. Until 2014, fiscal policy remained relatively sound, but since has not able to contain aggregate demand, given the low share of discretionary spending. Fiscal deficits remained very moderate from 2009 to 2014. In the financial sector, a mismatch ensued between stagnating deposits and deteriorating bank assets, prompting informed depositors to withdraw assets from banks. Authorities made efforts to restore the quality of commercial bank assets by replacing them with government paper. However, this was somewhat offset by weak market confidence on the government's ability to repay, which priced treasury bills well below face value – thus not able to secure the full value of deposits. In addition, market operators believed that a larger than expected volume of treasury bills was issued in 2015 and 2016 to clear accumulated domestic arrears, leading to revising down fiscal deficits on a commitment basis to 3.5 percent of GDP in 2015 and 3.7 percent in 2016, from the recorded cash deficits of 0.9 and 1.1 percent, respectively.

50. Meanwhile, the government announced and took measures to tackle the large wage bill to reduce the non-discretionary share of public expenditures. Zimbabwe's public sector wage bill, including pensions and salary transfers, is among the highest in Africa at 22 percent of GDP, and represents 81 percent of total public spending. The rapid growth of the wage bill is due to a quadrupling of average wages – from among the lowest in Sub-Saharan Africa at US$1,800 per year in 2009, to almost US$8,000 per year in 2014 – and persistent expansion of employment numbers by over 28 percent from 2004 to 2013. In 2010, the Bank conducted a first civil service audit and completed a policy reform note, but these products did not gain traction due to intra-party conflicts in the GNU. In 2014, the Ministry of Finance requested another short policy note. Since then, the Government has repeatedly flagged the wage bill as a key challenge, and targeted

[51] The full demonetization of the Zimbabwe dollar was completed in early 2015.

reducing the wage bill to 50 percent of total spending by 2018. In 2015, the authorities completed a second civil service audit, reinforced a hiring freeze, abolished all vacant posts in central government (except in the Ministry of Health, Mines, and Local Government), reduced employment cost obligations for grant-aided institutions, and revised down allowances for the teaching force (growth in allowances has been responsible for most increases in employment costs since 2011). Employment numbers reduced marginally in 2015. The authorities have recently announced new audits by the Police and the Judicial Service Commissions and the Health Services Board in 2016.

51. **To support fiscal consolidation, the GoZ implemented measures to strengthen revenue collection.** With recovery and a tightening of administrative measures, revenues increased from 25 percent of GDP in 2010 to 28 percent in 2013, before stabilizing at 27 percent in 2014-15. In January 2016, with support from the Bank and the OECD, the authorities enacted legislation on transfer pricing aligned with the OECD and UN guidelines.[52] The tax authority reported that this support helped them to collect an additional US$105 million in the last quarter of 2015 – equivalent to 9 percent of total tax revenue in 2015.

52. To improve the poverty-focus and efficiency of public spending, the GoZ started introducing program-based budgeting in 2012, and by 2015 had presented program-based budgets for three ministries. With support from DfID in 2012, USAID in 2014, and now under ZIMREF, authorities plan to rollout program-based budgeting in all line ministries by 2019. The ministries overseeing health, education, and social protection had already presented program-based budgets along with budgets in traditional formats in the 2016 national budget. The program-based budget for the Ministry of Public Service, Labor and Social Welfare was instrumental in shedding light on the imbalance between spending on labor programs and social assistance, and helped to spur the Ministry of Finance's work on the Interim Poverty Reduction Strategy Paper (I-PRSP). To further support program-based budgeting, authorities worked with the Bank to complete joint public expenditure reviews in health (2015) and education and central government (forthcoming), and have another planned for local government in FY17.

53. **The GoZ led a highly participatory process in conducting the I-PRSP.** In spring 2016, an I-PRSP Secretariat and an inter-ministerial task force held country-wide consultations involving high-ranking officials, and more than 1,700 citizens and representatives from government, the private sector, development partners, NGOs, and civil society. Completed in summer 2016, the I-PRSP used the participant feedback on causes of poverty and the performance of poverty programs, and high-quality poverty maps from the Zimbabwe National Statistics Agency, to inform a country poverty diagnostic and analysis. The GoZ intends to prepare a full PRSP beginning in September 2016, to deepen the analysis, set clear strategies to achieve the Sustainable Development Goals, and define the priority actions for the period 2019-2023.

Rebuilding and recapturing the state

54. **The authorities have made good progress on reforms that recapture the state from pervasive corruption and vested interests.** In public financial management (PFM), authorities

[52] OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, and UN Manual on Transfer Pricing for Developing Countries.

made strides in reversing the challenges and lack of transparency in public spending during the hyperinflation period. In the early 2000s, when the GoZ was implementing an Integrated Financial Management System (IFMIS), all the pillars of public financial management eventually collapsed. The budget was not useful, there was no accounting, no reporting, no commitment control, no financial reports, and no audit reports. The Public Accounts Committee (PAC) of Parliament was incapacitated and cash management ad hoc. The IFMIS had been replaced by manual procedures and, by 2006, the Auditor General had issued a disclaimer for all public accounts.

55. By 2009, the GoZ had begun rebuilding its PFM systems, and thereafter enacted the PFM Act of 2010, whose tenets were enshrined in the 2013 Constitution. These efforts bore results: the SAP accounting system was restored, a budget calendar was introduced, the national budget is now prepared on time each year, and consolidated financial statements are now produced and published in the Gazette on monthly and quarterly basis on a timely basis. Expenditure variances declined steadily from above 50 percent in 2009 and 2010 to 5 percent in 2014.

56. **In parallel, the GoZ took steps to improve public auditing.** Authorities enacted a new Supreme Audit Institution Act (2011), and equipped the Auditor General with an independent Commission in 2015 and an independent budget. A backlog of public audits was cleared. In 2014, the Public Accounts Committee of Parliament managed to review all 32 audit reports and submit their recommendations for a full parliamentary debate. A new toolkit was developed to assist members to focus on key findings, and to score the reports of the various ministries and parastatals. In 2015, the Auditor General presented audited accounts of central government within the required 6 months after the close of the fiscal year, and, owing to training of journalists and civil society organizations – hard copies ran out in the first day. Over the past year, audit reports have led to no less a number of prosecutions and removals of officials from duty, including in the Ministry of Finance. Notably, there are regular press reports about audit findings, including named allegations of impropriety and corruption, something which was unheard of until early 2014. Reflecting this progress, Zimbabwe's CPIA rating for quality of budgetary and financial management in 2015 improved to 3.5.

57. **The Bank is helping the GoZ to address remaining challenges in the PFM system.** Authorities must strengthen public procurement, internal controls, and fiscal management, including reporting of transfers to SOEs, and expand the coverage of the IFMIS to local government, statutory funds and external assistance. Budget prioritization stands to benefit from the roll-out of program-based budgeting, and a realistic schedule for Parliamentary scrutiny of budget proposals. Core public financial management functions, including the OAG, would benefit from higher budget allocations, including staffing upgrades. The Bank is supporting these activities through a ZIMREF-funded PFM Enhancement Project. A new Public Expenditure and Financial Accountability (PEFA) is also underway, which will update the last PEFA in 2010.

58. **The GoZ has initiated reforms to modernize the opaque public procurement system.** In 2012, a Country Procurement Assessment gave Zimbabwe's procurement system a rating of 44 percent – suggesting it had more weaknesses than strengths compared to internationally accepted systems. Under a ZIMREF-funded project, the Bank has helped the GoZ to formulate a procurement reform program, including an e-procurement pilot. A draft new Procurement bill has been prepared that will improve transparency and decentralize procurement from the

powerful State Procurement Board (SPB) to line ministries, agencies and departments. The law is under consultation, and expected to be effective by January 2017. Meanwhile, authorities removed the longstanding leadership of the SPB,[53] and initiated a forensic audit of recent transactions.

59. [To add—paragraph on electoral reforms/establishment of constitutional commissions]

60. **In late 2014, the authorities launched a program to reform SOEs and parastatals, after earlier failed attempts.**[54] Since then, the Cabinet has received ten turn-around strategies for major SOEs, and approved six. Authorities conducted "forensic" audits of two of large loss-making agricultural enterprises – the Grain Marketing Board and the Cold Storage Company – and instructed officials to prepare turn-around strategies for these and eight top-priority SOEs. In the utility sector, the Bank is supporting commercializing the Zimbabwe Water Authority under the ZIMREF-funded National Water Project; will support completion of a strategy for the Zimbabwe Electricity Distribution and Transmission Company; provide technical assistance to the National Railway of Zimbabwe; and review the road sector institutional framework and tolling policy under the Zimbabwe National Roads Authority.

61. In 2015, authorities supported the launch of a National Code for Corporate Governance for the public and private sectors, which meets international standards.[55] In addition, the GoZ drafted a bill to ensure this Code has legal force in SOEs, and reviewed the compliance of a sample 30 enterprises. The GoZ is now preparing an implementation plan for the first 20 enterprises. The bill includes provisions for senior management's disclosure of assets; management and board composition; and audit practices. With support from ZIMREF, authorities have strengthened reporting of enterprises, and created a consolidated database to monitor financial and other performance of the country's SOE portfolio.

62. Authorities made progress in reforming the legal and fiscal framework for the mining sector, and addressing vested interests therein. The GoZ's strategy and policies for the mining sector have fluctuated over the years, and this instability stymied almost all new foreign direct investment in the sector since 2013. In the context of an outdated mining law and unclear fiscal strategy, the GoZ in 2012 introduced the indigenization law requiring 51 percent ownership of black Zimbabweans, and emphasized domestic beneficiation (notwithstanding large energy shortages), which led to a ban on chrome exports (later reversed), and the establishment of a diamond cutting center. Meanwhile, vested interests invaded the operations of key minerals, such as diamonds, platinum and gold. After the GoZ realized that it may have lost US$15 billion from the diamond sector over the years, authorities opted to not renew existing concessions, and

[53] The head of the State Procurement Board had been in office since 2000, with a majority of decision making powers concentrated in his position of Executive Chair.

[54] During the 2000s the Government sought to impose market disciplines on State-owned Enterprises and Parastatals (SEPs), notably by unbundling large, unwieldy bodies into more focused sub-units, sometimes with a parent holding company. The earlier Privatisation Agency was converted into the State Enterprises Restructuring Agency (SERA), but very little was accomplished.

[55] The Code meets general international standards/guidelines including: OECD Guidelines on Corporate Governance; International Integrated Reporting requirements of the International Integrated Reporting Council (IIRC); International principle of "Apply or Explain" as opposed to "Comply or Explain"; International Standards on Auditing (external auditors); International Internal Auditing Standards (IIAS) and Code of Ethics (for internal auditors); and, international good practice on minority shareholder protection.

consolidate government holdings in diamond mining firms in early 2016. Authorities now more closely monitor diamond exports. This consolidation is being challenged in court by a few remaining firms, but reflects a political consensus building within ZANU-PF, given past the ownership stake of key "securocrats" in the sector. In gold mining, the authorities similarly reintroduced monopoly purchase of gold from small scale miners to cut out politically connected middle men ("concession holders"), who were largely responsible for gold smuggling. The ban on chrome exports and demands for platinum smelting has been lifted, but pressure for domestic value and indigenization remains.

63. Given past experiences, authorities are likely to take a gradual approach to further reform of the mining sector, and the Bank is building traction in this area. Authorities have prepared extensive amendments to the outdated Mines and Minerals Act, which the Bank recently reviewed. Although the amendments substantially update the legislation, key provisions may continue to stymie needed private investment, particularly those supporting a heavy role for politicos (from the President to Permanent Secretary) versus technocrats in approving and extending licenses; and creating a state monopoly marketing entity through which all minerals would be exported. In a recent workshop, it was agreed that the Bank would help to further update the law, including with provisions that strengthen transparency, limit political discretion, provide for backward linkages (instead of downstream processing), incentivize new exploration investments, and create a space for local mining companies. The Bank is also working with authorities to develop a new fiscal framework and an updated geo-data and cadastral system.

64. Before the recent cash crisis, the authorities had taken measures to restore and strengthen the financial sector after hyperinflation. The financial sector was a major casualty of the fiscal excesses leading to hyperinflation, as the GoZ used the central bank for major quasi- and pure fiscal operations. After dollarization, the authorities worked to re-establish a functioning central bank through new legislation, a capital injection, and the assumption of hyperinflation-era debts. As the post dollarization credit boom reached its peak, the authorities moved firmly to close six, politically-connected banks; strengthen banks' lending practices; and establish the Zimbabwe Asset Management Company to acquire deteriorated assets from the commercial banks. These measures increased the resilience of the banking system, and deposits grew from US$300 million in 2009 to US$5.6 billion in 2015. The Bank initiated technical assistance on bank supervision and (non-systemic) crisis resolution in December 2014, which culminated in amendments to the Banking Act and the Deposit Protection Corporation Act, and repeal of the Troubled Financial Institutions Act. Zimbabwe's bank resolution framework is now modern, containing key provisions not yet enacted by some of the country's stronger neighbors. The Bank has also supported Zimbabwe to implement the recommendations of the Financial Action Task Force on anti-money laundering and combating terrorism, leading to the removal of the country from the FATF's watch list of non-compliant jurisdictions in 2015. Finally, the Bank is supporting the establishment of a central credit registry, and an institutional framework for secured transactions.

Updating economic strategy

65. The GoZ has slowly moved forward on updating Zimbabwe's economic strategy and its investment climate. Though authorities are still far from charting a clear economic vision for the country, they have begun to open certain more ideological positions to discussion, accounting persistent economic difficulties. Among others, authorities have been exploring adjustments to labor and business regulations, indigenization, mining policies, land reform, and approaches to informal, micro- and small enterprises.

66. After years of debate, the authorities amended the Labor Code in late 2015 to significantly reduce severance payments and increase flexibility. Authorities approved this amendment very rapidly, subsequent to a Supreme Court ruling in July 2015 that reinterpreted the code liberally, and led to a large wave of retrenchments across the public and private sectors. The amended code provides for severance payments of one month of salary for every two years of service. The greater flexibility remains critical to Zimbabwe's external competitiveness under the multicurrency regime. Since then, there has been a new round of dialogue between the employers' associations, trade unions and the authorities on refinements to labor regulations.

67. Fulfilling a benchmark for the SMP, the authorities in December 2015 adjusted the controversial indigenization regime to allow for alternative compliance mechanisms in certain sectors. Designed to address historic marginalization of Africans, the Indigenization and Economic Empowerment (IEE) Act of 2008 mandates that indigenous Zimbabweans hold a minimum 51 percent ownership stake in any business.[56] Initially applied to the mining sector, the law was extended to a range of sectors in 2012, precipitating a collapse in private investment. The Act contains provisions for gradual application of ownerships thresholds, but these were largely applied in discretionary and non-transparent ways. Many firms managed to gain the required clearance, but the measures agreed to where never published. In 2014, the authorities decentralized the clearance process from the Ministry of Youth, Indigenization and Economic Empowerment to sector ministries to broaden accountabilities, but without commensurate improvements in transparency. In January 2016, as an SMP benchmark, the authorities issued a guideline for implementing the IEE Act, which restated the 51 percent ownership threshold in the resources sector, but offered flexibilities in alternative compliance mechanisms, and extended compliance periods in other, non- resource, non-reserved sectors. The Ministry of Finance and Reserve Bank quickly approved all indigenization plans in the banking sector (without publication). Important issues need to be clarified, including transparency, and authorities have indicated that the next stage is to introduce the new guidelines into the legal framework.

68. After many years of inaction, the Office of the President and Cabinet (OPC) has led a "rapid results" initiative in the past six months to improve Zimbabwe's business climate. Zimbabwe currently ranks 155 out of 181 countries in the *Doing Business indicators,* and its distance toward the frontier is 48.2 percent. Working groups engaging the government and private sector have been working at an accelerated pace to design reforms in four composite areas:

- Starting a Business and Protecting Minority Investors, which are being addressed by simplifying business registration processes, modernizing the registrar of companies, and preparing a new Companies Bill and amendments to the Shop Licensing Bill;
- Getting Credit, by preparing a Movable Property Security Interests Bill

[56] i.e., any business that is transferred, merged, subdivided or otherwise restructured, or which is undertaking new investments valued at US$500,000 or more.

- Construction Permits and Registering Property, by streamlining registration and construction permitting and amending the Deeds Act; Town and Country Planning Act; and City of Harare by-laws.

- Enforcing Contracts and Resolving Insolvency, by preparing a new Insolvency Bill (building on the ROSC on Insolvency and Creditor Rights completed in 2014), and amending the Estate Administrators Act. A Commercial Courts Bill has been already approved by Cabinet.

All the aforementioned Bills – most of which are already in draft – are expected to be put before Parliament over the next few months.

69. **The authorities have accelerated efforts to address an unfinished agenda of land reforms.** Regarding compensation for expropriated land, the authorities have concluded negotiations for a settlement with the Dutch and ICSID claimants, as well as other Dutch farmers covered under the Bilateral Investment Protection and Promotion Agreements. Negotiations are well advanced with the second set of German and Swiss ICSID claimants. The authorities need to accelerate ratification of 14 Bilateral Investment Protection Agreements outstanding since the 1990s, but are reviewing them for consistency with the 2013 Constitution. On land tenure, the GoZ is working with the banking sector on a new lease document allowing commercial reformed farmers (so called "A2") access to credit; started auditing reform holdings and expropriated properties; and started work on the distribution of permit documents to reformed small holders ("A1") under a new EU-UNDP land project. Finally, a Land Compensation Fund has been established, and the first public consultations on compensation with expropriated farmers and other stakeholders took place in March.

70. However, development partners remain concerned about the continued expropriations of commercial farms (despite political announcements), repeated unlawful invasions that are rarely definitively addressed by the GoZ, and high profile incidents of non-compliance by senior government officials in land-related court decisions. Nevertheless, a Bank land team has been developing a strong relationship with the Ministry of Lands and Rural Resettlement, and providing technical support. Potential areas for further engagement include preparing a reform road map, supporting the recently appointed Land Commission, preparing a National Land Policy, and supporting the financial side of the compensation agenda.

Re-engaging multilaterals

71. **With the full support of the President[57], authorities formulated a credible plan to clear IFIs arrears, which received broad support from development partners.** In late 2013, the Government requested a formal review of Zimbabwe's eligibility and qualification for HIPC, which concluded in August 2014 that the country did not qualify (using end 2013 data). In October 2014, the authorities increased "token" payments to the Bank to achieve *pari passu* with payments to the IMF – an issue that had been unresolved since 2012. These increased payments

[57] In the 2015 State of the Nation address, the President said: "Let me reiterate that Government recognises the importance of strengthening re-engagement with the international community. Indeed, current re-engagement efforts with both bilateral and multilateral partners, including the African Development Bank, the Afro-Asian Bank and the World Bank under various initiatives, should see improvement of relations and the opening up of new financing avenues, for long overdue reforms and development co-operation." http://www.zanupf.org.zw/state-of-the-nation-address-by-his-excellency-the-president-of-the-republic-of-zimbabwe-cde-r-g-mugabe/

have since been made regularly on a quarterly basis. In April 2015, the Government launched a joint exercise with preferred creditors to explore options for arrears clearance, and presented a plan to creditors and donors in October 2015. The plan was amended in May 2016 to include repayment of the IMF arrears ($120 million) using Zimbabwe's SDR resources at the Fund; repayment of IBRD arrears (US$896 million) using a term facility syndicated by AfrExImBank and Lazard Fréres; and repayment of IDA and AfDB arrears (US$260 and US$601 million, respectively) with a bridging facility from AfrExImBank, to be refinanced from a future IDA development policy operation and AfDB's Transitional Support Facility.[58] The plan, which also includes the authorities' intention to approach the Paris Club after IFI arrears clearance, was broadly endorsed by major creditors in October 2015 and again in May 2016.

Good initial progress

71. As a result of these and other reforms, Zimbabwe has achieved steady improvements in the Country Policy and Institutional Assessment (CPIA) since 2008 (see Table 8). Zimbabwe's aggregate score on the CPIA rose from 1.9 in 2009 to 2.9 in 2015, approaching the average for Sub-Saharan IDA countries. Zimbabwe's gain was evidence across CPIA categories, from *Economic Management* to *Structural Policies* to *Public Sector Management & Institutions* to *Policies for Social Inclusion/Equity*. In a few areas - gender, the environment, budgeting, PFM, and revenue mobilization - Zimbabwe has surpassed IDA and sub-Saharan African averages. Yet the country still has a long way to go to recover its earlier performance.

Table 8: 2015 Country Policy and Institutional Assessment

	Zimbabwe 2009	Zimbabwe 2015	Average IDA 2015
Cluster A : Economic Management			
1. Monetary and Exchange Rate Policies	2.0	3.0	3.5
2. Fiscal Policy	2.0	3.0	3.1
3. Debt Policy and Management	1.0	2.0	3.3
Average	**1.7**	**2.7**	**3.3**
Cluster B : Structural Policies			
4. Trade	3.0	3.0	3.8
5. Financial Sector	1.5	3.0	2.9
6. Business Regulatory Environment	2.0	2.0	3.1
Average	**2.2**	**2.7**	**3.3**
Cluster C : Policies for Social Inclusion/Equity			
7. Gender Equality	2.5	4.0	3.3
8. Equity of Public Resource Use	1.5	3.0	3.4
9. Building Human Resources	1.0	3.5	3.6
10. Social Protection and Labor	1.0	2.5	3.0
11. Policies and Institutions for Environmental Sustainability	2.0	3.5	3.2
Average	**1.6**	**3.3**	**3.3**
Cluster D : Public Sector Management and Institutions			

[58] Because Zimbabwe is neither HIPC eligible nor qualified (at end 2013) it is not eligible to benefit from resources in the IDA17 arrears clearance set aside.

12. Property Rights and Rule-based Governance	1.5	2.0	2.9
13. Quality of Budgetary and Financial Management	2.0	3.5	3.2
14. Efficiency of Revenue Mobilization	3.5	4.0	3.4
15. Quality of Public Administration	1.5	2.5	2.9
16. Transparency, Accountability & Corruption in the Public Sector	1.5	2.0	2.9
Average	**2.0**	**2.8**	**3.1**
Overall CPIA	**1.9**	**2.9**	**3.2**

Annex 3: Development Partner Relations

1. In 2012, the Government began making token payments to the IMF, World Bank and African Development Bank, and embarked on the first Staff Monitored Program (SMP) with the Fund. In May 2014, the Bank authorized a new multi-donor trust fund that could finance investment projects using government systems. In November 2014, the EU lifted its restrictions under the Cotonou Agreement to allow direct relations with the Government, and signed the first European Development Fund National Indicative Program with Zimbabwe in February 2015.[59]

72. In turn, the Government has begun to make systematic overtures at the national level to all development partners with fairly positive results. The key shift began in late November 2014, with an invitation to donors to participate in the ZIMASSET review process, hitherto a closed process, which was followed by a series of high level meetings over the next year with the informal Fishmonger Group. Zimbabwe's senior leadership has been providing high level access to a steady flow of trade and political delegations, and the President has received several high level delegations from Denmark, France, the UK and the US.

73. Although most donors are still restricted from channeling development finance through government systems, there is joint oversight and management of key multi-donor funds implemented by the UN agencies, the African Development Bank, and the World Bank, and growing coordination in areas of parallel financing. To date, the Government receives direct support from Denmark for judicial development; from Norway for mining sector reform; from the World Bank on public procurement, PFM and water and sanitation; and from the Global Fund for AIDS, Tuberculosis and Malaria. The AfDB, CDC (UK), Proparco (France) and OPIC (US) have resumed financing to the private sector with small exposures, and the authorities have started making token payments to EIB. Development partners and creditors have broadly endorsed Zimbabwe's arrears clearance plan at the presentation in Lima in October 2015.

74. Nonetheless, the rapprochement with the international community remains tenuous. For the Government, continuing sanctions and restrictive measures targeting individuals and companies provide grist for domestic and Pan-African politics. For many bilaterals, further improvements are needed in governance, human rights, land tenure security, and compensation. Without demonstrable progress in these areas, the détente/entente may stagnate at today's level, and affect Paris Club treatment on the remaining outstanding arrears.

Box 12: Zimbabwe Democratic and Economic Recovery Act (ZIDERA) 2001

The ZIDERA precludes the US from voting in support of non-humanitarian IFI assistance to Zimbabwe. Other restrictions include:(i) suspension of non-humanitarian plus assistance on account of payment arrears to USAID and the Department of Agriculture; (ii) fiscal transparency restrictions; (iii) ineligibility for certain benefits owing to limited actions against trafficking in persons; (iv) a ban on transfer of defense items; and (v) Office of Foreign Assets Control restrictions on Specially Designated Nationals' trade and financial transactions, and travel to the US. Despite strained political relations, the US is a leading donor to Zimbabwe, including to support the El Nino response. Unlike IFC, which is constrained from lending to the Zimbabwe private sector on account of the arrears, OPIC (US) has recently re-

[59] Travel restrictions on the President and his wife remain in place, as well as restrictions on the Zimbabwe defense industry.

entered the market with a line of credit for low-income housing. A congressional mission visited Zimbabwe in April 2016 to review wildlife conservation and regional security issues.

75. In recent years, some BRICS have invested substantially in Zimbabwe, in the absence of other sources of finance. China provided loans of over US$600 million to finance various infrastructure projects; Brazil provided a $98 million irrigation facility. In the last year, however, this financing dried up as China pushed Zimbabwe to establish a succession plan, and to reengage with the international financial community. In addition, a few commercial disputes between the Zimbabwean state and private BRIC suppliers/investors have surfaced.

76. It is not clear what the volume of donor financing for Zimbabwe would be following arrears clearance. Currently, the key donors in Zimbabwe are the UKaid (£95 million or US$130 million per year), USAID ($70 million per year) and the European Union (€40 million or $45 million per year), together with Sweden, Switzerland and Japan. China, and to a much lesser extent the other BRICS, have supported Zimbabwe mainly as a source of investment and commercial project financing. Paris Club arrears constrain development financing from the former group, and other key partners such as Germany and France.

77. IFIs are expected to be the leading source of development financing following arrears clearance, at least until the 2018 elections and possibly longer (depending on the conduct of the election and the reaction of development partners to the governance outcomes). A minimum IDA turnaround allocation of similar size would represent 20 percent of conservatively estimated development flows.

Table 7: Outstanding external debt and arrears
(US$ million, 2015) from different sources needs to be verified)

	Outstanding debt	o/w arrears
Total (including RBZ)	**7,078**	**5,634**
Multilateral	**2,462**	**2,088**
WB	1,401	1,112
AfDB	648	603
EIB	316	275
IMF	126	126
Others §	74	
Commercial	**20**	n.a.
South Africa	20	

§ NDF, BADEA, IFAD, PTA Bank, AfriExImBank
Source:

	Outstanding debt	o/w arrears
Bilateral	**4,029**	**2,959**
Paris Club	**3,034**	**2,808**
Germany	863	745
France	537	494
UK	403	403
Japan	342	215
USA	247	235
Italy	163	145
Finland	110	88
Netherlands	102	40
Belgium	83	72
Sweden	80	80
Norway	73	82
Switzerland	73	80
Spain	58	57
Austria	41	38
Israel	6	7
Non Paris Club	**844**	**151**
China	663	n.a.
Kuwait	7	n.a.

Annex 4: Level and Duration of Support under the Turn-Around Regime

1. Support under the exceptional turn-around situation regime will be based on country performance and be informed by country-specific factors detailed in the country-eligibility note. Country performance will be measured by the following performance index:[60]

$$\textit{Performance Index} = (0.8)*\text{PCPI} + (0.2)*\text{PPR}$$

2. The notional maximum level of per-capita support to a given country is detailed in Table 1 below. In general, it will be expected that – subject to absorption capacity considerations – only countries in a Post-Conflict situation would have per-capita allocations close to the notional maximum levels. Per-capita allocations for other eligible countries would be expected to be lower (around half the levels in Table 1 below). This guidance will be implemented through the application of a country-specific scale factor "α"[61]For a country to benefit from the Post-Conflict consideration above, evidence of conflict intensity will be used as per the current exceptional Post-Conflict regime.[62]

Table 1: Exceptional Turn-around Situation Regime – Notional Maximum Per-capita Allocations

Performance Index	Notional Maximum Per-capita Allocation (US$ per annum)
2.0 to 2.5	5.4
2.5 to 3.0	9.6
3.0 to 3.5	13.6
3.5 to 4.0	19.0
4.0 to 4.5	23.0
Above 4.5	27.2

3. The annual Turn-around allocation is determined by the sum of (i) the U.S. dollar equivalent of the SDR 4 million annual minimum base allocation and (ii) the actual per capita allocation (as determined in paragraph 5 and in Table 1 above) multiplied by the population of the country. Adjustments may be made in cases where:

(i) *The PPR limits the level of exceptional support* (e.g., to Post-Conflict countries, inactive countries, or countries with poor portfolio implementation but where reforms undertaken as part

[60] Where PCPI and PPR are the Post-Conflict Performance Indicator and the Portfolio Performance Rating.

[61] For details see Implementation Arrangements for Allocating IDA Resources to Countries Facing "Turn-around" Situations - Background note, September 2013.

[62] Candidates for post-conflict considerations will have to fall into one of the following categories: (i) a country that has suffered from a severe and longstanding conflict which has led to extended inactivity as a borrower, or at least a substantial decline in the level of external assistance, including from IDA; (b) a country that has experienced a short but highly intensive conflict, leading to a disruption of IDA involvement; or (c) a newly sovereign state that has emerged through the violent break-up of a former entity. Furthermore, and as per the past practice under the existing PC regime, evidence of conflict intensity will be used to assess the level of support, with at least one of the following assessed as high: (a) extent of human casualties; (b) proportion of population that is internally displaced; and (c) extent of physical destruction.

of the turn-around situation would lead to a qualitative change in project implementation).

(ii) *Countries have already benefitted from exceptional IDA support.* The level and duration of the exceptional support already provided by IDA will be factored in when deciding on the level of per-capita allocations under the exceptional turn-around situation regime.

(iii) *There are changes in a country's absorptive capacity.* Absorption capacity will be a key consideration when determining the support level under the exceptional turn-around regime. In some cases, severe absorption capacity issues could limit the level of exceptional turn-around support. If warranted by context, consideration could be given to adjust the level of per-capita support to respond to a sharp change in a country's absorption capacity.

4. The exceptional turn-around regime would not involve a pre-established eligibility period but in most cases would be expected to be around two to three years. The eligibility for this support would be linked to the eligible country's national plan associated with the turn-around situation.