Document of
The World Bank

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INTERIM STRATEGY NOTE

FOR

ZIMBABWE

August 31, 2005

Country Department 3
Africa Region

CURRENCY EQUIVALENTS
Currency Unit = Zimbabwe Dollars (Z$)

WEIGHTS AND MEASURES
Metric System

GOVERNMENT FISCAL YEAR
January 1, 2005 to December 31, 2005

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AIPPA	Access to Information and Protection of Privacy Act
CFU	Commercial farmers' union
CSO	Central Statistical Office
EU	European Union
GDP	Gross Domestic Product
GOZ	Government of Zimbabwe
GMB	Grain Marketing Board
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IOM	International Organization for Migration
LICUS	Low Income Countries Under Stress
MDG	Millennium Development Goal
MOFED	Ministry of Finance and Economic Development
MPSLSW	Ministry of Public Service, Labor and Social Welfare
MDC	Movement for Democratic Change
NAC	National AIDS Council
NECF	National Economic Consultative Forum
NGO	Nongovernmental organization
ODA	Official Development Assistance
OED	Operations Evaluation Department
PASS	Poverty Assessment Survey
POSA	Public Order and Security Act
PRSP	Poverty Reduction Strategy Papers
PWP	Public Works Program
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
UN	United Nations
UNAIDS	United Nations Program on HIV/AIDS
UNDP	United Nations Development Program
US	United States
WFP	World Food Program
ZANU-PF	Zimbabwe African National Union-Patriotic Front

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Acknowledgements

The Zimbabwe Interim Strategy Note benefited from the valuable contributions and inputs of the following colleagues: Sudhir Chitale, Colleen Butcher, Ebrahim Jassat, Watson Chidawanyika, Kathryn Casson, Sarah Cliffe, Rutendo Nyoni, Janet Chido Bvumbe, Caroline M. Milad, Ozan Sevimli, Judith Chilufya, Ohene Owusu Nyanin, Lalita Moorty, Nginya Mungai Lenneiye, Oleksiy Ivaschenko, George Banjo, Hans Binswanger and Piers Cross.

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EXECUTIVE SUMMARY

i. Zimbabwe, once the breadbasket of Africa, is now challenged by political, economic, and social crisis. Concerns about governance and human rights, and the continued lack of clarity about property rights have severely damaged confidence, discouraged investment, and promoted capital flight and large scale emigration. The economy has been on a downward spiral since the late 1990s as reflected by declining living standards, worsening social indicators, and negative growth of some 30 percent over the past 5 years. Zimbabwe's stock of external debt, including arrears, is estimated to be around US$5.3 billion at end-2003. Over the past year, the Government has introduced a number of economic policies that have helped slow down the economic decline. However, a comprehensive set of economic policies that address fiscal and structural issues will need to be put in place in order to achieve a sustainable economic turn-around.

ii. In addition to economic and social difficulties, the political situation is tense and the relationship between the ruling ZANU-PF and the MDC opposition is highly polarized. A rapprochement between both parties has remained elusive. The relationship between Zimbabwe and major international donors has become severely strained on account of disputes around the 2000 Parliamentary and 2002 Presidential elections, the controversial implementation of the land reform program, repeated instances of poor governance and charges related to violations of human rights. The prospects of a quick resolution of the political impasse and an end to international isolation remain limited and hinge upon the forthcoming parliamentary elections in March 2005, and improvement in economic and political governance.

iii. Compared to the mid-1990's, donor funding has been sharply reduced and is mainly limited to humanitarian assistance in response to recurrent drought and food shortages and the widespread HIV/AIDS crisis (HIV/AIDS prevalence amongst adult population is estimated at 25 percent). At this time, the relationship between Zimbabwe and the World Bank is limited to non-lending activities on account of Zimbabwe's non-accrual status (since October 2000) and the accumulation of arrears of some US$335 million (as of February 2005).

iv. In light of the aforementioned developments, there is a compelling rationale for the World Bank to stay engaged and keep abreast of economic developments and the poverty situation. On the one hand, the prospects of meeting the Millennium Development Goals (MDGs) are diminishing rapidly, and there is a serious risk of spillover of economic and social instability into the wider region. On the other hand, a substantive change effort could ease the international isolation and help the country quickly recover from economic and social decline. Given its relatively good infrastructure, skilled population and industrial base (albeit fast-eroding), Zimbabwe has the potential to be a critical force and engine of growth in the sub-region again. The World Bank needs to remain prepared so that a timely response can be launched when conditions are right.

v. This Interim Strategy (IS) is designed with the principal objectives of filling knowledge gaps and catalyzing the World Bank's in-country partnerships for a suitable response when economic and political circumstances become favorable. The IS covers a twelve-month period and is designed in close consultation with a core group of donors as well as government. Activities within the twelve month strategy period aim to close important analytical gaps in the areas of poverty and safety nets, social service delivery, and agriculture and infrastructure sectors. The program of activities will be funded from both administrative resources and Trust Funds and is estimated to cost US$1.8 million. Implementation of the various activities will be coordinated with government but executed by development partners or local organizations. Within one year, a strategy update will be presented to management and the Board.

vi. The IS is organized as follows. First, the IS provides a brief overview of the country context, including political, economic and social developments. Second, follows a brief description of the relationship between Zimbabwe and the international community, including the role of the World Bank. Third, the IS concludes with an assessment of the outlook for the next year and the presentation of the proposed strategy and inherent risks.

vii. The following issues are suggested for Board discussion:

- Does the Board consider the Bank's one year Interim Strategy for Zimbabwe appropriate given the current country situation?

- Is the Board in agreement with the Interim Strategy's focus on closing the analytical gaps in critical areas (and piloting HIV/AIDS implementation support) in coordination with nongovernmental agencies and donor partners?

COUNTRY CONTEXT

POLITICAL DEVELOPMENTS AND GOVERNANCE

1. Since independence in 1980, Zimbabwe has been ruled by the Zimbabwe African National Union-Patriotic Front (ZANU-PF), led by President Robert Mugabe. ZANU-PF won the most recent parliamentary elections in 2000. In a controversial presidential election which was characterized by differences of opinion between observer groups Mr. Mugabe was re-elected for a fifth term of office in March 2002.

2. Discontent with the government in the 1990s galvanized the trade union movement and civic groups, leading to a series of nationwide strikes. In 1999, sections of the union movement formed an opposition party Movement for Democratic Change (MDC) which challenged the political course of the ZANU-PF and currently holds a substantial number of seats in parliament. A more detailed and chronological overview of key political developments is presented in Annex 1. Since the 2002 elections, the relationship between the ZANU-PF and the MDC has been highly charged. It has become increasingly difficult for civil society organizations and the opposition party to carry out their activities.[1] Morgan Tsvangirai, leader of MDC, was arrested after the 2000 elections and charged with treason; this charge was later dismissed. In 2003, Tsvangirai was again charged with treason for an alleged plot to assassinate President Mugabe in the run-up to the 2002 presidential elections. Subsequently, his acquittal was delivered by the High Court on October 15, 2004. Despite efforts by church and regional leaders to resolve the political impasse, a rapprochement between the two political parties has not materialized. Today, preparations for the March 2005 parliamentary elections dominate the political agenda for both parties. However, MDC announced in August 2004 that they will boycott the elections unless there is compliance with regional norms and standards for free and fair elections.

3. In mid 2004, Zimbabwe agreed to a number of electoral reforms. In August 2004, at the Southern African Development Community (SADC) Summit in Mauritius, all SADC member states including Zimbabwe adopted the SADC Principles and Guidelines Governing Democratic Elections.[2] In December 2004, the Parliament passed a number of amendments to the Electoral Act including the establishment of the Zimbabwe Electoral Commission, an independent electoral body to run all presidential, parliamentary and municipal elections and referenda. Yet, there are doubts whether these reforms will result in free and fair elections if the government disallows a broad range of international observers and media to monitor the process. Civil society organizations argue that substantive governance barriers remain because of legal restrictions on the freedom of media (through the Access to Information and Protection of Privacy Act (AIPPA) and freedom of association (through the Public Order and Security Act (POSA). Also, the government has introduced a nongovernmental organization (NGO) bill that has been widely criticized by civil society organizations for reducing the democratic space for

[1] A recent African Commission on Human and Peoples Rights report (July 2004) cites evidence of increased political violence, human rights violations, severe limitations on freedom of expression, and increased politicization of the police force since 2001.
[2] An Electoral Supervisory Commission is established, although it is dominated by members appointed by the President.

NGOs by restricting access to foreign financing for those NGOs engaged in governance and human rights activities. Meanwhile, the discussion about President Mugabe's succession is rife with speculation although he has stated that he intends to stay in office until his presidential term ends in 2008.

ECONOMIC DEVELOPMENTS

4. Zimbabwe's economy has contracted sharply since the second half of the 1990s (Table 1). Real gross domestic product (GDP) has declined by 30 percent in the last five years. Economic growth in 2004 is estimated at - 4.8 percent, and a rate of -1.6 percent is projected for 2005. In parallel, annual inflation rates reached a record high in January 2004 of 623 percent. Contributing to the economic challenges were poor economic policies and structural changes to Zimbabwe's economic base, exacerbated by external shocks, such as inclement weather, the far-reaching impact of HIV/AIDS, and sharply reduced development aid flows.

5. The engine of Zimbabwe's economy - agriculture - contracted drastically between 1999 and 2003, for a cumulative loss of around 26 percent, with maize production declining over 60 percent. It is estimated that production in the commercial farm sector alone fell by as much as 70 percent since 2000. The drop in agricultural production is in part the result of the transitional phase and shortcomings in the implementation of the land reform program, and in part erratic rains between 2001-03 as well as regulated agriculture produce pricing which do not reflect market prices. The decline in food production has resulted in a serious food deficit with all the negative consequences in particular for the poor. Summaries of the land reform program and the main findings of the Agricultural Sector Assessment are presented in Annex 3.

6. The mining, manufacturing and service sectors have also contracted, due to drought, shortages of foreign currency needed for imported inputs, rising production costs, as well as capital flight and large scale emigration. Public services were also negatively affected and it is difficult for many public utilities to achieve financial viability in view of their heavy debt burden and the overall macroeconomic conditions. However, several public enterprises are in the process of implementing turnaround strategies to correct the situation.

7. The stock of external debt, including arrears, is estimated by the World Bank to be around US$5.3 billion at end-2003 (around 82 percent of GDP).[3] About 37 percent of the country's total external debt is in arrears on debt service payments. As of February 2005, arrears to the International Monetary Fund (IMF) are US$305.8 million, US$335 million to the World Bank and US$259.4 million to the African Development Bank (AfDB). The Government of Zimbabwe (GOZ) started symbolic repayments to all three institutions (approximately US$18.5 million to IMF and US$3 million to the World Bank). Payments to the World Bank began in June 2004. Given the level of arrears and the overall debt burden, a comprehensive arrears clearance and debt restructuring operation—including debt reduction—will be necessary before relations with multinational institutions can be normalized. A 2004 debt sustainability analysis conducted by the World Bank indicates that Zimbabwe will also need additional concessional resources to finance its development and reconstruction needs.

[3] There is a need to reconcile the debt data from World Bank sources with the data used by the Government.

8. Over the past year, the GOZ and the Reserve Bank of Zimbabwe (RBZ) have implemented a number of policy measures to address the economic distortions, including strengthened supervision of the financial system and introduction of an auction system for foreign exchange. As described in the end-September Central Bank's Review of Monetary Policy, these measures are showing encouraging results. There has been a steady decline in annual inflation rate from 623 percent in January 2004 to 132.7 percent in December 2004 mainly due to tighter monetary policy. Zimbabwe's external position has improved slightly in 2004 with official foreign exchange receipts amounting to US$1.4 billion compared to US$302 million in 2003.

9. With regard to the exchange rate, however, recent data indicate that after early successes with the auction system, the rate has shown little movement over the past months and there remains a differential between the auction and the parallel market rates. In addition, the dual exchange rate policy continues although the government is aiming for the eventual unification of the rates; most government operations have access to foreign exchange at a highly appreciated rate of Z$826/US$ when the official auction rate is between Z$5800 and Z$6200 per US Dollar. Compared to 2003, the 2004 budget is expansionary, with a deficit target of over 3 percent of GDP. This understates the real deficit due to the presence of a number of quasi-fiscal activities carried out by the RBZ, such as the dual interest rate policy under which credit is allocated to the productive sectors at highly negative real interest rates. In addition, several public enterprises run large deficits including the Grain Marketing Board (GMB).

Table 1: Zimbabwe – Selected Economic Indicators

	1999	2000	2001	2002	2003	2004
Real GDP growth, percent change	-3.6	-7.9	-2.8	-11.1	-8.3	-4.8
CPI inflation, percent change	57	55	112	199	599	133
Exchange Rate, period average	38	44	55	55	697	4300
Employment, percent change	-2.3	-6.3	-4.1	-5.8	..	..
Fiscal Deficit, percent of GDP	-9.8	-21.6	-9.4	-3.9	-0.2	-3.1
Current Account Balance, millions of USD	47	-38	-497	-604	-752.0	-472.0
Capital Account Balance, millions of USD	143	-227	-396	-304	-220.9	-211.5
Exports, percent change	-0.1	14.3	-28.4	-11.2	-6.9	-18.9
Imports, percent change	-17.1	13.9	-4.3	-0.3	-2.3	-1.8
Source: IMF, Staff Report for the 2004 Article IV Consultation, June 2004						

SOCIAL DEVELOPMENTS

10. Zimbabwe's social indicators, which had been among the best in Africa, have deteriorated rapidly between 1996 and 2004 (Table 2). The estimated proportion of the population living below poverty line has almost doubled since 1995 with increasing unemployment and decreasing real incomes. Although there is no up-to-date data available, over 70 percent of the population is estimated to be living below the poverty level.[4] In recent years, both rural and urban poverty have been on the rise, as manifested in the emergence of a growing number of street children and homeless people, as well as those in need of food aid. The plight of the poor was further worsened by a substantial shortfall in maize production in 2003, on account of drought and overall contraction in agricultural production. According to a vulnerability assessment carried out in March 2004, over half of the population (rural and urban) is expected to continue to be food insecure due to decreased purchasing power and reduced food availability. Consequently, emigration has also been on the rise with an estimated 3.4 million Zimbabweans currently living outside the country.

11. The devastating impact of the HIV/AIDS epidemic has led to marked worsening of the quality of life with increased morbidity, mortality and orphan-headed households. HIV/AIDS prevalence is estimated to be at 25 percent[5] among Zimbabweans aged between 15 and 49. Although there appears to be a downward trend in the infection rates as a result of a scaled up national response and substantial donor support since 1999, food insecurity and increasing income poverty are likely to have an adverse impact on prevalence rates. HIV/AIDS and food insecurity have put enormous strain on traditional support systems, resulting in a decline in household members' time spent on productive activities, a decline in education expenditures, increases in the sale of household assets and in high-risk activities. The salient features of Zimbabwe's HIV/AIDS crisis are presented in Annex 4. On the other hand, the National AIDS Council (NAC), the agency responsible for coordinating the national response to the epidemic, has limited institutional and operational capacity to respond to the increasing demand for care, support, prevention and mitigation services for those infected with and affected by HIV/AIDS. Capacity constraints have delayed access to Global Fund resources, as well as delaying the implementation of AIDS Levy resources. Funding for AIDS treatment remains very low—only about 1 percent of those requiring treatment receive anti-retroviral medication.

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[4] Currently there are no official up-to-date statistics available. The 2000/1 Integrated Household Monitoring Survey has not been processed and analyzed due to financial and human resource constraints at the CSO. A UNDP and Ministry of Public Service, Labor and Social Welfare–supported Poverty Assessment Survey (PASS) is completed—results are expected shortly.

[5] Government estimate as of end-2003.

12. The fiscal challenges, the fragile economic and political governance environment, the impact of HIV/AIDS and the increasing number of professionals leaving civil service have severely constrained Zimbabwe's capacity to effectively deliver public services and cope with the demand from growing numbers of poor, ill and food insecure people.[6] Despite a lack of formal statistics on the status of the public service, informal accounts, coupled with the estimated impact of HIV, suggest that central and local government capacities are eroding steadily. Comprehensive up to date analysis on public and private (donor-supported) social services and safety nets, and on informal coping mechanisms is not available.

Table 2: Zimbabwe - Key Social Indicators

	1990	**2002**
Percent of population living below the poverty line*	25.5	70 (est. 2003)
Illiteracy (percent of population age 15+)	19.3	10.7
Gross Primary Enrollment	83	95
Infant mortality (per 1,000 live births)	49	72
Child malnutrition (percent of children under 5)	11.5	13
Life Expectancy at Birth (years)	62	39
HIV/AIDS Prevalence Rate; 15 to 49 years	12	25

Source: Development Economics Central Database, Human Development Reports (UNDP)
** National poverty rate or headcount index is the percentage of the population living below the poverty line deemed appropriate for the country by its authorities. National estimates are based on population-weighted subgroup estimates from household surveys.*

[6] A substantial number of health and education staff, engineers and other technical staff have left the country or chosen to work in the private sector. According to the 2002 National Population Census, 3.4 million people out of the country's total population of 11.6 million are living outside the country.

RELATIONS WITH THE INTERNATIONAL COMMUNITY

ODA FLOWS

13. Relations between Zimbabwe and the international community are severely strained because of governance and human rights issues. Following the presidential elections in March 2002, the Commonwealth suspended Zimbabwe as it deemed the elections as not "free and fair." In December 2003, Zimbabwe withdrew its membership from the Commonwealth. Simultaneously, the EU, US and some Commonwealth countries imposed targeted sanctions (primarily travel bans and freezing of overseas-held personal assets) on senior ZANU-PF officials and their immediate families.

14. Compared to the mid-1990's, donor activity in Zimbabwe has declined sharply, including multilateral lenders' suspension of disbursements after the build-up of arrears by Zimbabwe to its creditors. At the present time, only a few donors are willing or able to engage on a large scale with the central government on development activities. Consequently, medium- and long-term capital flows, as well as direct investment, have dried up. Further, flows of government to government grant aid have also declined, from about US$100 million per annum in the mid 1990s to only about US$30 million per annum in 2003 as indicated in the chart below (Figure 1).[7] Currently, donor funds are largely channeled to humanitarian assistance, governance and HIV/AIDS related activities via non-governmental agencies. Details on areas of donor engagement are presented in Annex 2.

15. Zimbabwe has been in continuous arrears to the IMF since February 2001. On July 7, 2004, the Board of the IMF has reviewed Zimbabwe's overdue financial obligations to the Fund and considered the Managing Director's complaint regarding Zimbabwe's compulsory withdrawal from the IMF[8]. Recognizing the severity of the decision at hand as well as the resumption of some payments from Zimbabwe and limited improvements in economic policy, the Executive Board decided to postpone a recommendation for compulsory withdrawal, providing Zimbabwe with another chance to strengthen its cooperation with the Fund in terms of economic policies and payments. The Executive Board is expected to consider again the Managing Director's complaint regarding Zimbabwe's compulsory withdrawal from the Fund in mid February and decide at that time whether to recommend to the Board of Governors of the IMF that Zimbabwe be asked to withdraw from the IMF. The Board's decision does not impose further sanctions on Zimbabwe, but rather provides the country with an opportunity to significantly strengthen its cooperation with the IMF, with the aim of addressing its economic decline and resolving its overdue financial obligations, prior to the Executive Board's next consideration of the Managing Director's complaint.

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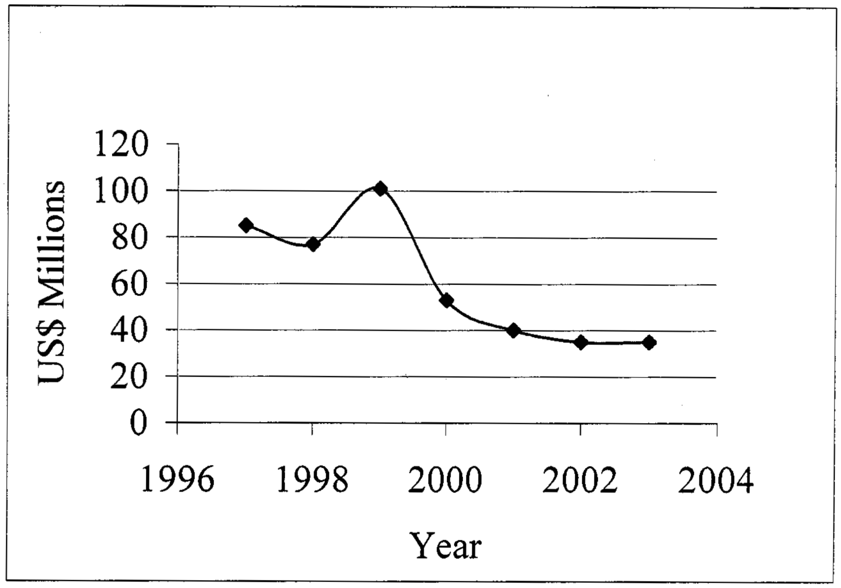
[7] Source: Reserve Bank of Zimbabwe, 2004

[8] Compulsory withdrawal is the last step in a series of escalating measures that the IMF applies to members that fail to meet their obligations under the Articles of Agreement.

Figure 1: Zimbabwe – Official Aid Transfers



RELATIONSHIP WITH THE WORLD BANK

16. Zimbabwe joined the Bretton Woods Institutions following independence in 1980. Zimbabwe has primarily borrowed on International Bank for Reconstruction and Development (IBRD) and later on International Development Association (IDA) terms. Total assistance over twenty years has been about US$1.5 billion, with strong focus on infrastructure, economic policy reform and agriculture. Some additional assistance was provided on health and community and local government development.

17. Performance of the World Bank operations in Zimbabwe, especially policy reform programs, have been uneven due to several reasons, including: (i) inadequate progress on macroeconomic stabilization; (ii) inadequate progress on key reforms such as civil service reform, privatization, and fiscal restructuring; (iii) exogenous shocks, such as the droughts of 1992 and 1995, devaluation of the South African Rand and the Asian crisis; and (iv) internal developments, such as the military intervention in the DRC, currency crashes in 1997 and 1998 and political tensions related to the unresolved land issue.

18. The outcome of World Bank assistance over the last two decades has been assessed as unsatisfactory by the Operations Evaluation Department (OED), primarily due to inadequate borrower commitment to macroeconomic stability and poverty alleviation, and ineffective orientation and timing of World Bank assistance. While many AAA activities were completed in the 1990s, they were assessed as inadequate or not timely by OED.[9] Looking forward, the OED report recommended future analytical work in Zimbabwe to focus specifically on safety nets, HIV/AIDS and support to land reform (Box 1).

19. Since October 2000, Zimbabwe has been in non-accrual status with the World Bank. Arrears to the World Bank as of February 2005 amount to about US$335 million. There is

[9] Zimbabwe Country Assistance Evaluation, OED, August 2004

currently no active lending portfolio in Zimbabwe. Given the non-accrual status, the World Bank's engagement in Zimbabwe during the last four years has been limited to policy advice and dialogue, primarily focusing on macroeconomic policy, land reform and contributions to UN-led humanitarian assistance and emergency drought recovery programs. The World Bank has also been periodically preparing and submitting to management "Watching Briefs"[10] which have reported on recent developments in key sector areas and on political, social and macroeconomic developments.

20. The resumption of new lending (once the overall economic and political conditions are right) will be contingent on clearance of arrears. Therefore, a return to normal relations will have to include a plan to address the arrears to IBRD and IDA. Although Zimbabwe is still classified as a "blend" country[11], it would probably qualify for IDA-only terms on account of current per capita income and the sharp deterioration in living standards over the past six years. At a later stage, the decision of reclassification of Zimbabwe would have to be made.

Box 1: Zimbabwe – OED Country Assistance Evaluation

According to the Zimbabwe OED Country Assistance Evaluation, the World Bank 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.

The World Bank should not have relied on commitments with technocrats in the absence of political consensus for reforms. In the absence of ownership from the political leadership, the World Bank should have insisted that conditions be fulfilled and not proceed to lend on the basis of promises. Additionally, the World Bank's willingness to lend sent the wrong message to the client and to the partners.

Furthermore, the evaluation suggests that the World Bank should have paid greater attention to reducing glaring inequalities and poverty by undertaking in-depth analytical work on poverty, more proactively addressing land reform before 1998, and undertaking a more timely Public Expenditure Review (PER) prior to 1995.

OED recommends that the World Bank should focuses on building a knowledge base in the following critical areas:

- An assessment of poverty and inequality, and the impact of economic policies on these issues;
- An analysis of the political economy factors which have impeded reforms in the past;
- Learning from pilots on land reform launched in other countries; and
- A public expenditure review focused on fiscal sustainability and the required rationalization and reallocation of public expenditures.

[10] The most recent one dated June 2003.
[11] A country being able to borrow both in IDA and IBRD terms based on its per capita income and living conditions.

21. Since October 2000, the World Bank continues to participate in the UN Thematic group meetings on HIV/AIDS, agriculture/food security, macroeconomic issues and maintains regular dialogue with a core group of donors. Similarly, the World Bank has also been providing ad hoc advice to the government and the UN on macro-economic policy, debt and food security, among other topics.

22. The World Bank maintains a small Country Office in Harare. During this period of limited engagement and during the implementation period of this IS, continuous in-country presence will be essential to cultivating close relations with donors, government and other in-country stakeholders. To enable this continuous dialogue, a senior operations staff was appointed Acting Country Manager in Harare in July 2004.

OUTLOOK AND PROPOSED STRATEGY

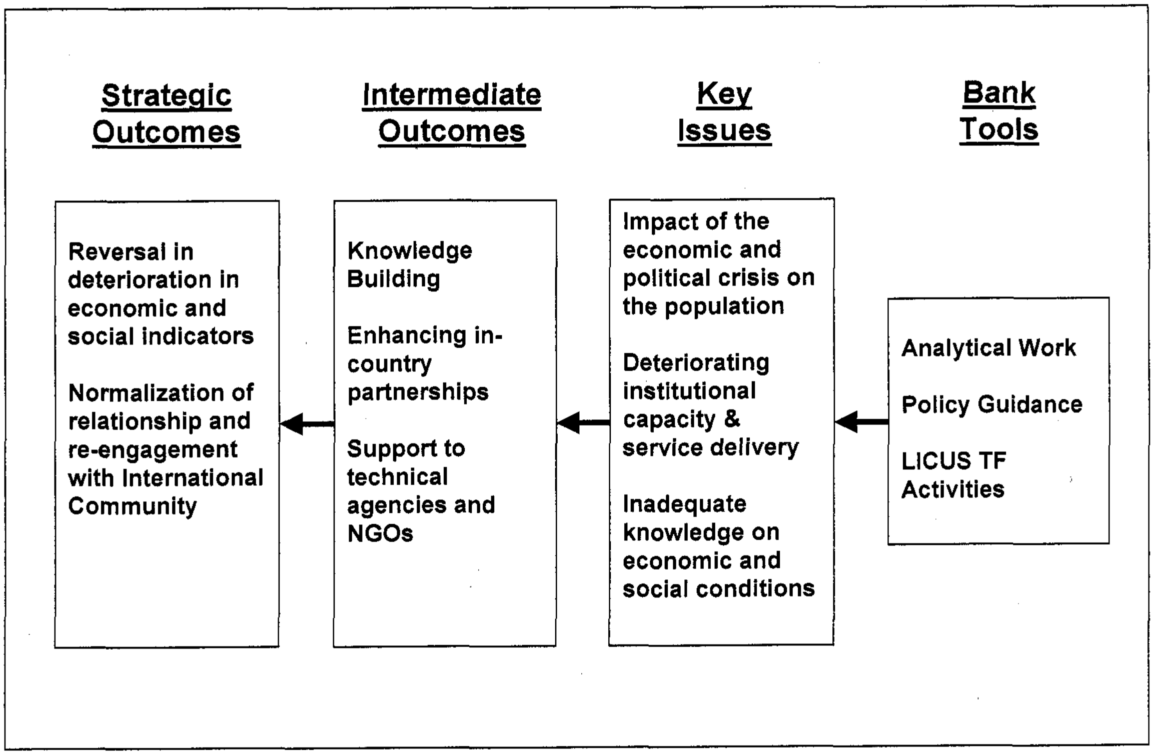
23. In view of the upcoming parliamentary elections in March 2005, the political future, the extent of progress with economic reforms and governance issues and the extent of rapprochement with the international community remain uncertain. The economic decline is expected to slow down, a possible rebound in growth is projected for 2005, and inflation is projected to remain in the triple digits. Hence, the status quo is expected to continue throughout the twelve-month strategy period of the IS.

PROPOSED WORLD BANK PROGRAM FOR THE STRATEGY PERIOD

Rationale and Objective

24. The IS's main objective is facilitating dialogue among stakeholders and closing knowledge gaps. The specific outcomes of the IS will be: (i) enhanced in-country partnerships; and (ii) a strengthened World Bank knowledge base on key policy issues. A more detailed results matrix is presented in Annex 5. Assuming limited engagement and no arrears clearance within the IS period, these outcomes will be achieved through non-lending activities—analytical work, policy guidance, partnerships and small pilot projects—financed through administrative budget resources supplemented by the LICUS Trust Fund grant facility Annex 6. The World Bank supported activities will aim to address the immediate key development challenges and – for the longer term -- help build a platform towards normalization of relations (Figure 2). The objective of the IS is not resource transfer since the resources accessed under the LICUS Trust Fund will be modest. The use of the trust fund resources will require government participation; however, activities will be implemented through mostly non-government agencies and donor partners.

Figure 2: Conceptual Framework for World Bank Interim Strategy



25. The main reason to move beyond a Watching Brief now is to enable the World Bank to build on its country knowledge and the capability to respond in a timely manner to improvements on economic and governance issues which could lead eventually to a normalization of relations between Zimbabwe and the international community. Also, in the current environment, engagement and leadership of the World Bank as a neutral party and an honest broker is viewed as a welcome step by development partners and other in-country stakeholders. Furthermore, the World Bank is viewed as having the mandate to carry out policy dialogue with government in areas of mutual interest.

26. This IS will cover twelve months. At the end of the twelve-month period, a strategy update will be presented to the Board. In the meantime, if significant positive change toward normalization of relations or significant deterioration from the current situation occurs, the country team will present an update to the Board earlier than the end of the twelve-month strategy period.

Activities Supported by the Interim Strategy

27. The proposed activities are grouped under five priority areas that were jointly identified with in-country stakeholders (Table 3): (i) poverty analysis; (ii) social sectors and service delivery; (iii) engines of renewed growth—agriculture and infrastructure; and (iv) economic monitoring and analysis. These assessments and pilot activities will improve the World Bank's knowledge in key areas and its readiness to respond.

Table 3: World Bank Assistance by Source of Funding

Activity Supported by IS		Source of Funds: Bank Administrative Budget	Source of Funds: LICUS Trust Fund	Executing Agency
Poverty Analysis				
	Poverty Assessment Survey II		✓	UNDP/MPWLSW
	ICES Survey (2001)		✓	UNDP/CSO
Social Sectors and Service Delivery				
	HIV/AIDS Pilot Programs		✓	WHO/NGOs
	Support to National AIDS Council		✓	UNAIDS
	Social Sector Expenditure Review	✓	✓	WB/MOFED
Agriculture and Infrastructure				
	Survey of local infrastructure	✓		WB/NGO
	Agriculture Sector Assessment	✓		WB
Economic Analysis		✓		WB

Poverty and Safety Nets Analysis

28. **Poverty Assessment Survey II and the ICES Survey (US$450,000):** The dearth of up-to-date quantitative poverty data in Zimbabwe is a major obstacle to the design of any poverty reduction and economic recovery program. To close this knowledge gap, the World Bank will provide support to the Central Statistics Office for the analysis of the 2001 Income Consumption and Expenditure Survey and dissemination of its results. The funds will be administered by the UNDP as part of ongoing activities. In addition, the World Bank will provide support for the Poverty Assessment Survey II, which is currently underway. This work is being funded and administered by the UNDP, and carried out by a special unit within the Ministry of Public Service, Labor and Social Welfare (MPSLSW). Up-to-date and comprehensive poverty data will provide a full understanding of the nature and scope of poverty, contribute to in-country policy discussions and enable the international donor community to better target its assistance.

Social Sector Service Delivery

29. **Social Sector Expenditure Review (US$100,000):** A systematic analysis of public and private social sector expenditures and their impact on the poor is required. In response to a request from the Ministry of Finance and Economic Development (MOFED), the World Bank will provide technical guidance and support for gathering and analyzing basic data on social expenditures and availability and access and uptake of social services. This work will also explore effective methods of social service delivery. The review will be administered by the World Bank in partnership with MOFED and social sector ministries, as well as some of the nongovernmental service providers. Accurate and comprehensive analysis in this area is expected to inform the budget process in the short term and provide a sound platform for future international assistance and contribute to better use of public and private resources in the long term.

30. **HIV/AIDS Pilot Projects (US$1,000,000):** With an estimated 25 percent prevalence, the HIV/AIDS epidemic requires special attention and enormous resources for prevention, mitigation and care. Given the magnitude of the epidemic, Zimbabwe's institutional and financial capacity to counter its impact are severely stretched. The World Bank will provide implementation support to the National AIDS Council, the lead agency coordinating the national response to HIV/AIDS to enable effective use of available resources (i.e., Global Fund[12], AIDS Levy and others) through UNAIDS coordinated program with other donor support. Also, the World Bank will support two pilot initiatives in AIDS treatment,[13] and prevention and mitigation[14] which are expected to scale up existing interventions and will be implemented by NGOs, with support from other donors.[15] With the limited available resources, the World Bank aims to supporting existing institutional arrangements and pilot interventions which will help leverage increased resources, guide future assistance and help create better results and higher impact.

Agriculture and Infrastructure

31. **Infrastructure Capacity Assessment (US$50,000):** Due to constrained Government budgets during the last six years, investment in rehabilitation and maintenance of primary infrastructure has been insufficient. Systematic information on the status of municipal and peri-urban infrastructure; i.e., water supply, sewerage and roads, needs updating. A survey of local roads and water infrastructure will update basic information on the capital investment and human capacity needs in the sectors with a view to supporting those sectors once Zimbabwe is able to re-engage. The primary counterparts will be a specialized NGO to conduct the water sector studies and the Urban Councils Association; the terms of reference will be developed in collaboration with the respective NGOs and local governments in consultation with the Ministry of Local Government, Public Works and National Housing. An updated database on local infrastructure with information on the necessary capital investment, maintenance budgets and human resources will enable the World Bank to better assess the country's needs and provide a platform to work from after normalization of relations.

32. **Dissemination of the Agriculture Sector Assessment (US$40,000):** The World Bank has recently completed an Agriculture Sector Assessment. The assessment identifies the constraints to agricultural recovery and recommends both short-term and long-term actions to remove those constraints and remedy some of the weaknesses in implementation of the Land Reform Program. The World Bank will support disseminating this report. The report is expected to stimulate in-country debate and engage stakeholders in a dialogue.

Economic Monitoring and Analysis

33. **Fiscal and Monetary Analysis (US$150,000):** Insufficient economic data and absence of analytical macroeconomic work over the past several years handicap the World Bank's ability to provide appropriate macroeconomic policy guidance when needed. However, even in a

[12] Zimbabwe has not been able to access the available Global Fund resource yet.
[13] Supporting purchase and use of anti-retrovirals (ARVs) including training for health personnel in selected health clinics or hospitals.
[14] Increased outreach and use for voluntary counseling and testing in rural areas.
[15] Discussions are ongoing with WHO and UNAIDS to identify the most suitable program and NGO(s).

constrained environment, the World Bank has been able to maintain an open, constructive relationship with the financial and monetary authorities in Zimbabwe. Although considerably weaker than before, technical capacity within MOFED and the RBZ remains central to generating sound analysis in key policy areas. The Bank will support the leadership they have assumed and provide policy guidance based on demand. Furthermore, we will prepare joint analytical work with economic policy institutions to assist with monetary, fiscal and structural issues with short- and medium-term impact. As part of a broader analysis of the overall fiscal situation, the World Bank will carry out an analysis of tax issues. The World Bank, responding to the Government's request, will provide technical advice on restructuring income and business taxes and exemptions in a highly inflationary environment in a manner that will balance the impact on the incomes of the poor and the business environment with revenue objectives. The analytical input will be used in the 2005 budget preparation process and, combined with the analysis of social expenditures, will lay the groundwork for a more comprehensive fiscal analysis in the future. Economic monitoring will also be an ongoing key activity. Working with the partners mentioned above will enable the World Bank to acquire crucial data and analysis and to prepare for future developments.

RISKS AND SCALING UP

Risks

34. The major risks to the IS are an unanticipated rapid deterioration of the economic or political landscape. Such risks could manifest themselves in the form of civil strife following the elections or an economic meltdown. Those risks would be accompanied by increasing polarization between the government and the development community, increasing distance between Zimbabwe and her multilateral and bilateral partners and the breakdown of constructive dialogue and support.

35. Additional barriers to the successful completion of the proposed work program include: non-cooperation of the government; refusal of access to data; interference; capacity constraints; and a breakdown in the security situation in Zimbabwe. Donor fragmentation may also pose a risk for those activities that require joint implementation especially in the social service delivery area. These risks are mitigated by focusing the strategy primarily on knowledge building activities around which there is consensus between donors, government and non-government stakeholders, particularly those which can be carried out within a relatively short period by specialized agencies with support from government.

36. There is also a reputational risk for the World Bank associated with the IS as World Bank involvement may be misinterpreted as an endorsement of existing governance weaknesses and macroeconomic distortions. In order to mitigate these risks, the World Bank has carefully chosen activities and partners with good potential for success despite difficult circumstances. In case of serious obstacles to delivery, the World Bank would adjust the set of activities to be supported under this IS.

Exit Strategy and Scaling Up

37. In the event of further deterioration of the political situation, the World Bank exit strategy would include scaling down activities even further, with a possibility of closing the Harare office should the security situation warrant such measures.

38. In the event of rapid progress towards normalization of relations with international partners, the scope for the World Bank's re-engagement in Zimbabwe would also increase. It may then be possible to scale up financing through the LICUS Trust Fund to allow support for additional key activities, which would be essential for an economic recovery program, as well as for the formulation of policy-based support after resumption of lending.

39. At the appropriate time, given the level of arrears and overall debt burden, the World Bank and the GOZ would need to start planning for a comprehensive restructuring exercise of Zimbabwe's external obligations including debt reduction. It is a prerequisite that all arrears to IBRD and IDA are cleared before any new IDA Commitments can be made. Formulating an arrears-clearance plan will be challenging, since arrears are large and concentrated on IBRD.

40. The Board will be updated on the implementation of this IS within twelve months. In case of either a deterioration or a rapid progress situation, the Board would be updated in a timely manner concerning a change of approach to Zimbabwe even before the end of the twelve month IS period.

ANNEXES

Annex 1: Zimbabwe – Key Political Developments, 1999 to 2004

In 1999, the opposition party—the Movement for Democratic Change (MDC)—was formed by members of the trade union movement. After the June 2000 parliamentary elections, MDC won 57 out of 160 seats in the Parliament, 30 of which are appointees of the President. Votes for MDC came predominantly from urban areas and rural constituencies in Matabeleland, Midlands, and Manicaland. Alleging voter intimidation and other irregularities evoked by ZANUPF, MDC challenged 38 of the seats won by the governing party. The majority of the cases have still not been finalized in court as of October 2004.

In the meantime, the government accelerated the land reform program with a new decree on compulsory acquisition. Morgan Tsvangirai, leader of MDC, was arrested after the 2000 elections and charged with treason; this charge was later dismissed. In 2003, Tsvangirai was again charged with treason for an alleged plot to assassinate President Mugabe in the run-up to the 2002 presidential elections. His trial began on February 3, 2003, and ended on February 24, 2004. The judgment was scheduled for July 19, but was postponed indefinitely. Subsequently, the acquittal was delivered by the High Court on October 15, 2004.

The Public Security and Order Act (POSA) was enacted in January 2002. The Act requires permission from the police for any gathering involving more than 3 people, which constrained the activities of civic organizations, the opposition and the independent media. POSA was used to ban over 80 MDC rallies in the run-up to the presidential election. The Access to Information and Privacy Act (AIPA) was enacted in March 2002, requiring the accreditation of journalists and registration of all media houses by the government.

ZANU-PF won the March 2002 presidential elections with President Mugabe getting another term until 2008. The opposition and several international observers disputed the outcome of the elections and independent media continued to report of political violence during bi-elections and urban council elections following the 2002 elections. Consequently, Commonwealth suspended Zimbabwe in March 2002 following the Presidential elections, which the Commonwealth deemed not "free and fair." Simultaneously, EU, US and some Commonwealth countries imposed sanctions (primarily travel bans) on senior government officials. In December 2003, the Commonwealth leaders agreed Zimbabwe would remain suspended and appointed the Nigerian President Olusegun Obasanjo and the Commonwealth Secretary General, Don McKinnon, to monitor progress on governance issues over the next two years. Zimbabwe withdrew its membership form the Commonwealth on December 9, 2003.

Between 2000 and 2004, ZANU-PF has won back four (for a total of 66 out of 150 seats) in Parliament. However, Mr. Tsvangirai challenged the results of the March 2002 elections and the High Court started hearing his appeal in November 2003. Additionally, the largest independent daily newspaper—Daily News—shut down in September 2003, on the grounds that its parent company Associated Newspapers of Zimbabwe was not registered, remains closed.

A change in election law in early 2004 gave all supervisory responsibilities to the Zimbabwe Electoral Commission; the majority of its members have been appointed. In June 2004, GOZ agreed to a number of electoral reforms in line with the Southern African

Development Community (SADC). In August 2004, MDC announced that it will not participate in the 2005 election unless GOZ complies with SADC norms and standards for free and fair elections. At the same time, GOZ adopted the SADC protocol on elections in Mauritius SADC Summit and adopted the Electoral Commission Bill in September 2004. The Electoral Commission Bill has been criticized by civil society for retaining considerable powers with the Executive in the running of the elections. A draft NGO Bill, that was criticized by civil society for reducing the democratic space for NGOs, has been approved by parliament and awaits President's signature for gazetteing into an Act.

Annex 2: Zimbabwe – Donor Activity Overview

Sector/Activity	Donor	Time Period
Sexual and Reproductive Health	DFID	5 years
National Blood Transfusion Service	DFID	4 years to 2005
UNICEF Child Immunization Program	DFID	Jan. to June 2004
HIV/AIDS (Orphans, etc.)	USAID	2002–2004
Health Sector Support Program II	EU	-
Social Sector HIV	SIDA	2004-2006
Other Regional Humanitarian Programs	EU	2004–2006
HIV/AIDS – ZVITAMBO	CIDA	2003–2005
HIV/AIDS – PACT	CIDA	2004–2006
AIDS Training Program (Regional)	CIDA	2002–2007
Social Marketing	DFID	4 years to 2005
Feeding Program	DFID	2003–2004
Contribution to Relief & Recovery Program	DFID	-
Food Security	USAID	2002–2004
Food and non-Food	EU	2003–2004
Humanitarian /Governance/Legal Social	Norway	2004
Community Water Security	CIDA	2003–2004
Agriculture Program	DFID	2003–2004
Water and Sanitation	DFID	2003–2004
Agriculture/Land Reform	USAID	2002–2004
Agriculture/Land Reform	EU	-
Agriculture-Business Entrepreneurial Network	CIDA	2000–2005
Agro forestry for Sustainable Rural Development	CIDA	2001–2006
NGO Emergency Preparedness & Response	DFID	2002–2004
Credit for the informal sector	DFID	1999–2004
Governance/local government institutional strengthening	USAID	2001–2004
Macro-Economic support/Economic Development	USAID	2001–2004
Social Sector	EU	-
Governance	EU	2002–2004
Democracy/Legal	SIDA	2004–2006
Governance	SIDA	2004–2006
Cultural Support	Norway	2004
Misc. Consultants/Workshops	Norway	2004
Consolidation for Sustainability	CIDA	2004–2007
Rights, Democracy & Governance	CIDA	2003–2004
Gender Equality Support Project	CIDA	2000–2005
Fund for Local Initiatives	CIDA	Annually
Humanitarian Assistance	Germany	2004/05
Development Fund for Local Initiatives	Germany	2001-2007
Sustainable Agriculture	Germany	2005-2007

Annex 3: Zimbabwe – Summary of Land Reform Program Phase III (June 2000-to date) and Agriculture Sector Assessment

In 2000, the Government of Zimbabwe initiated a Land Reform Program (LRP) which redistributed over 80 percent of commercial farmland, radically altering the racial distribution of access to land. About 7,000 farms were listed for acquisition, leaving 2,817 farms unlisted. 5.7 million hectares were allocated to 130,438 households in the A1 scheme for smallholder farmers and 12,556 farmers were allocated about 1.9 million hectares under the A2 scheme for new commercial farmers. This has resulted in significant losses in production and of capital stock, uneven distribution of land and infrastructure, insecurity of tenure, and destitution of ex-farm workers. It is estimated that the land reform program has left over 50,000 former farm workers jobless and homeless (destitute) as only a small percentage of this population has been resettled in the new resettlement areas or hired back by new farmers. Government has increased its interventions in input, output, financial and foreign exchange markets leading to reduced farm profitability. The combination of the land distribution program, reduced agricultural profitability, poor weather, and HIV/AIDS have led to idle land and labor, sharply reduced cropped area, yields, and crop and livestock outputs, while the range of the vulnerable and poor has expanded and food insecurity has widened. Agricultural production in Zimbabwe declined by about 26 percent between 2000 and 2003. There are two exceptions to these adverse trends: the communal areas, where despite the adverse conditions, production levels have been surprisingly resilient, declining by less than 2.5 percent in non-drought years and the plantation and export (sugar, coffee, tea, horticulture) sectors where production has declined only about 7 percent.

Discussions about the LRP and policies for sustainable agrarian and agricultural development, food security and social protection are highly polarized. Consensus building and policy and program formulation are constrained by limited objective assessments of the impacts of the land reforms on agriculture, especially given the absence of adequate data on the nature of agricultural production, beneficiaries, available infrastructure and social services. Recent GoZ efforts to review the land reform process have contributed to more informed policy debate on land, agricultural and economic policy formation and opened the space for policy dialogue among previously polarized actors.

The World Bank supported an Agriculture Sector Assessment (completed in September 2004) to contribute to the emerging agrarian policy analysis. The Assessment examines the agrarian structures that have emerged, and the infrastructure and agricultural production resource base and needs, as well as identifying the various constraints to enhanced productivity.

Specifically, the study found that the decline in agricultural production is due to a combination of factors which sharply reduced cropped area, yields, and outputs including: (i) the effects of drought on yields and absolute output; (ii) the effects of reduced plantings and yields occasioned by either limited access to inputs or negative price and market incentives to production; (iii) the effects of reduced areas put to crops as a result of a reduction of the number of former LSCF large scale commercial farmers and the limited size of area cropped in newly resettled areas due to the slow uptake land uptake by new settlers; (v) the limited capacity of new farmers (financially and in skills) to produce particular commodities; (vi) the sharp reduction of livestock through slaughtering due to risk avoidance strategies and cattle rustling, (vii) the destruction and disappearance of much of the farm machinery, equipment and infrastructure, most notably including irrigation equipment and infrastructure; and (viii) the loss of market for wildlife based tourism from negative publicity as well as poaching and resettlement in wildlife areas. These factors affected production differently, leading to food insecurity and reduced export earnings.

Building on the recommendations of the Presidential Review Commission Report (August 2003) in the area of land reform, land policy and institutions, the study recommends a strategy for agricultural recovery and social protection, which rests on five pillars described below:

- Increase tenure security and complete the land reform program;
- Provide strong incentives for production and investment in agriculture, especially by restoring and enhancing profitability in the sector;
- Implement a broader social protection program for poor, and marginalized groups of the population;
- Build and/or rebuild a cohesive policy and institutional framework for land administration and management, and for agricultural growth and development; and
- Mobilize financial resources from taxation, community and private sector, and external partners.

Recovery of the agricultural sector will require rapid completion of the land reform, including remedying the implementation weaknesses diagnosed in the Presidential Review Commission Report. Subsequently, recovery will depend on significantly improving security of tenure of all classes of farmers and restoring the incentives and profitability of agriculture.

Annex 4: HIV/AIDS in Zimbabwe

Even though official HIV/AIDS prevalence rate statistics are unclear, Zimbabwe is amongst the nations with highest HIV prevalence rates in the world. Antenatal Serosurveillanace surveys surveys indicate HIV prevalence peaked in 2000 at 34 percent, fell in 2001 to 30 percent, decreased further in 2002 to 27.5 percent. Consequently, 24.9 percent of Zimbabwean adults are HIV-positive. In 2003, the Ministry of Health and Child Welfare released new HIV and AIDS estimates for the country, which indicated that HIV prevalence rate among adults 15-49 years was 24.6 percent. The figure does not represent a decline in prevalence of HIV infection in Zimbabwe (from the previous UNAIDS estimates), but is more accurate based on new estimate methodologies adopted by UNAIDS and WHO. It is estimated that 1.82 million persons are living with HIV and AIDS in Zimbabwe out of which 870 000 (54 percent) are women, and 165, 000 are children (0-14 years). The total number of children orphaned by HIV and AIDS (0-14 years) is now estimated at 761,000. The worst affected households by HIV/AIDS, are the poor, and/or those headed by women, children, or the elderly who have difficulties accessing food aid due to impaired mobility, ostracism, or stigma.

Vulnerable populations are adopting an array of survival strategies, e.g., generating additional sources of food or income, migrating, dropping out of school, engaging in hazardous work or exchanging sex for food or cash. For some young women, sex work provides the only way to support themselves and their families, facilitating sexually transmitted diseases such as HIV/AIDS. According to the AIDS Policy Research Center, 70 percent of all recent hospital admissions in Zimbabwe are HIV-related. Demand for services of trained healthcare providers is increasing; while concurrently, those working in the health sector are also affected by HIV/AIDS and substantial numbers of health care workers have been migrating especially to the UK and RSA (about 3.4 million Zimbabweans are estimated to be living outside the country).

The AIDS Policy research Center, University of California San Francisco estimates that between 2000 and 2010, 2.1 percent of Zimbabwe's teachers will die annually because of AIDS and no access to treatment. Of the new teachers who needed to be trained in Zimbabwe in 2000, 54.3 percent replaced teachers lost to AIDS; for 2010, a projected 82.6 percent of newly trained teachers will replace teachers who have died because of AIDS. There will also be a 0.25 percent reduction in Zimbabwe's school-age population (ages 5 to14).

UNAIDS estimates that 761,000 AIDS orphans[16] (ages infant to 14) are living in Zimbabwe. The percentage of Zimbabwe's orphans whose parentless status was due to AIDS rose from 16 percent in 1990 to 76.8 percent in 2001. It is projected that this percentage will rise to 85.7 percent in 2005 and 88.8 percent in 2010.

The Government has been supporting through public health institutions an ARV treatment program since March 2004. Currently the program benefits about 4,500 people (including some public sector employees) and is expected to be expanded in 2005.

[16] Indicates loss of a single-parent.

Annex 5: Interim Strategy – Results Summary Matrix

Strategic Objective in Zimbabwe		Outcomes Influenced by the Interim Strategy for Zimbabwe		
Strategic and Longer-Term Country Outcome	**Issues and Obstacles**	**Strategy Outcomes that the World Bank expects to influence through its interventions**	**Progress Indicators**	**World Bank Assistance**
• Reversal of deterioration in economic and social indicators • Normalization of relationship and re-engagement with the international community	• GOZ distance from international and bi-lateral partners • Donor fragmentation • Deterioration of economic and social indicators • HIV/AIDS impact on the population and institutions • Concerns about violations of human rights, freedom of expression and association • Continued uncertainty on land rights/titling and depressed agricultural productivity • Ambiguity on election procedures on the run-up to the 2005 elections	• Policy dialogue among in-country stakeholders • Enhanced knowledge base in key areas informing future donor strategies • Enhanced in-country partnerships and increased joint donor work • Enhanced national implementation capacity in response to HIV/AIDS	• Policy Notes/ESW completed and recommendations adopted • HIV/AIDS interventions supported underway. • Improved NAC response and implementation capacity • Progress towards comprehensive economic program	• Poverty Analysis (ESW) • Safety Nets (ESW) • Social Service Delivery (ESW) • HIV/AIDS (project grant) • Administrative Budget • Economic Analysis (ESW) • Infrastructure and Agriculture (ESW)

Annex 6: LICUS – Implementation Trust Fund

The World Bank Board approved on January 15, 2004 a US$25 million grant facility to assist low income countries with the most severe conflict and institutional problems to implement the reforms necessary for re-engagement with the international community and address urgent social needs such as HIV/AIDS through a coordinated multi-donor approach. Specifically the trust fund will:

- Support the implementation of early policy and institutional reforms to improve performance and facilitate re-engagement with the international community;
- Develop resilient systems for social service delivery, including HIV/AIDS programs, that can continue to operate effectively and mobilize multi-donor support even in situations of political instability; and
- Develop harmonized multi-donor approaches that combine scarce resources behind a selective strategy for reform.

The Trust Fund will be administered by IDA and will draw on the administrative structure and processes of the existing Post Conflict Fund. Each grant per country is expected to be between US$1 and US$3 million. The trust fund will operate until December 31, 2007.

Annex 7: Government of Zimbabwe's Comments on the Interim Strategy Note

(Please refer to page 25)

UPDATED COMMENTS ON THE INTERIM STRATEGY NOTE

GENERAL COMMENTS

The Interim Strategy Note for Zimbabwe, makes some incorrect, judgemental, sweeping, and potentially damaging statements on the situation in Zimbabwe. No proper supporting evidence or justification has been provided. The inescapable conclusion is that such statements, where they appear, were borrowed word-for-word from sources critical of the Government's policies. In its "Acknowledgements" on page 3 of the Memorandum, the World Bank states that the Zimbabwe Interim Strategy document benefited from the 'valuable' contributions and inputs from certain named 21 'colleagues.' It is not clear of what affiliation these 'colleagues' are. It however, cannot be ruled out that some of these 'colleagues' set out to deliberately provide the inaccurate, judgemental statements in the document. It does not appear that the World Bank itself used independent sources to verify some of the information provided. This takes away from what would otherwise be a useful report.

The person who edited, or put together, the final document appears not to have exercised due care. However, the following example is indicative of what is observed here.

EXECUTIVE SUMMARY

Presently, Zimbabwe has begun to feel the very positive impact of the on-going socio-economic turnaround measures and a time of brighter prospects for the country. The successful land reforms have given full play to the country's agricultural potential and efforts towards overall national food security. The evident revival of the economy has been predicated on national ingenuity, resources as well as effort and even the most implacable critics of Zimbabwe's policies have acknowledged this auspicious development.

The country continues to take measures that consolidate the impetus towards full industrial capacity through the Macroeconomic Policy Framework for 2005 –2006 driven by the Government, in consultation with key stakeholders.

COUNTRY CONTEXT

POLITICAL DEVELOPMENTS AND GOVERNANCE

In March 2005, Zimbabwe held its sixth democratic parliamentary elections. These elections were conducted in accordance with Zimbabwe's national laws and the spirit of Southern African Development Community (SADC) Principles and Guidelines Governing Democratic Elections. On the basis of both the national debate and national experiences in running elections since 1980, Government has enacted far-reaching reforms to its electoral laws such that Zimbabwe has moved furthest in the region in incorporating the SADC guidelines and principles into municipal law.

The Electoral Supervisory Commission (ESC), as in the past, conducted voter education while H. E. President Mugabe and Government strongly appealed for a peaceful political campaign to ensure a free and fair ballot. The law enforcement arms of Government enforced the President's declaration of zero tolerance on all forms of political intimidation. Peace has continued to prevail across the country in the aftermath of the polls.

The Government of Zimbabwe invited election observers whose sole and undivided purpose was to objectively observe the elections and proffer suggestions for further improvement. Mission observers from SADC, the African Union, China, India, among several countries, including those from the civil society and churches endorsed the elections as having been free, fair and held in a transparent and efficient manner. The high participation by foreign Heads of State and dignitaries at Zimbabwe's 25th anniversary of independence held on the 18th of April 2005, about a fortnight after the election, confirmed their affirmation regarding the Zimbabwean people's verdict and resounding support for the Government and its policies, principles and vision.

ECONOMIC DEVELOPMENT

In sentence three replace the phrase "600% at end 2003" with "a peak of 622.8 in January 2004, before declining to 132.7% in December 2004, on the strength of fiscal and monetary policies being implemented." Also delete the phrase after weather and insert the phrase "and economic sanctions" at the end of the last sentence.

Delete the sentence "Production in the commercial farm sector alone fell by 70% since 2000" in paragraph 5 because it is not factual.

SOCIAL DEVELOPMENTS

Delete paragraph 12 as it is watering the document and does not add or subtracting any value to the document.

RELATIONS WITH THE INTERNATIONAL COMMUNITY

In the SADC sub-region, Zimbabwe has continued to consolidate and broaden excellent relations with its regional partners and is grateful that SADC has remained steadfast in its solidarity with and support for Zimbabwe. At the continental level, Zimbabwe fully supports the current steps towards enhancing and consolidating Africa's integration under the auspices of the African Union. In the wider international arena, the Government remains committed to meaningful collaboration with all peace-loving countries and peoples of the world, based on mutual respect and sovereign equality. Nonetheless, Zimbabwe strongly opposes the pretext by some powerful nations to use "democracy" and "human rights" issues to undermine the stability and economic development of weaker developing nations.

It is regrettable that the EU and the US have imposed, renewed and strengthened "targeted sanctions" on Zimbabwe. These sanctions are affecting the generality of the Zimbabwean populace and not the so-called targeted individuals. The denial of balance of payments support, the withdrawal of lines of credit to Zimbabwean companies and the vetoing of soft loans to Zimbabwe from International Financial Institutions by the EU and the United States cannot be anything but sanctions deliberately intended at destroying the Zimbabwean economy and causing social upheaval, political insurrection and change of government. Zimbabwe's withdrawal from the Commonwealth took into account its national interests, hard won independence and the fact that the Commonwealth had decided to abandon its rules and procedures in dealing with the country. In the circumstances, Zimbabwe was left with no option but to terminate its membership of that organisation.

In spite of these machinations, Zimbabwe has remained on a proactive diplomatic outreach, open to dialogue and maintained open links with those countries that are bridge builders. It continues to work with those states and cooperating partners who support efforts at national dialogue as opposed to those who want to further polarise the Zimbabwean society.

RELATIONS WITH THE WORLD BANK

Delete item iv in paragraph 17, as reference to military intervention in DRC is inconsistent with the assistance given to Uganda despite the fact that Uganda was supporting a rebel group in DRC and Zimbabwe participated at the invitation of a sovereign state.

HIV/AIDS IN ZIMBABWE ANNEX 5

Zimbabwe is one of the countries worst affected by HIV and AIDS, in the World. Results from the Antenatal Serosurveillance Surveys indicate that HIV prevalence peaked at 34% in 2000 fell to 31% in 2001 and had further decreased to 27.5% in 2002.

In 2003, Ministry of Health and Child Welfare released new HIV and AIDS estimates for the country, which indicated that HIV prevalence rate among adults 15-49 years was 24.6%. It must be noted that the figure does not represent a decline in prevalence of HIV infection in Zimbabwe (from the previous UNAIDS estimates), but is more accurate based on new estimate methodologies adopted by UNAIDS and WHO.

It is estimated that 1.82 million persons are living with HIV and AIDS in Zimbabwe. The number of women infected was 870 000 (54%), and children (0-14 years) were 165 000.

The total number of children orphaned by HIV and AIDS (0-14 years) is now estimated at 761 000.

Although HIV and AIDS has affected all sectors and communities, the worst affected are the poor, households headed by women and or children and the elderly have difficulties accessing food aid due to impaired mobility, ostracism, or stigma.

According to the Ministry of Health and Child Welfare reports, 66 percent of all recent hospital admissions in Zimbabwe are HIV-related. Demand for services of trained health care providers is increasing; while concurrently, those working in the health sector are also affected by HIV/AIDS. A substantial numbers of health care workers have been migrating especially to the UK and RSA (about 3.4 million Zimbabweans are estimated to be living outside the country).

It was projected by AIDS Policy Research Center, University of California San Francisco, that in the absence of the ARV treatment program, between 2000 and 2010, 2.1 percent of Zimbabwe's teachers will die annually because of AIDS. Of the New teachers who needed to be trained in Zimbabwe in 2000, 54.3 percent replaced teachers lost to AIDS; for 2010, a projected 82.6 percent of the newly trained teachers will replace teachers lost to AIDS. There will be a 0.25 percent reduction in Zimbabwe's school-age population (ages 5 to14).

However, it should be noted that GOZ has already started on an ARV treatment program in public health institutions from March 2004. Already more than 4 500 patients are on treatment and the figure is expected to reach more than 20 000 by 2005. Teachers and other public workers are already benefiting

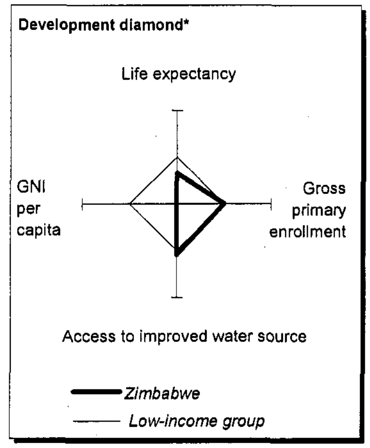
18 July 2005

Standard CAS Annex A2: Zimbabwe at a Glance

Zimbabwe at a glance

9/21/04

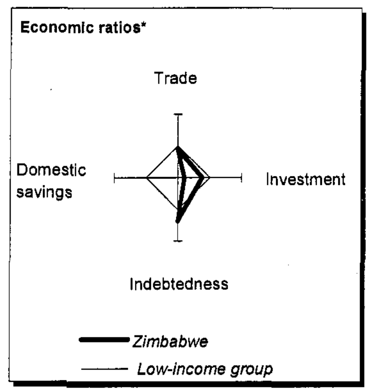
POVERTY and SOCIAL	Zimbabwe	Sub-Saharan Africa	Low-income
2003			
Population, mid-year *(millions)*	13.1	689	2,495
GNI per capita *(Atlas method, US$)*	..	450	430
GNI *(Atlas method, US$ billions)*	..	311	1,070
Average annual growth, 1997-03			
Population *(%)*	1.6	2.4	1.9
Labor force *(%)*	1.9	2.5	2.3
Most recent estimate (latest year available, 1997-03)			
Poverty *(% of population below national poverty line)*	70	..	..
Urban population *(% of total population)*	37	33	31
Life expectancy at birth *(years)*	39	46	59
Infant mortality *(per 1,000 live births)*	76	103	79
Child malnutrition *(% of children under 5)*	13	..	42
Access to an improved water source *(% of population)*	83	58	76
Illiteracy *(% of population age 15+)*	9	37	37
Gross primary enrollment *(% of school-age population)*	95	87	94
Male	96	94	100
Female	93	80	88



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

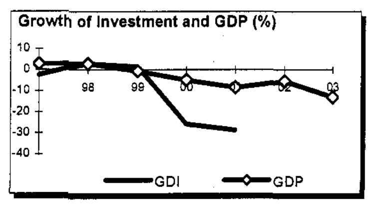
	1983	1993	2002	2003
GDP *(US$ billions)*	7.8	6.6	8.3	5.7
Gross domestic investment/GDP	14.3	22.8	8.3	4.1
Exports of goods and services/GDP	16.4	30.7	24.1	27.1
Gross domestic savings/GDP	11.3	21.0	10.6	-14.8
Gross national savings/GDP	..	20.6	8.5	..
Current account balance/GDP	-6.5	-4.7	-12.6	-19.9
Interest payments/GDP	0.4	2.6	..	..
Total debt/GDP	11.4	64.1	54.5	78.2
Total debt service/exports	5.9	30.9	2.9	..
Present value of debt/GDP	..	..	47.1	..
Present value of debt/exports	..	..	192.5	..

	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	3.3	-0.6	-5.6	-13.1	..
GDP per capita	0.0	-2.4	-6.7	-13.8	..
Exports of goods and services	6.0	4.1	-0.8	..	..

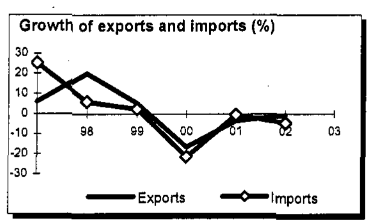


STRUCTURE of the ECONOMY

	1983	1993	2002	2003
(% of GDP)				
Agriculture	11.2	15.0	17.4	..
Industry	29.0	33.3	23.8	..
Manufacturing	23.0	23.0	13.0	..
Services	59.7	51.6	58.8	..
Private consumption	71.4	64.0	72.5	..
General government consumption	17.3	14.9	16.9	..
Imports of goods and services	19.5	32.4	21.8	..



	1983-93	1993-03	2002	2003
(average annual growth)				
Agriculture	2.6	1.3	-7.0	-8.0
Industry	2.9	-2.9	-8.2	-10.6
Manufacturing	2.7	-4.2	-12.0	-1.3
Services	3.8	0.1	-4.2	-16.0
Private consumption	3.1	3.5	-5.7	..
General government consumption	4.4	-3.7	-17.0	..
Gross domestic investment	6.1	-9.2	..	..
Imports of goods and services	8.3	2.7	-4.8	..

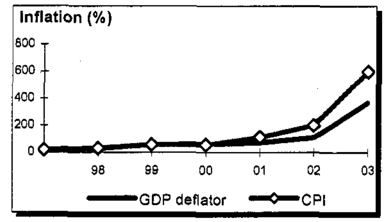


Note: 2003 data are preliminary estimates. Group data are for 2002.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

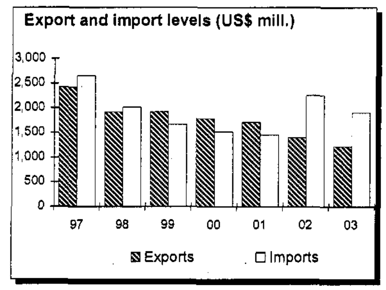
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
(% change)				
Consumer prices	23.2	27.6	198.9	598.7
Implicit GDP deflator	19.4	22.2	107.5	367.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	23.6	26.8	23.6	22.0
Current budget balance	18.1	-2.2	-11.2	..
Overall surplus/deficit	-7.5	-8.1	..	..



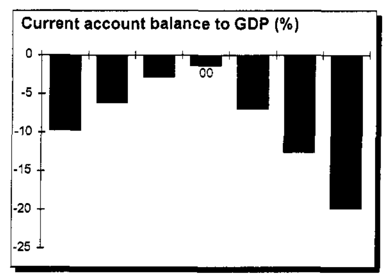
TRADE

	1983	1993	2002	2003
(US$ millions)				
Total exports (fob)	..	1,610	1,398	1,225
Tobacco	..	366	..	..
Gold	..	233	..	..
Manufactures	..	652	..	..
Total imports (cif)	..	1,512	2,263	1,914
Food	..	121	..	..
Fuel and energy	..	260	..	..
Capital goods	..	508	..	..
Export price index *(1995=100)*	..	82	..	..
Import price index *(1995=100)*	..	90	..	..
Terms of trade *(1995=100)*	..	92	..	..



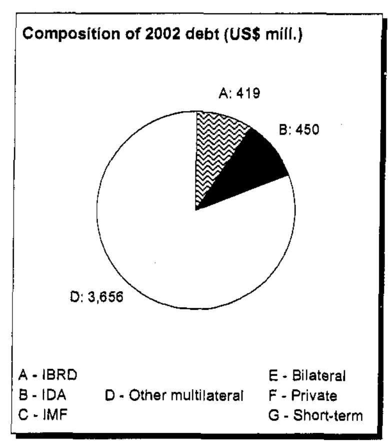
BALANCE of PAYMENTS

	1983	1993	2002	2003
(US$ millions)				
Exports of goods and services	1,298	1,979	1,603	1,540
Imports of goods and services	1,487	2,068	2,634	2,618
Resource balance	-189	-89	-1,031	-1,078
Net income	-198	-248	..	..
Net current transfers	..	26	..	..
Current account balance	-501	-311	-1,044	-1,130
Financing items (net)	347	518	..	..
Changes in net reserves	155	-207	-319	-411
Memo:				
Reserves including gold *(US$ millions)*	..	..	..	..
Conversion rate *(DEC, local/US$)*	1.0	6.5	55.0	697.4



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
(US$ millions)				
Total debt outstanding and disbursed	885	4,199	4,525	4,448
IBRD	73	528	419	..
IDA	205	199	450	..
Total debt service	80	621	59	..
IBRD	9	75	1	..
IDA	2	2	0	..
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	55	444	23	..
Private creditors	-14	-155	-29	..
Foreign direct investment	-45	32	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	0	..
Disbursements	32	177	0	..
Principal repayments	3	37	1	..
Net flows	30	140	-1	..
Interest payments	9	40	0	..
Net transfers	20	100	-1	..



Standard CAS Annex B2: Selected Indicators of Bank Portfolio Performance and Management

CAS Annex B2 - Zimbabwe
Selected Indicators* of Bank Portfolio Performance and Management
As Of Date 09/20/2004

Indicator	2002	2003	2004	2005
Portfolio Assessment				
Number of Projects Under Implementation [a]	1	0	0	0
Average Implementation Period (years) [b]	8.2	0.0	0.0	0.0
Percent of Problem Projects by Number [a, c]	100.0	0.0	0.0	0.0
Percent of Problem Projects by Amount [a, c]	100.0	100.0	100.0	100.0
Percent of Projects at Risk by Number [a, d]	100.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount [a, d]	100.0	100.0	100.0	100.0
Disbursement Ratio (%) [e]	-1.2	0.0	0.0	0.0
Portfolio Management				
CPPR during the year (yes/no)	n/a	n/a	n/a	
Supervision Resources (total US$,000)	60	32		
Average Supervision (US$,000/project)	12	32		

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	30	6
Proj Eval by OED by Amt (US$ millions)	1,237.9	101.4
% of OED Projects Rated U or HU by Number	21.4	75.0
% of OED Projects Rated U or HU by Amt	16.0	35.8

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Standard CAS Annex B4: Summary of Non-Lending Activities

Summary of Non-Lending Services - Zimbabwe

As Of Date 09/20/04

Product	*Completion FY*	*Cost (US$000)*	*Audience*[a]	*Objective*[b]
Recent completions				
Financial Sector Note	1998	144.2	Govt, Bank, Donors, Pub	Knowledge, Problem, Public
Poverty Analysis/SSN	1999	59.4	Govt, Bank, Donors, Pub	Knowledge, Problem, Public
Presidential Health Comm	1999	120.7	Govt, Bank, Donors, Pub	Knowledge, Problem, Public
Africa Virtual University	1999	Trust Fund	Govt, Bank, Donors, Pub	Knowledge, Problem, Public
Social Safety Nets	2000	64.3	Govt, Bank, Donors, Pub	Knowledge, Problem, Public
Education IDF	2000	21.3	Govt, Bank, Donors, Pub	Knowledge, Problem, Public
Petroleum Sector Reform	2000	10	Govt, Bank, Donors, Pub	Knowledge, Problem, Public
Telecom IDF	2001	23	Govt, Bank, Donors	Knowledge, Problem
Exchange Rate Studies	2001	45	Govt, Bank, Donors	Knowledge, Problem
Land Reform TA	2002	188	Govt, Bank, Donors	Knowledge, Problem
Public Sector Restructuring	2003	200	Govt, Bank, Donors	Knowledge, Problem
Watching Brief	2003	160	Govt, Bank, Donors	Knowledge, Problem
Underway				
General Economic Work	Ongoing	60	Govt, Bank, Donors	Knowledge, Problem
Agriculture/Food Security TA	Ongoing	100	Govt, Bank, Donors	Knowledge, Problem
HIV/AIDS Dialogue	Ongoing	40	Govt, Bank, Donors	Knowledge, Problem
Social Service Delivery & Expend. Rev	2005	120	Govt, Bank, Donors	Knowledge, Problem
Bank Strategy Note	2005	120	Govt, Bank, Donors	Knowledge, Problem

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

Standard CAS Annex B8: IBRD Loans and IDA Credit in the Operations Portfolio

CAS Annex B8 (IFC) for Zimbabwe

Zimbabwe
Statement of IFC's
Held and Disbursed Portfolio
As of 7/31/2004
(In US Dollars Millions)

		Held				Disbursed			
FY Approv:	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1997	AEF Agflora	0.24	0	0	0	0.24	0	0	0
1998	AEF Belvdere Hs	0	0.08	0	0	0	0.08	0	0
1999	AEF Deraswiss	1.14	0	0	0	1.14	0	0	0
1999	AEF Hy-Veld	0.98	0	0	0	0.98	0	0	0
1997	AEF Isfar Ltd.	0.1	0	0	0	0.1	0	0	0
1995	AEF Itachi Plast	0.26	0.06	0	0	0.26	0.06	0	0
1997	AEF Lowveld Lt:	0.3	0.19	0	0	0.3	0.19	0	0
1996	AEF Shagelok	0.86	0.19	0	0	0.86	0.19	0	0
1995	AEF Stone Hldng	1.39	0	0	0	1.39	0	0	0
1998	CBZ	8	0	0	0	8	0	0	0
1996	Trinidad Ind.	0.06	0.58	0	0	0.06	0.58	0	0
1997	UDC	0.59	0	0	0	0.59	0	0	0
1993	Victoria Falls	0	0	0.24	0	0	0	0.24	0
1995	Zambezi Fund	0	0.46	0	0	0	0.46	0	0
	Total Portfolio:	13.9	1.56	0.24	0	13.9	1.56	0.24	0

Approvals Pending Commitment				
	Loan	Equity	Quasi	Partic

Standard CAS Annex B8: Statement of IFC's Held and Disbursed Portfolio

CAS Annex B8 - Zimbabwe

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 09/20/2004

Closed Projects	**36**
IBRD/IDA *	
Total Disbursed (Active)	
of which has been repa	0.00
Total Disbursed (Closed)	1,432.79
of which has been repa	650.28
Total Disbursed (Active + Cl	1,432,786,606.43
of which has been repa	650,277,405.96
No Applicable Data Found.	0.00
0.00	0.00
0.00	0.00

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions			
Project ID	**Project Name**	**Development Objectives**	**Implementation Progress**	**Fiscal Year**	**IBRD**	**IDA**	**GRANT**	**Cancel.**
P003261	BIODIVERSITY CONSI	U	S	1998			5	

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