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Report No. P-5819-ZIM

MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

ON A

PROPOSED CREDIT

IN AN AMOUNT EQUIVALENT TO SDR 109.5 MILLION

TO THE

REPUBLIC OF ZIMBABWE

FOR AN

EMERGENCY DROUGHT RECOVERY AND MITIGATION PROJECT

PART I: THE MAIN REPORT

JUNE 4, 1992

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CURRENCY EQUIVALENTS

(February 1992)

US\$ 1.00 = Z\$ 5.05

US\$ 0.20 = Z\$ 1.00

ABBREVIATIONS AND ACRONYMS

AFC	Agricultural Finance Corporation
CA	Communal Areas
CMB	Cotton Marketing Board
CSFP	Child Supplementary Feeding Program
CZI	Confederation of Zimbabwe Industries
DDF	District Development Fund
DSW	Department of Social Welfare
ERS	Export Retention Scheme
FFW	Food-for-Work program
GDP	Gross Domestic Product
GMB	Grain Marketing Board
GOZ	Government of Zimbabwe
IRWSSP	Integrated Rural Water Supply and Sanitation Program
LSCS	Large-Scale Commercial (farming) Sector
LEDP	Letter of Emergency Drought Policy
MEWRD	Ministry of Energy and Water Resources Development
MFEPD	Ministry of Finance, Economic Planning and Development
MLARR	Ministry of Lands, Agriculture and Rural Resettlement
MLGRUD	Ministry of Local Government, Rural and Urban Development
MLMPSW	Ministry of Labor, Manpower Planning and Social Welfare
MOH	Ministry of Health
MOTNS	Ministry of Transportation and Natural Supplies
NAC	National Action Committee
NGO	Non-Governmental Organization
NOCZIM	National Oil Company of Zimbabwe
NRZ	National Railways of Zimbabwe
OGIL	Open General Import License
UNDP	United Nations Development Program
USAID	United States Agency for International Development

METRIC EQUIVALENTS

1 meter (m)	=	3.28 feet
1 square meter (sq.m)	=	10.76 square feet
1 kilometer (km)	=	0.62 miles
1 square kilometer (sq.km)	=	0.386 square miles

GOVERNMENT OF ZIMBABWE

FISCAL YEAR

July 1 - June 30

ZIMBABWE
EMERGENCY DROUGHT RECOVERY AND MITIGATION PROJECT

Credit Summary

Borrower: Republic of Zimbabwe

Amount: SDR 109.5 million equivalent

Terms: Standard IDA terms, repayable in 35 years, with a 10-year grace period.

Economic Rate of Return: Not applicable.

Financing Plan: Government Drought Relief and Recovery Program

	US\$ million	
Government of Zimbabwe: (through own resources and anticipated additional donor financing)	\$730	
IDA – Proposed Credit:	\$150	(equivalent)
IBRD existing loan portfolio:	\$37	
Bilateral Agencies (pledges):	\$127	
	\$1044	
Total	\$1044	

Staff Appraisal Report: There is no separate Staff Appraisal Report.

This report is based on the findings of a single Preparation and Appraisal Mission which visited Zimbabwe in March-April 1992, comprising Messrs./Ms. Eric Rice (Country Economist and mission leader), Mukami Mwiraria (Urban Planner), Paatii Ofosu-Amaah (Legal Counsel), Praful Patel (Division Chief), Edward Quicke (Agricultural Economist), David Grey (Consultant, Hydrogeologist), Robin Herbert (Consultant, Hydrogeologist), and Frank Riely (Consultant, Food Security Specialist). Contributions to the Mission were also made by Michael Hicks (Consultant, Transport Specialist), Ngoni Mudege (Water Engineer), Paul Taylor (Water Engineer), and David Sanders (Consultant, Health and Nutrition). Christiaan Poortman (Resident Representative in Zimbabwe), Michael Mills, Stephen Brushett, Caesar Chidawanyika, and Lloyd McKay of the resident mission all provided guidance to the Mission, and organized and participated in numerous meetings. Arthur Fields (AFTOS) and Chander Ohri (AFRVP) provided procurement advice. Documents were reviewed by the ad hoc advisory group, consisting of Piers Cross (INUWS), Alcira Kreimer (ENV), Paatii Ofosu-Amaah (LEGOP), Michel Pommeroy (CODOP), Andrew Spurling (AFTAG), Roger Sullivan (AFTSP), and Harry Walters (AFTSP).

**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF IDA TO THE EXECUTIVE DIRECTORS
ON A PROPOSED CREDIT TO THE REPUBLIC OF ZIMBABWE
FOR AN EMERGENCY DROUGHT RECOVERY AND MITIGATION PROJECT**

1. I submit for your approval the following memorandum and recommendation on a proposed credit to the Republic of Zimbabwe for SDR 109.5 million, the equivalent of US\$150 million, on standard IDA terms with a maturity of 35 years, to help finance an Emergency Drought Recovery and Mitigation Project.

Background

2. Zimbabwe and the rest of Southern Africa are currently suffering from their most severe drought in this century. The drought comes after a decade of below-average rainfall, rendering the population and the economy particularly susceptible to its devastation. Overall agricultural production is expected to be at least 35 percent below normal in 1992. Reliable and independent sources currently estimate that this year's harvest of maize -- the country's most important staple food crop -- will be less than a quarter of normal levels. The sugar harvest has been similarly affected. The cotton harvest (with implications as a source of inputs for both textiles and vegetable oil) is anticipated to be less than half of its normal size.

3. Because of the drought, Zimbabwe will face a food shortage of unprecedented magnitude between the primary harvest of April 1992 through the secondary harvest of August 1993. The government estimates the total food shortfall to be 2.7 million tons. However, logistical and budgetary constraints may prevent Zimbabwe from importing its full food requirement. Therefore, the UN Food and Agriculture Organization projects total food imports of 2.3 million tons, which will result in food imports costing approximately US\$464 million in 1992 and US\$253 million in 1993, inclusive of external transportation.

4. Even in the midst of its relief efforts, Zimbabwe must begin the arduous task of recovery in agriculture and water supply. The most far-reaching implication of the drought is its devastation of the agricultural sector. Most critically, smallholder farmers will not be able to plant for 1993 without assistance. A lack of feedstock and water will have killed many of their draft animals and will have rendered the remainder too weak to plow. A large share of the seed for planting has been destroyed in the drought. Available quantities of fertilizers, crop chemicals, and spare parts, essential for both communal and commercial farmers, will be inadequate due to an acute shortage of foreign exchange. In order to prevent future years of massive food deficits, the agricultural sector must quickly be restored to its former strength. Moreover, agriculture must remain viable for communal farmers to prevent massive internal migration.

5. Access to safe water -- already poor in some areas -- has declined in both rural and urban areas as a result of the drought. The government has identified approximately 40 percent of the country's 16,000 rural water sources as dry or nonfunctioning, and plans to repair, rehabilitate, or deepen them. In addition, the government plans to finance a localized water drilling program in the most underserved areas, exploiting both private and public resources. Many urban water supplies are similarly in a precarious state. At the start of the drought, the country's reservoirs held only an estimated 20 percent of their aggregate capacity. As a result, the reservoirs that serve many of the cities are now nearly dry.

6. The drought also carries with it numerous undesirable secondary effects. Rationing of electricity, caused by limited hydro-electric capacity, has reduced the output of manufacturing and mining firms. Much of agro-industry has suspended operations, with implications for urban unemployment. Hoarding, theft, and illegal exportation of food have reportedly stripped many markets of grain and other foodstuffs. High unofficial food prices have eroded the purchasing power of consumers and exhausted their limited savings. Shortages of food and water appear to have already sparked sporadic, angry protests from hungry consumers.

7. Past experience has demonstrated that a drought will likely accelerate the secular migration from rural to urban areas, as the rural population abandons its farms to search for urban employment, food, and water. Although its magnitude has not yet been determined, a moderate migration appears to have commenced among smallholder farmers. Zimbabwean cities already suffer from overburdened urban infrastructure – particularly in housing, water, sanitation, and transportation. Water supply rehabilitation and increased distribution of food relief are both needed in rural areas to prevent the social dislocations that would result from mass migrations. In addition, resources must be found to accommodate the additional strain of incremental in-migration on Zimbabwe's towns and cities, which will experience problems of homelessness, health hazards, and transportation failures.

8. The logistical considerations regarding port and rail transportation present an additional risk to the relief and recovery efforts. In theory, Zimbabwe, South Africa, and Mozambique can deploy sufficient port, rail, and trucking assets to service regional drought-related freight needs. However, these assets will have to be employed with a degree of efficiency and coordination never before achieved.

9. The drought comes at a time of major economic transformation in Zimbabwe, and has the potential to derail these reforms. In early 1991, the country embarked forcefully on a medium-term program of structural adjustment aimed at accelerating economic growth, increasing per capita income, and generating additional employment for a rapidly growing labor force. The government accelerated its program of deficit reduction and tightened monetary policy. Direct subsidies to parastatals were reduced and a program of civil service reform started. The government accelerated the real exchange rate depreciation, partially liberalized the foreign exchange system, and increased minimum tariffs. It partially decontrolled most prices, the trading of maize, and the transport system, and began the deregulation of small business, liberalized labor law, and simplified investment approval procedures. It also created a Social Development Fund to provide financial assistance to the poor. The government remains fully committed to its program of structural adjustment, although certain targets need modification in light of the severe negative impact of the drought on the national budget and the country's external accounts. The Government's implementation of the adjustment program was commended at the Consultative Group meeting in February 1992. These new targets and other details of the next few years of the program are being worked out by the Government, the World Bank and the IMF in the context of a PFP to support the Government's ESAF program with the IMF.

10. The overall economic impact of the drought is reflected in a large fall in GDP and in large increases in the balance of payments deficit, government expenditure on relief programs, and inflation. Real GDP is now projected to decline by about 9 percent in 1992 (with agricultural production falling by 35 percent), before rising by 6 percent in 1993. GDP will not exceed its 1991 level until 1994. Shortages of basic foodstuffs (including maize, sugar, bread, vegetable oil, and dairy products) and the high cost of importing have caused inflation to continue to accelerate in recent months, reaching 30 percent in the 12-month period ending February 1992.

Such inflationary pressures are expected to continue for the first half of 1992 and will severely strain household budgets, particularly for low-income groups.

11. The government has demonstrated prudent fiscal management, cutting its non-drought expenditures below their expected level. Nevertheless, the overall budget deficit for 1991/92 is now expected to reach about 9 percent of GDP, which exceeds moderately the 8.3 percent ceiling given in the Memorandum of the President for the Structural Adjustment Program (December 1991). The government's Drought Relief and Recovery Programme will necessarily carry over into the 1992/93 budget, rendering unreasonable the government's previous fiscal deficit target of less than 6 percent of GDP. The government is attempting to minimize the overall deficit with additional savings elsewhere and, if necessary, some additional revenue measures. These efforts will be detailed in the forthcoming Policy Framework Paper.

12. Drought-induced imports, coupled with a loss of expected exports, are projected to increase the current account deficit for 1992 to US\$958 million (nearly 20 percent of GDP). This is far higher than the US\$590 million estimated at the start of 1992 and creates an urgent need for additional external financing. The reduction in exports and the drought-induced increase in food imports will also spill over into 1993, causing the current account deficit to be US\$717 million, or 13 percent of GDP. This external imbalance can only be returned to reasonable magnitudes in 1994 and 1995.

13. To date, the following sources have committed themselves to helping Zimbabwe meet its additional, 1992 drought-related financing needs of US\$400 million:^{1/} US\$80 million of disbursements from the (US\$150 million) IDA Drought Recovery and Mitigation Credit; US\$17 million of accelerated disbursements on existing IBRD loans; and US\$80 million of additional IMF ESAF resources. Tentative indications are that the remaining gap will be financed by bilateral grants, concessional loans, and commercial borrowing, the composition of which will ensure the sustainability of the resulting external payments position. The precise composition of this financing is still evolving on the basis of international donor appeals.

Credit Objectives

14. The Association's main objective in proposing this Credit is to provide the Government of Zimbabwe with timely financial resources in support of its drought relief and recovery program. This program will alleviate human suffering, both at present and in the future, by restoring and enhancing Zimbabwe's productive capacity. It will do so by providing agricultural inputs that are essential for the next planting season, rehabilitating the water supply system, providing for critical inputs for the transport of goods needed for relief and recovery, and upgrading the public works programs through which drought relief is distributed. The program is designed to give special consideration to the recovery needs of agricultural smallholders.

15. The proposed IDA Credit would also help narrow the balance of payments gap that will result from incremental imports and the collapse of food exports. This would lessen the risk that this natural disaster might derail the government's broad-based economic structural adjustment program. Finally, the emergency Credit would assure the strengthening of short- and

^{1/}This figure implies a US\$273 million compression of other (non-drought-related) imports.

long-term institutional capacity in agriculture, water, and public works, to reduce the country's vulnerability to future external risks and to increase food security. It does so because it requires the government to include a set of essential studies and technical assistance, for which bilateral assistance has been arranged.

Description of Government Program

16. The Government of Zimbabwe has responded to the crisis by declaring it a "national disaster" and convening a high-level National Civil Protection Coordination Committee, chaired by the Vice President. The government has designed a comprehensive, US\$1075 million Drought Relief and Recovery Program for which it is seeking external financing. The government's Letter of Emergency Drought Policy (included in the Technical Annex) describes in detail the components of this program. This Letter constitutes the government's commitment to a particular course of action in its response to the drought emergency, and forms the basis on which the Association would extend the proposed Credit.

17. The largest component of the government's Program is the purchase of 2.7 million tons of foodstuffs over the period of April 1992 through August 1993, amounting to approximately US\$454 million. The government's program also includes five non-food components, which respond to the remainder of Zimbabwe's most critical drought-related needs: (1) a US\$263 million program of agricultural recovery, consisting of (a) financing tillage services and the private sector distribution of seed and crop chemicals to half of the most-affected smallholder farmers, and (b) a herd of small livestock for eligible farmers who do not require or receive tillage services; (2) foreign exchange requirements for other agricultural consumables, vehicles, equipment, and spares; (3) US\$217 million for drought-related railway and truck transportation needs; (4) US\$58 million program of emergency water supply rehabilitation and private sector water drilling; (5) US\$31 million for the expanded programs of Food-for-Work, public works, and Child Supplemental Feeding; and (6) an US\$2.4 million program of additional institutional strengthening, aimed at improving both Zimbabwe's short-term capacity to manage the current disaster and the country's longer-term capacity to avoid and respond to future potential crises.

18. Table 1 in Schedule A summarizes the sectoral distribution of the government's non-food program and its financing. The proposed Credit is equivalent to 14 percent of the total government drought relief and recovery program (this is also equivalent to 26 percent of the foreign exchange requirement of the program and 58 percent of foreign exchange requirement for the non-food program components).

19. **Financing from the Existing IBRD Portfolio.** Additional financing is expected to be provided by a reallocation of up to US\$37 million from the existing IBRD portfolio. As much as US\$25 million of uncommitted funds from the Urban II Project can be made immediately available to urban councils to respond to emergency water supply shortages and any acceleration of population influx. Uncommitted funds in the Railways II Project will be reallocated, so that up to US\$5 million might be disbursed for the purchase of required locomotive spares. Up to US\$4 million of unallocated funds and US\$3 million of uncommitted funds within the Agricultural Credit and Export Promotion Project will be available to finance private sector procurement of tractors, farm equipment, and spares.

20. **External Financing.** The Credit would also galvanize further support from among the donor community. The World Bank Group and other donors have coordinated closely to mount a concerted relief and recovery response. Bilateral donors have tentatively pledged US\$60 million in grant assistance to finance food relief imports. In addition, in parallel with the Association's Credit, approximately US\$7 million will support segments of the NAC's rural water plan, and US\$5 million will finance measures aimed at strengthening the country's short-term capacity to manage the current disaster and its longer-term capacity to avoid and respond to future potential crises. The Government of Norway has agreed to provide cofinancing of the equivalent of US\$1 million in support of three of these measures for institutional strengthening. Efforts to secure further concessional external finance are ongoing, with the Bank taking a leading role. The Bank Group will continue to work with the government, the IMF, and donors to closely monitor Zimbabwe's essential drought- and development- related import requirements, and to encourage any adjustment measures that will minimize the country's need to finance these imports externally.

Lessons Learned from Previous Bank Group Involvement

21. Design of this operation has been based on experience with other drought recovery and emergency operations. Five main lessons have been incorporated into Zimbabwe's program: (1) that the most effective results are achieved when consideration is given to short-term targets with modest objectives; (2) that high-level and broad-based government commitment to the recovery program is essential; (3) that the World Bank Group's emergency response should be part of a comprehensive national response; (4) that assistance will be required with implementation and to mitigate the effects of future crises; and (5) that the Bank Group lending instrument should afford the government flexibility in responding to the crisis.

22. In designing this Credit, the Association was cognizant that disbursement has been a bottleneck in previous emergency operations. The inherently fluid nature of both emergency operations and of donor cofinancing for such operations renders it difficult and unreliable to define a fixed Bank Group project. For this reason, it was determined that the Credit should be in the form of a quick-disbursing lending instrument, financing a positive list of agreed imported goods. In addition, the government will engage a procurement specialist, contingent on donor financing, to ensure that procurement is timely and that procedures conform to IDA standards.

23. Although the proposed Credit is the World Bank Group's first drought recovery operation in Zimbabwe, it draws on general operational experience in the sectors involved, to keep the government's program in line with other Bank Group activities and within the implementation capacity of national institutions. For instance, the agriculture component relies on institutional strengths that have been learned and developed through years of dialogue between the sector and the Bank. Similarly, the rural water component is generally synchronized with the objectives of the Bank's Yellow Cover rural water sector report.

Rationale for Bank Group Involvement

24. The foremost reason for Bank Group involvement is the need to support recovery and the alleviation of poverty and human suffering. In addition, the Bank Group is playing a leading role in the government's adjustment program and needs to be certain that the drought does not derail the adjustment program. In addition we have broad experience in the sectors most

affected by the drought, including agriculture, water, and transportation. Finally, the Bank has played a pivotal coordinating role in helping respond to the drought, particularly concerning the non-food components of the government's program.

Program Implementation

25. **Program Management.** Program management will be the responsibility of the Ministry of Finance, Economic Planning and Development, under the guidance of the National Civil Protection Coordination Committee and its six sub-committees. Line ministries and agencies will undertake the actual implementation of the various program components, as described in the Technical Appendix and the government's Letter of Emergency Drought Policy. In addition, lending involving on-going Bank projects will be implemented by the agencies already involved (e.g., MLARR for the agricultural spares, MLGRUD for the urban water component, and MOTNS and NRZ for rail spares). The sustainability of the program is assured by the government's careful reliance, to the extent possible, on established organizations and practices.

26. **Procurement.** Each executing agency has established a procurement unit to undertake procurement activities in respect of the drought program. Their organization, key staff, and procedures are acceptable to the Association. In MLARR and MLMPSW, and NAC, the units will retain one or more on-site procurement specialists with qualifications and terms of reference acceptable to the Association. MFEPD will coordinate their activities and will provide monthly progress reports of procurement activities to the Association.

27. To ensure flexibility and rapid disbursement, the Credit will provide foreign exchange for a range of imports required to implement the recovery components of the government's emergency relief and recovery program. The proposed Credit of US\$150 million would finance 100 percent of the foreign expenditures incurred for a positive list of imports, as specified in the Technical Annex. All procurement and disbursements for goods and services to be financed under the proposed Credit shall be made in accordance with Bank Group guidelines.

28. Procurement for contracts for US\$500,000 equivalent or more will be carried out on the basis of simplified international competitive bidding (ICB) procedures consistent with the Bank's *Guidelines for Procurement of Goods* and contracts will be bulked to the maximum extent possible. Procurement for contracts of less than US\$500,000 equivalent will be on the basis of three quotations obtained from qualified suppliers in at least two countries. The positive list of imports consists of: (a) petroleum products (not to exceed 20% of the Credit); (b) selected motor vehicles; (c) spare parts for vehicles and agricultural equipment; (d) agricultural inputs; (e) equipment for water works (excluding borehole drilling rigs); (f) microcomputers, software and related equipment; and (g) construction materials. Detailed procurement procedures are set forth in the Technical Annex and the Development Credit Agreement.

29. **Disbursements.** To ensure that all funds are available when needed, a Special Account will be established with the Reserve Bank of Zimbabwe, with an initial deposit of US\$10 million, to be replenished on a monthly basis on the basis of documentary evidence supplied to IDA by the Reserve Bank. Disbursements for contracts below US\$500,000 would be made against Statements of Expenditure. Up to 20 percent of the proceeds of the Credit may be disbursed retroactively against expenditures made since April 1, 1992. Expenditures financed retroactively must also conform to Bank procurement guidelines.

30. Accounts and Audit. The sector agencies, MFEPD, and the Reserve Bank will maintain records and accounts of all transactions under the Credit. Relevant documentation will be kept locally and for auditors. Accounting and auditing procedures of the Reserve Bank are acceptable to the Association. All Credit accounts will be audited by independent auditors under terms of reference acceptable to the Association. Audited Credit accounts, including the Special Account and SOEs will be forwarded to IDA and the other donors within nine months of the end of the fiscal year. Currently there are no overdue audit reports in Zimbabwe.

Agreed Actions

31. The government has agreed to undertake a number of actions critical to the implementation of its program. These are set out in its Letter of Emergency Drought Policy (attached as part of the Technical Appendix). The Association will undertake periodic reviews of the status of these actions and of the progress of the government's program, the first of which will take place within four months of the date of effectiveness of the Credit.

Environmental Aspects

32. An adverse environmental situation already exists in the drought affected areas of the country. The lack of rains will have serious effects on the local ecology both this year and in the future unless preventive measures are undertaken right away. The government's program will help alleviate some of the problems caused to the environment by the drought. Environmental provisions agreed under on-going projects such as the Agricultural Credit and Export Promotion Project for fertilizer and pesticide usage, will be followed under this Credit.

33. A lack of access to the range of internationally-traded crop chemicals in recent years, due to the shortage of foreign exchange, has damaged short-term agricultural productivity. In addition, it has resulted in a failure to rotate among different types of pesticides and herbicides, an environmentally unsound practice with potentially disastrous long-term implications. By alleviating this bottleneck, the program will encourage chemical use that is more environmentally sound.

34. The agricultural sector program will promote minimum tillage techniques which reduce potential soil erosion and promote water retention. Zimbabwe is one of the leading nations in the use of integrated pest control, and has pioneered an environmentally-friendly system of "pest scouting" so that chemicals are only used when required, rather than in a pre-determined spraying schedule. The designated program would continue to promote these principles.

35. The drought has worsened over-crowding of water sources by human and livestock populations. By increasing the number of functioning water points, the government's water supply recovery program will reduce over-crowding and mitigate the associated environmental stresses. A qualified hydrogeologist has confirmed that the planned development of new water sources in underserved areas will have no appreciable impact on the aquifer. Environmental assessments will be made of all proposals for urban water supply rehabilitation.

36. The urban in-migration contingency plan, by helping to prevent the establishment of squatter settlements, should limit the stress placed on the local natural environment and on

water and sanitation infrastructure. By planning ahead for an appropriate settlement scheme of displaced persons, the contingency plan would minimize the stripping of local vegetation for construction of sub-standard shelters and would ensure proper sanitation facilities and controlled discharge.

37. Finally, the public works programs lessen incentives for environmentally destructive income-generating activities, such as the collection and sale of firewood. These programs include many projects, such as re-afforestation and land grading, that prevent soil erosion or have other environmental merits.

Program Risks and Benefits

38. Rapid implementation of the food, agriculture, transportation, and water components of the government's program is critical to averting famine and to avoiding mass migration and its attendant social dislocations. The main risk for this Credit will be the government's ability to implement its Drought Relief and Recovery Programme in a timely fashion. Although administratively stronger than many other countries in Africa, Zimbabwe still faces limitations in its ability to implement and coordinate an effort of this magnitude. The relatively early, sustained intervention of the World Bank Group and other donors has played an important role in overcoming this problem. To ease implementation, the program has been made administratively as simple as possible and will make maximal use of existing institutions. In addition, other donors will be supplying technical assistance to key implementation agencies.

39. A second risk relates to the reliance of the country on outside ports for its access to the sea. With the whole region suffering from drought, road and rail transport infrastructure will be severely tested. However, a number of donors are providing technical assistance to the Port Authorities and Railways and are setting up a coordination unit to make the most effective use of the infrastructure that is available.

40. A third risk is that urban constituencies, being more visible to policy-makers, will receive a disproportionate share of the program's benefits. The possibility of an inadequate government response to the relatively greater rural needs is addressed by the government's explicit commitment to fully fund the Food-for-Work program of rural public works. It is also expressed in the government's strong rural water rehabilitation program component.

41. Finally, Zimbabwe faces the risk that it will be unable to meet its external obligations. Although this risk cannot be entirely alleviated, the substantial incremental assistance that has been pledged by donors makes it less likely that the drought will force the government into a payments crisis.

Recommendation

42. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve it.

**Lewis T. Preston
President**

**Attachments
June 4, 1992
Washington, D.C.**

Schedule A 1/

**Table 1: Estimated Costs of
Government's Drought Relief and Recovery Program
(US\$ million)**

	<u>Donor Funds Already Committed</u>	<u>Anticipated Donor Funding</u>	<u>Reprogramming of WB/IDA Portfolio</u>	<u>Unfunded 2/</u>		<u>Total</u>
				<u>Local Costs</u>	<u>Foreign Exchange Costs</u>	
1. Foodstuffs	111	100	--	--	243	454
2. Transport						
2.1 Road	--	--	--	30	38	68
2.2 Rail	7	--	5	90	47	149
3. Agriculture						
3.1 Communal Farming Rehab.	1	--	--	120	79	200
3.2 Imports of Inputs and Equipment	--	--	7	--	57	64
4. Rural Water Supply	7	--	--	4	18	29
5. Urban Water Supply & In-Migration	--	--	25	2	2	29
6. Entitlements and Public Works Programs	--	--	--	42	6	48
7. Institutional Support	1	1	--	--	--	2
Total	127	101	37	278	490	1,044

1/Schedule A may be subject to considerable revision, as the funding levels of other donors is confirmed during the forthcoming several weeks.

2/It is assumed that the government itself will finance any components that remain unfunded.

Schedule B

Procurement Procedures

Except as indicated otherwise, the following procedural requirements apply to any procurement contract for US\$500,000 equivalent or greater. Unless otherwise stated, procurement contracts for less than US\$500,000 equivalent shall be based on three quotations obtained from at least two countries.

Positive List

Procedure

Agricultural inputs

Simplified ICB

**Commodities, including chemicals
and fertilizer inputs**

**Simplified ICB (regardless of procurement amount), and
packaged for bulk procurement**

Construction materials

Simplified ICB

Cropseeds

**Three qualified bidders, or other approved procedures,
for an aggregate sum of up to \$4.9 million of multiple
varieties of geographically-distinct cropseeds.**

**Equipment for water works
(excluding drilling rigs)**

Simplified ICB

Petroleum products

**Simplified ICB, regardless of amount (aggregate
procurement of petroleum products not to exceed 20%
of the Credit)**

**Proprietary spare parts, equipment,
and cropseeds, standardized equipment**

**Direct contracting procedures up to US\$500,000, under
procedures acceptable to IDA**

**Selected motor vehicles
and spare parts**

Simplified ICB

**Vehicles and agricultural
equipment**

**IDA will finance imports made by these agents from their
principals**

Schedule C

Timetable of Key Credit Processing Events

Time Taken to Prepare Credit:	Three months.
Single Preparation and Appraisal Mission:	March 24 - April 21, 1992
Yellow Cover meeting:	May 20, 1992
Negotiations:	May 28, 1992
Planned Date of Effectiveness:	July 10, 1992
Estimated Completion of Credit Disbursement:	September 30, 1993

Schedule D

ZIMBABWE: Status of Bank Group Operations

(Details of Bank Group operations are discussed in Section E of the Technical Annex.)

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Amount in US\$ million (less cancellations)		Undis- bursed	Closing Date
				Bank	IDA		
Credits							
4 Credits(s) closed							
C23310-ZIM(S)	1992	ZIMBABWE	SAP		50.00	49.19	12/31/93
TOTAL number Credits = 1					50.00	49.19	
Loans							
12 Loans(s) closed							
L23350-ZIM	1984	ZIMBABWE	EXT&RES.IFAD	13.10		2.21	09/30/91(R)
L24450-ZIM	1984	ZIMBABWE	URBAN I	43.00		20.61	09/30/92(R)
L25330-ZIM	1985	ZIMBABWE	SSE I	10.00		2.78	12/31/92
L29000-ZIM	1988	ZIMBABWE	POWER II	44.00		10.07	12/31/92
L29390-ZIM	1988	ZIMBABWE	HIGHWAYS II	32.70		25.95	06/30/95
L30630-ZIM	1989	ZIMBABWE	AGRI.CRD. & EXPORT P	36.30		20.41	12/31/95
L30790-ZIM	1989	ZIMBABWE	URBAN SEC/REGNL DEV.	80.00		76.07	12/31/96
L31790-ZIM	1990	ZIMBABWE	FOREST RESOURCE MGT&	14.50		13.90	06/30/98
L32730-ZIM	1991	ZIMBABWE	RAILWAYS II	38.60		35.32	06/30/97
L33390-ZIM	1991	ZIMBABWE	FAMILY HLTH.II	25.00		25.00	12/31/97
L34340-ZIM(S)	1992	ZIMBABWE	SAP	125.00		125.00	12/31/93
TOTAL number Loans = 11				462.20		357.31	
TOTAL***				906.48	103.30		
of which repaid				234.99	.25		
TOTAL held by Bank & IDA				671.49	103.05		
Amount sold				70.32			
of which repaid				70.32			
TOTAL undisbursed						406.55	

Notes:

* Not yet effective

** Not yet signed

*** Total Approved, Repayments, and Outstanding balance represent both active and inactive Loans and Credits.

(R) indicates formally revised Closing Date.

(S) indicates SAL/SECAL Loans and Credits.

The Net Approved and Bank Repayments are historical value, all others are market value.

The Signing, Effective, and Closing dates are based upon the Loan Department official data and are not taken from the Task Budget file.

ZIMBABWE: Statement of IFC Investments

Invest Number	FY	Obligor	Type of Business	Loan	Equity	Total
-----US\$ Million-----						
2728-ZIM	1992	Meikles Hotel	Tourism	8.3		8.3
2171-ZIM	1992	Petrozim Pipeline	Petroleum	32.7		32.7
2164-ZIM	1991	Venture Capital Zimb	Capital Markets		1.1	1.1
2167-ZIM	1991	Spinweave	Textiles	5.0		5.0
2166-ZIM	1991	National Blankets	Textiles	6.5		6.5
2450-ZIM	1991	T A Trading	Tourism	2.0		2.0
2163-ZIM	1991	FMB Holdings	Leasing		2.7	2.7
2440-ZIM	1991	Barclays Bank	Banking	20.4		20.4
2441-ZIM	1991	Merch Bnk of Cent Afr	Banking	25.5		25.5
2442-ZIM	1991	1st Merch Bnk of Zimb	Banking	30.6		30.6
2443-ZIM	1991	Std Chart'd Merch Bnk	Banking	30.4		30.4
2444-ZIM	1990	Syfreys Merch Bank	Banking	25.4		25.4
2210-ZIM	1990	Mashonaland Holdings	Manufacturing	4.8		4.8
1238-ZIM	1990	Scotfin	Capital Markets	7.5		7.5
2172-ZIM	1990	Retrofit	Eng'g Services	0.3	0.1	0.4
2170-ZIM	1990	Mat-Tools	Manufacturing	0.4	0.3	0.7
848-ZIM	1986	Crest Breeders	Food/Food Proc	5.1	0.6	5.7
745-ZIM	1985					
911-ZIM	1987					
1078-ZIM	1988	UDC Limited	Money/Cap Mkts	11.7	0.4	12.1
552-ZIM	1981	Wankie Colliery	Mining	38.0		38.0
Total Gross Commitments				254.7	5.2	259.8
Less: Cancellations, terminations, exchange adjustments, repayments, write-offs, and syndicate sales				124.7	(0.0)	124.6
Total commitments held by IFC				130.0	5.2	135.2
Total Undisbursed				14.3	0.8	15.1
Total Disbursed				115.7	4.4	120.1

Annex 1

ZIMBABWE: Key Macroeconomic Indicators

Table 2. Zimbabwe: Key Indicators, 1990-95

(In percent, unless otherwise indicated)

	<u>1990</u>	<u>1991</u>	<u>1992</u> Est.	<u>1993</u>	<u>1994</u> Projected	<u>1995</u>
Growth and inflation rates						
GDP	2.6	3.6	-8.7	6.0	5.8	5.0
Consumer prices (annual average)	15.5	23.6	...	...	...	...
Debt service						
Debt service (US\$ million) ^{5/}	436	439	454	516	540	665
(Of which: interest)	183	207	218	272	305	321
Debt service/XGS ^{1/}	22.0	21.6	25.2	25.4	23.4	25.2
Debt service/GDP	7.0	7.5	10.3	10.9	10.8	12.8
Ratios to GDP						
Gross investment	20.1	22.0	21.0	23.0	25.0	26.0
National saving	17.3	12.6	...	...	...	...
Public investment ^{2/}	4.8	2.5	4.7	5.1	6.0	6.0
Public saving ^{2/}	-0.9	0.7	...	...	...	...
Private investment	15.3	19.5	16.3	17.9	19.0	20.0
Private saving	18.2	11.9	...	...	...	...
Government revenue ^{3/}	37.3	38.3	...	...	...	...
Government expenditure ^{3/}	48.0	46.9	...	...	...	...
Overall deficit (-) ^{3/ 4/}	-10.7	-8.6	...	...	...	...
Miscellaneous						
Real exchange rate	-11.4	...	...	...	...	...
Export volume growth rate	-3.7	0.3	-5.2	10.7	13.8	9.1
Exports/GDP	27.7	30.6	35.1	37.4	40.7	43.5
Import volume growth rate	9.6	26.4	-1.0	-4.9	-2.9	6.9
Imports/GDP	24.4	32.1	41.3	37.8	35.1	35.2
Current account (US\$ million) ^{4/}	-294	-691	-956	-724	-377	-216
Current account/GDP ^{4/}	-4.7	-11.8	-19.3	-13.5	-6.5	-3.5
Gross reserves (US\$ million)	219	299	371	465	585	715
(months of imports)	1.7	2.0	2.8	3.2	3.5	4.0
GDP (US\$ million)	6199	5848	4958	5345	5763	6160

^{1/} XGS, exports of goods and nonfactor services.

^{2/} Central Government.

^{3/} Central Government; fiscal year basis (July-June); figures refer to the fiscal year starting in the calendar year indicated.

^{4/} Excluding official transfers.

^{5/} Amortization of long-term debt plus total interest payments.

Table 3. Zimbabwe: External Financing Requirements, 1990-94

(In millions of US dollars)

	1991	1992 Est.	1993	1994 — Projections —	1995	Total 1992-95
Total financing requirement	-416	-1,458	-1,289	-902	-788	-4,437
Current account 1/	-691	-956	-724	-377	-216	-2,272
Amortization (public sector) 2/	-196	-236	-244	-235	-344	-1,058
Other capital (net) 3/	123	-40	-55	-50	-4	-69
Change in gross official reserves (-: increase)	1	-72	-94	-120	-130	-416
IMF repurchases	-5	--	--	--	--	--
Change in other Reserve Bank liabilities (net)	270	-184	-88	-50	-50	-372
Disbursements (existing and identified new commitments) 4/	580	1,243	1,051	786	570	3,649
Bilateral donors	319	394	370	289	265	1,318
World Bank	35	260	237	178	124	798
African Development Bank/Fund	34	149	147	72	105	473
Other multilateral institutions	--	--	0	0	0	0
IMF	--	174	150	146	0	470
Private creditors	192	266	147	102	76	591
Financing gap	--	165	153	46	173	537

1/ Excludes official transfers.

2/ Includes public enterprises.

3/ Comprises net private sector borrowing, short-term credit, direct investment, portfolio investment, and errors and omissions.

4/ Disbursements from commitments existing as of May 1992.