Investing in rural people

Republic of Zimbabwe

Country strategy note

Main report and appendices

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East and Southern Africa Division
Programme Management Department

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Currency equivalents

Currency Unit	=	Multi-currency regime, mainly US$
US$1.0	=	US$ 1

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

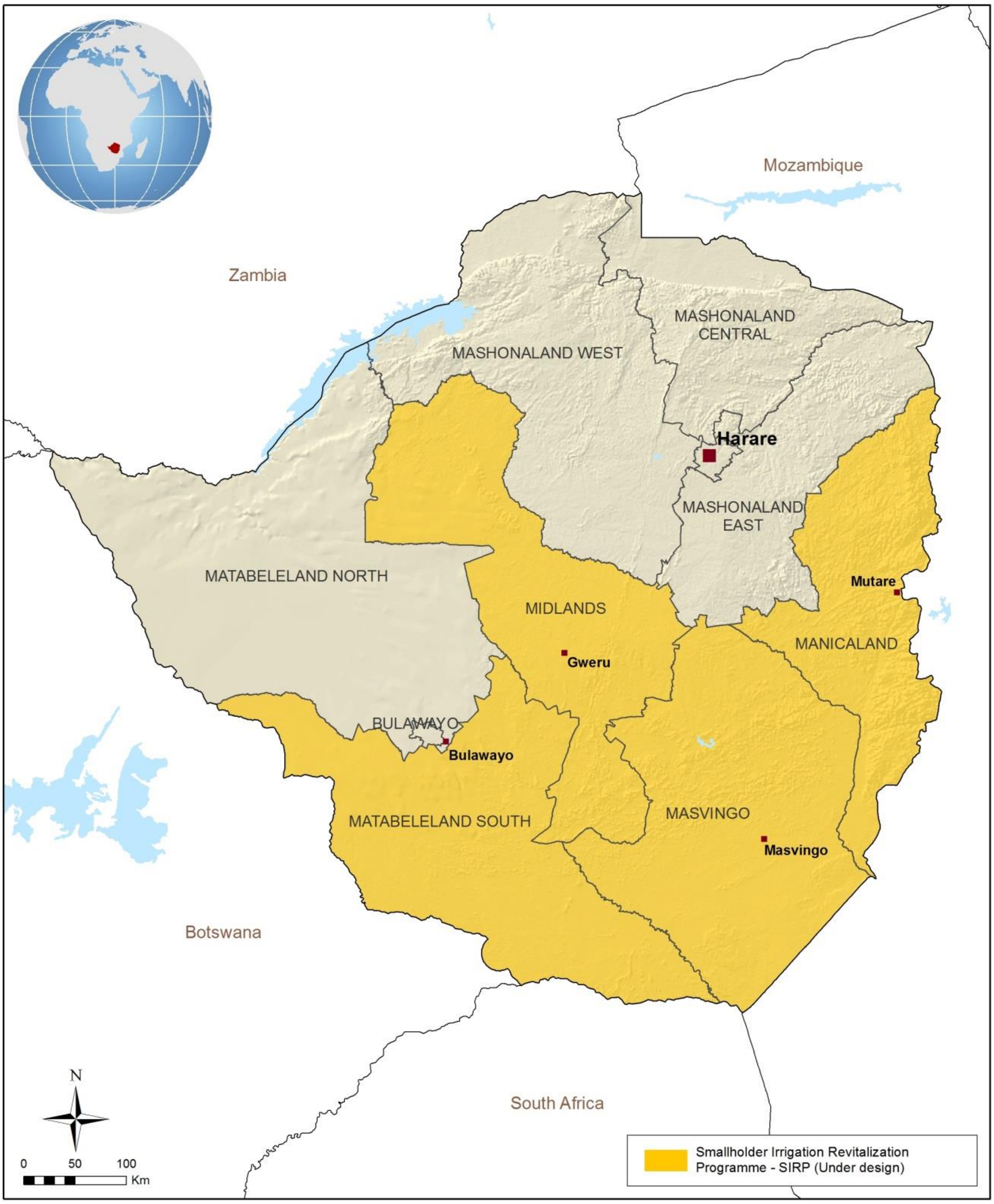
AfDB	African Development Bank
CAADP	Comprehensive Africa Agriculture Development Programme
GDP	Gross Domestic Product
IMF	International Monetary Fund
OFID	OPEC Fund for International Development
SIRP	Smallholder Irrigation Revitalization Programme

Map of IFAD-funded operations in the country

Republic of Zimbabwe

IFAD-funded programme

Country strategy note



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD *Map compiled by IFAD* | 22-07-2016

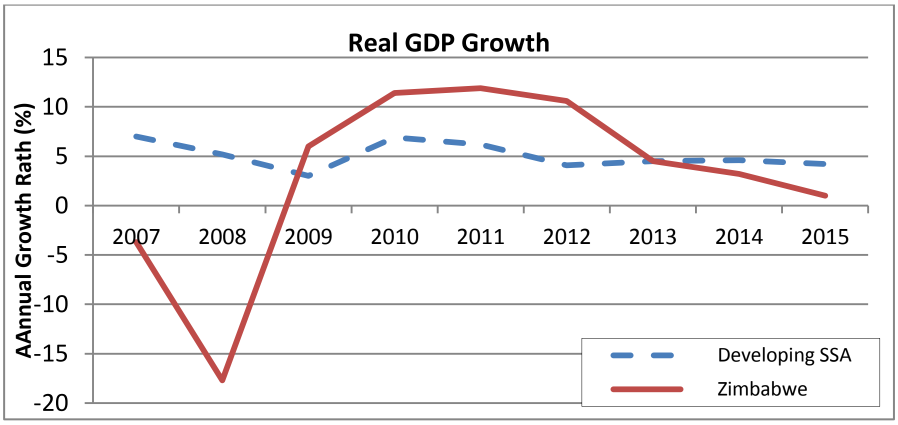
I. Country diagnosis

1. **Political context.** During the 1980s and early 1990s, Zimbabwe was on a trajectory to becoming a Middle Income Country. However since 1997, it experienced a deteriorating socioeconomic environment. After the financial crisis of 2008, Gross Domestic Product (GDP) suffered its greatest annual decline in its history (-17 per cent), and the country continued to go through a prolonged period of hyperinflation. The population suffered due to hyperinflation, food insecurity, breakdown of social services and weakening institutions. However, the signing of the Global Political Agreement in 2008 as well as the introduction of a multi-currency regime and tighter controls on government spending have brought about a nascent economic recovery.

2. Zimbabwe adopted a new constitution and in July 2013. Relations with the international community have been strained for years, but there are positive signals of the country's willingness to re-engage with its strategic partners, notably IFAD. In Q3 2014, the European Union (EU) lifted its economic sanctions on Zimbabwe and in Q1 2015, it provided a US$270 million commitment for development assistance. This funding was the EU's first direct engagement with Zimbabwe since 2002, when the Cotonou Partnership Agreement was revoked. Besides the Government of Zimbabwe's ongoing negotiations with its creditors (World Bank, IMF and AfDB) regarding the settlement of the country's arrears, bilateral partners such as Denmark, the United Kingdom, Italy and the United States fielded high level trade missions to Zimbabwe, which also demonstrates improving relations. Moreover, OFID also re-engaged with Zimbabwe in 2015, with a project in the education sector.

3. **Economic context.** Zimbabwe has a total land area of 39.6 million hectares and an estimated population of 13 million people, of whom two thirds live in rural areas and two thirds are under the age of 25 years. In 2014, the Gross National Income (GNI) per capita stood at US$840, which has been on an upward trend, since 2009. The country enjoyed a GDP growth rate of 6.0 per cent in 2009, reaching a peak of 11.9 per cent in 2011. This recovery was driven by mining (35 per cent of GDP) and agriculture (12 per cent of GDP). However, there has been an alarming downturn in this growth as from 2013 to 4.5 per cent and GDP is expected to drop to 1.0 per cent in 2015 (figure 1). This is mainly due to stalling of initial investments, which triggered economic growth until 2011, coupled with frequent adverse climate conditions affecting the agricultural sector.

Figure 1: Real GDP growth rates in developing SSA and Zimbabwe



Source: World Bank Statistics, 2015

4. The major challenges facing the Zimbabwean economy include: high unemployment rate; corruption; increasing current account deficits (23.1 per cent in 2014), rising recurrent expenditures, liquidity constraints, a shrinking tax base, debt distress (debt was estimated at 52.5 per cent of GDP in 2014), limited institutional capacities, as well as deteriorating infrastructure and industries operating below capacity. Manufacturing surveys indicate that

industrial capacity utilisation declined sharply from 57 per cent in 2011, to 44 per cent in 2012 and 36.3 per cent in 2014. Capacity utilisation remains constrained by erratic power supply, lack of capital, higher input costs, and obsolete machinery and infrastructure deficiencies.

5. In March 2012, the Government formulated the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS). Under the ZAADDS framework, in October 2014, the government approved an external debt resolution strategy, with technical assistance from AfDB, so as to expedite its re-engagement with creditors. The Government of Zimbabwe has made notable progress in its implementation of the IMF Staff-Monitored Programme (SMP). The IMF's second review of the SMP, in September 2015, concluded that the Programme is on track - 4 out of the 5 quantitative targets and all structural benchmarks were met. The recently contracted US$200 million loan breached the SMP quantitative target on non-concessional borrowing, but the IMF concluded that it prevented the accumulation of additional external arrears. It is imperative that the strong performance under the SMP is maintained by the Government as it will improve Zimbabwe’s repayment capacity and it will also demonstrate that the country is able to implement reforms that justify a Fund –financial arrangement.

6. In December 2015, the IFAD Executive Board (EB) approved the Debt Rescheduling Proposal, amounting to SDR 16.63 million (about US$23.1 million), including the amount owed on all matured and unmatured loans, providing the full recovery of the outstanding principal and interest as of 31 December 2015. A down payment of SDR 1.66 million was received from the Government in October 2015, which demonstrates the country's continued commitment to clear its arrears with its strategic creditors.

7. **Social Context - Health.** The country's sluggish economic development is reflected in its social indicators. Although the country's Maternal Mortality Rate declined from 570/100,000 in 2010 to 470/100,000 in 2013, it still remains amongst the highest in the region. Zimbabwe has seen a notable decline in HIV prevalence from 25 per cent in 1997 down to 15 per cent in 2014, but remains a significant burden for the country, with one of the highest HIV prevalence rates globally.

8. **Education and Gender.** Zimbabwe is recognized for its education levels, reaching a literacy rate of 91.7 per cent in 2015. Near-parity in enrolment has been achieved in lower secondary school. However, rural household food security rests upon women, who provide 70 per cent of the agricultural labour force. The new constitution provides for the establishment of Zimbabwe Gender Commission whose main function is to promote gender equity. In spite of certain achievements, the gender gap remains wide in terms of access, control and ownership of economic resources and in decision-making.

9. **Agriculture** is the mainstay of the Zimbabwean economy and more than 60 per cent of the economically active population depend on it for their livelihoods. In 2014, it accounted for 14 per cent of GDP and provides 60 per cent of the raw materials required by the manufacturing industry and 40 per cent of total export earnings. However, it only accounts for 8 per cent of government spending. The country's main staple crops are maize, sorghum and millet. The main export commodities are: tobacco, cotton, sugar, sunflowers, tea and banana. The agricultural sector remains highly vulnerable to external shocks. The impacts of climate change are similar to those in other parts of Africa and impede on the welfare of smallholder farmers. Lack of access to finance is another key constraint to agricultural growth and leads to insufficient farm inputs, which in turn translates into low outputs and productivity.

10. Climatic conditions in Zimbabwe are largely subtropical with one rainy season, from late October to March. Zimbabwe lies in a region where greater impacts of climate change are expected, with a projected reduction of 10 per cent in rainfall by the end of the 21st century. There are shifts in agricultural seasons, manifesting as late onset of the rainfall season and early rainfall cessation. Mid-season dry spells often overlap with the critical development stages for maize, resulting in poor pollination and grain filling and ultimately in low yields. The ever increasing inadequacy and unreliability in rainfall as well as drought recurrence are hindering

the potential for development of rainfed agriculture, which is the country's main crop production system. So as to stabilize agricultural production, the development, rehabilitation and maintenance of irrigation systems is of critical importance. For the smallholder farmers, irrigation represents one of the urgent needs for minimizing crop failure, raising household incomes and increasing food and nutrition security.

11. **Land Tenure.** The Zimbabwean land tenure systems can be broadly summarized in three farm categories: (i) communal and old settlement schemes; (ii) A1 and A2 schemes; and (iii) large scale commercial farms. Farms in communal (<2 ha) and old settlement schemes (< 5 ha) are usually small and tenure is commonly regarded as fairly secure. As from 2000, The Fast Track Land Reform (FTLR) converted land from large commercial farm land to farms categorised as A1 (<2 ha) and A2 (>6 ha). The FTLR issued offer letters to A1 farmers, and 99 years leases to some, but not all A2 farmers. A1 and A2 farmers as well as agricultural banks do not consider this arrangement sufficiently safe for long term investments.. Finally, large scale commercial farms are commonly not fully covered by a government lease and this aggravates the uncertainty for investors.

12. **Poverty.** The improved economic growth rates up to 2011 have not translated into reduced poverty rates. Headcount poverty stood at 72 per cent in 2011. Poverty in Zimbabwe is more of a rural issue than an urban one as 84 per cent of the poor live in rural areas. Extreme poverty rates stood at 30 per cent in rural areas as compared to 6 per cent in urban ones. With the economic downturn since 2011, it can be assumed that poverty rates have remained similar or even worsened.

13. **Food security.** As a consequence of high poverty prevalence, food insecurity is widespread with a concentration in semi-arid areas, with an estimated 12 per cent of the rural population persistently suffering from food over the past 5 years. Recent surveys found that one in three under-five-year-old children was stunting (height for age) and one in ten was underweight. Food poverty affects between 10 and 20 per cent of the country’s population and this happens even in a normal rainfall season. As per IFPRI's Hunger Index for 2014, Zimbabwe is ranked 47th out of the 76 developing countries.

II. Rationale and time frame

14. During 2015, following an official request from the Government of Zimbabwe, soliciting IFAD to discuss possibilities for rescheduling of Zimbabwe’s arrears and debt to the Fund, an IFAD mission visited the country, held consultations with a large number of concerned Ministries and strategized on a way forward. The meetings led to agreements by both parties concerning acceptable terms and conditions for the rescheduling of Zimbabwe’s debt to IFAD (see para. 6). Furthermore, the parties agreed to develop a new project for approval by IFAD’s Executive Board (EB) in September 2016. It was agreed that the new project would focus on irrigation for smallholder farmers in semi-arid areas to improve their income, food and nutrition security.

15. The last COSOP for Zimbabwe dates back to 1998 and it is thus imperative for the Fund to comprehensively update the COSOP, notably to gain in-depth knowledge and a better understanding of the country context, development strategies and policies. However, given the Fund's limited engagement in the country in recent years, it is deemed prudent to first prepare a Country Strategic Note (CSN), which would be valid for 24 months. Moreover, the CSN would allow for the presentation of the irrigation-related project to the EB by September 2016, in line with the Board's strong support for IFAD to re-engage with Zimbabwe. The COSOP would be prepared during 2016 and scheduled for September 2017 EB. This timeline would allow for sufficient time to complete country diagnostics and address other key elements, including partnerships initiatives and leveraging of funds for climate change adaptation (Global Environment Facility, Green Climate Fund, etc.).

16. It is to be noted that this CSN has been elaborated, on the basis of recent in-country consultations with the Government and development partners, review of policy papers, and last

but certainly not least, use of in-house expertise, all of which has resulted in the current document and the project concept note for the "Smallholder Irrigation Revitalization Programme" (SIRP).

17. In essence, the CSN is articulated around the Government's priority areas in agricultural and rural development to boost the well-being and nutrition/food security of poor rural families. It is fully aligned and complements: (a) the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset), which includes food security and nutrition as a main cluster; (b) the 10-point Plan for Economic Growth; (c) CAADP; and (d) IFAD's fourth Strategic Framework 2016-25.

III. Strategic objectives

18. The long-term goal of the IFAD country programme in Zimbabwe will be to boost the well-being and food and nutrition security of vulnerable rural livelihoods. The strategy to achieve the goal will be to contribute to Government's efforts, by developing climate-smart and highly efficient agricultural production and a strong rural enterprises sector, supported by investment in infrastructure and capacity building.

19. In the short-term (first 6 months), IFAD will adopt a prudent, but proactive approach, by a phased intervention through the SIRP, which would allow for a better understanding of the country context as well as potential for scaling-up of this IFAD intervention. Indeed, in this regard, the specific outcome of the first six months would entail the building-up of a trusted and solid partnership with Government, stakeholders and development partners. In this context, OFID has recently expressed concrete interest to co-finance SIRP in 2017.

20. In the medium term (6-24 months), the expected outcomes are: (i) consolidate and expand partnerships; (ii) enhance the resilience of poor vulnerable smallholder farming families to economic shocks, food insecurity and malnutrition; (iii) strengthen institutional capacities for agriculture, irrigation and environmental/climate change; and (iv) advance in the preparation for irrigation development in poverty stricken areas, to eventually focus on scaling up of the SIRP under IFAD11, through the construction of new irrigation schemes.

IV. Planned IFAD engagement

21. Since its independence in 1980, Zimbabwe has been a member of IFAD. IFAD has previously supported 5 projects in Zimbabwe as shown in the table below.

Table 1: Prior IFAD-funded projects in Zimbabwe

Project Title	EB approval	Total Project Costs (US$ million)	Status	Project Performance*
National Agricultural Extension and Research Project	21 April 1983	39.4	Closed	Minor problems
Agricultural Credit and Export Promotion Project	6 December 1989	16.9	Closed	Not available
Smallholder Dry Areas Resource Management Project	2 December 1993	19.8	Closed	Minor problems
South Eastern Dry Areas Project	13 September 1995	20.3	Closed	Minor problems
Smallholder Irrigation Support Programme	2 December 1998	19.3	Closed	Problem-free

* Source: Portfolio Review 1999, IFAD projects in East and Southern Africa, Africa II Division, December 1999.

22. IFAD's financial support to the country ceased in 2006, as a result of the non-payment of its arrears, and three ongoing projects were also closed. IFAD has remained committed to resuming its development programme with Zimbabwe and support the Government in reducing poverty. During the recent years, IFAD has provided small grants to the country to fund a range of projects, including the Smallholder Agricultural Support Project (US$500,000) and two Small Livestock Improvement Projects (US$400,000). There is need to reflect on lessons learnt from

the previously funded IFAD programmes, with a view to building on past successes and implementation capacity.

23. Lessons learned remain limited because of the long break in engagement. This notwithstanding, there are three key lessons as follows:

a) In order to ensure institutional sustainability, roles and responsibilities need to be clearly defined, and existing agencies/structures should be used, to the extent possible, and where necessary, strengthened. The Government needs to increase budgetary allocations to agriculture; address weak implementation capacity at district levels, which is due to staff turnover. The new project will include strengthening of institutions and capacity development. There is need for collaboration with private sector and other non-state actors to provide training to beneficiaries.

b) In line with Government policies, attention should be given to minimising recurrent costs, promoting cost recovery or cost sharing, where feasible, and improving on the operating efficiency of government services.

c) The establishment of programme ownership among all stakeholders requires training to promote a change of mind-set among support service personnel and ensure their adoption of work methods which both stimulate the participation of beneficiaries throughout the development process and ensure responsiveness to programme interventions and to their expressed needs.

24. **Priority Areas for Investment** for the IFAD funded project pipeline in Zimbabwe will centre on smallholder irrigation development, to be supported by investments in agricultural commodity market development and climate change adaption.

25. Government of Zimbabwe and IFAD agreed in August 2015 that the SIRP would be the first IFAD-supported investment project, marking its re-engagement in Zimbabwe. The SIRP will focus on: (i) the rehabilitation of existing, but dilapidated irrigation schemes; and (ii) support and strengthening of institutional capacities, including institutions of smallholders, to run and maintain the schemes in a profitable manner to render them productive and sustainable. The project will fund the required baseline work, including the technical feasibility studies (including an Economic and Financial Analysis), the environmental and climate related safeguards and address policy and procedural requirements for project implementation. Some selected schemes will be repaired, while the bulk of the schemes is expected to be constructed after four years of implementation. Gradually after project year 2 or 3, market access promoting activities will be introduced to make smallholder farms into commercial entities. The latter will require well-tailored and focused Technical Assistance.

V. Risk management framework

26. The following risks and mitigation measures have been identified, for smooth implementation of the CSN goal and objectives. If no remedial actions are taken, the risks ratings will not improve.

Table 2: Risks and mitigation measures

Risk description	Risk Rating	Mitigation Measure
Risk 1: Economic instability; unfavourable policies	Medium	Advanced planning and agreed measures established prior to project implementation, including standards of costs/quality requirements for buyers and vendors. Identify options and develop strategies to pre-empt a volatile fiscal environment
Risk 2: Macroeconomic instability: Failure to meet IFIs' conditions (including IFAD) for arrears resettlement	Medium/High	Government remains on-track with IMF Staff-Monitored Programme. Arrears payments are regularly monitored; Government demonstrates strong commitment to sound fiscal and monetary policies; regular dialogue with Government is maintained.
Risk 3: Political instability	Medium/High	Agree upon a set of core responsibilities and roles for main

Risk description	Risk Rating	Mitigation Measure
resulting in low government commitment to agriculture sector, limiting technical department's ability to participate adequately		players. Continue communication and exchange with authorities. Envisage scenarios for varying levels of engagement.
Risk 4: Delayed/reduced donor engagement for developmental programmes	Low	Maintain high-level communication and collaboration among partners. Ensure partners are well informed through reports and regular visits.
Risk 5: Implementation capacity constraints: high attrition continues , leading to lack of labour to implement reforms	Medium/high	Incentives to retain staff. IFIs provide TA.
Risk 6: Weak public financial management system	High	Continued Development Partner support to strengthen procurement and Financial Management Systems
Risk 7: Lack of accurate, updated information in data sources for targeting and monitoring	Medium/high	Support strengthening of existing databases, recruit qualified, experienced experts to facilitate upgrading of information systems, optimise and collate targeting data /information of partners.
Risk 8: Revitalization of private sector slowed down	Medium	Encourage and promote commercialisation; meet with and involve private sector in programme activities; maximise private sector involvement in decision making; facilitate linkages between private sector and producer organisations.
Risk 9: Climatic risks	High	Introduce/strengthen modern climate information technology and dissemination Strengthen adaptation measures e.g. drought resistant crops; diversified livelihood strategies; household coping mechanisms.