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Proposal for rescheduling the debt of the Republic of Zimbabwe

Note to Executive Board representatives

Focal points:

Technical questions:

Sana F. K. Jatta
Director
East and Southern Africa Division
Tel.: +39 06 5459 2446
e-mail: s.jatta@ifad.org

Ruth Farrant
Director and Controller
Controller's and Financial Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Dispatch of documentation:

Alessandra Zusi Bergés
Officer-in-Charge
Governing Bodies Office
Tel.: +39 06 5459 2092
e-mail: gb_office@ifad.org

Executive Board — 116th Session
Rome, 16-17 December 2015

For: Approval

Recommendation for approval

The Executive Board is invited to approve the proposal to reschedule the debt of the Republic of Zimbabwe, in accordance with the principles set out in paragraphs 19 to 22.

Proposal for rescheduling the debt of the Republic of Zimbabwe

I. Introduction

1. Over the past four years, the Republic of Zimbabwe has indicated to IFAD a desire to re-engage with the Fund, and has acknowledged that a prerequisite for meeting this goal is the clearance of its current arrears of loan repayments to the Fund.
2. After an IFAD mission to Zimbabwe in June 2015, the Government sent a letter (appendix I), which reaffirmed its commitment to settle its outstanding arrears with IFAD.
3. The most recent mission by IFAD to Zimbabwe in August 2015 included consultations with representatives of all concerned government ministries and departments on possible terms and conditions for rescheduling the debt owed to IFAD (appendix II).
4. Zimbabwe requires long-term financing to reboot its economy, but is constrained by external debts, which have blocked the flow of international capital into the country. The Government is aware of the need to clear its arrears to international creditors in order to access badly needed financing that will allow Zimbabwe to make progress on economic and social issues.

II. Country context

5. Agriculture is a major component of the Zimbabwean economy, providing a main livelihood source for more than 60 per cent of the economically active population. The agricultural sector accounts for 17 per cent of the country's GDP, 60 per cent of the raw materials required by the manufacturing industry and 40 per cent of total export earnings. Zimbabwe underwent over a decade of severe economic decline since 2000, losing up to 40 per cent of its GDP as a result of social, economic, environmental and political factors that continue to negatively impact the country's food security. Food insecurity is especially acute in the country's marginal rural areas where 76 per cent of households are poor and 30 per cent are extremely poor according to a 2012 poverty survey.
6. In 2013, Zimbabwe introduced a new development plan, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (2013-2018). The plan's four clusters are: (i) food security and nutrition; (ii) social services and poverty eradication; (iii) infrastructure and utilities; and (iv) value addition and beneficiation. The plan targets a medium-term growth rate of 6 per cent, driven by large infrastructure investments. Its financing plan focuses on leveraging the country's natural resources (through mining and agriculture) to attract foreign capital. The plan's success depends largely on public-private partnerships, which remain elusive due to the current policy of indigenization and unclear government succession plans.
7. Despite these challenges, the Government is increasingly focused on supporting the agricultural sector. Following the 2013 elections, nearly US\$1 billion was earmarked for supporting crop and livestock production in the 2013-2014 farming season.

III. Country debt status

8. At the end of June 2015, Zimbabwe's public and publicly guaranteed debt stood at US\$8.4 billion. This comprises external debt of US\$6.7 billion, representing 47 per cent of GDP, and domestic debt of US\$1.7 billion.
9. In order to manage its external debt obligations, the Government intends to meet the quantitative and structural targets set by the International Monetary Fund (IMF) Staff-Monitored Program (SMP), which were reviewed in December 2014. As part of this strategy, the Government is working to clear the combined US\$1.8 billion in arrears owed to the African Development Bank (AfDB), the IMF and the World Bank – a move that will enable Zimbabwe to access capital from these financial institutions.
10. An IMF mission to Harare in September 2015 conducted the second review under the 15-month SMP. At the conclusion of the visit, the IMF issued the following statement:

“The authorities have moved forward with their reform program, despite increasing economic and financial difficulties. Moreover, they have intensified efforts toward reengagement with the international financial community. They have developed a proposal for a strategy for resolving Zimbabwe's external arrears to the international financial institutions.”
11. The Government has increased payments to the World Bank and the AfDB, and has begun to repay the European Investment Bank. As payment capacity improves, it intends to increase payments to all international financial institutions.
12. During IFAD's August 2015 mission, meetings were held with representatives of the IMF and AfDB, and with the World Bank country manager. IFAD's intention to arrange settlement of Zimbabwe's outstanding arrears and progress towards the resumption of operations in the country were discussed, and all parties expressed positive views of IFAD's strategy.
13. At the recent annual meetings of the World Bank and IMF in Lima, Peru, a plan to clear US\$1.8 billion in arrears owed by Zimbabwe to the IMF (US\$110 million), the World Bank (US\$1.15 billion) and AfDB (US\$601 million) by the end of April 2016 was discussed. Subject to a positive report from the final SMP in 2016, the Government will seek to develop a new comprehensive country financing programme supported by the AfDB, the IMF and the World Bank to attract long-term financing for promoting growth and debt sustainability.

IV. Debt to IFAD

14. Zimbabwe's arrears to IFAD as of 31 December 2015 amount to SDR 16.63 million.
15. IFAD has provided five loans to Zimbabwe. Two of these loans are past maturity while three loans are within the original principal repayment schedule.
 - (a) Loans 123 and 248 are fully matured, with final repayments of principal due in April 2003 and October 2010 respectively. These loans were approved in 1983 and 1989 respectively, and are on intermediate terms; interest is charged at 4 per cent.
 - (b) Loans 341, 382 and 490 have between 22 to 31 years of their principal repayment periods remaining. These loans are on highly concessional terms and have a service charge of either 1 per cent or 0.75 per cent.
16. As a result of the unsatisfied loan repayments, Zimbabwe's portfolio was suspended in February 2002 and all loans were cancelled in December 2005. A summary of the portfolio and the current status of the amounts owed to IFAD is included in appendix III.

V. Debt rescheduling proposal

17. In accordance with paragraph 15(a)(iii)(7) of the Policies and Criteria for IFAD Financing, which allows the Executive Board to “amend the terms upon which an approved loan is provided to a country, including the grace period, the maturity date and the amount of each instalment for the repayment of loans, while securing the original net present value”, a rescheduling of arrears repayments can be submitted to the Executive Board for approval.
18. The amount of current debt to be rescheduled is defined as the net present value for compensation (NPVC) and includes amounts owed on all matured and unmatured loans, providing the full recovery of the outstanding principal and interest as of 31 December 2015. The repayment plan has been calculated to maintain the net present value of this amount over time.
19. The Government has agreed to the rescheduling terms as follows (see appendix IV):
 - (a) The total NPVC is SDR 16.63 million.
 - (b) A down payment, equivalent to 10 per cent of the total NPVC (SDR 1.66 million), was already received in October 2015.
 - (c) The repayment period is five years.
 - (d) The requirement to “secure the net present value” is satisfied by discounting the future cash flows of the debt settlement plan using the original interest rate of each loan.
 - (e) Zimbabwe will also make repayments of principal and service charges as scheduled on the three loans that have not reached full maturity.
20. The debt settlement agreement will include a clause stipulating that, in the event that Zimbabwe does not honour its obligations under the debt settlement agreement, IFAD may declare it to be in default, the consequences of which, in accordance with the Fund’s standard procedures from managing arrears, may include:
 - Suspension, in whole or part, of Zimbabwe’s right to make withdrawals under any other agreement with the Fund; and
 - Suspension of Zimbabwe’s right to have projects and programmes submitted to IFAD’s Executive Board for approval.
21. From a financial perspective, any debt settlement plan agreed to by IFAD must continue to secure the original net present value of the outstanding arrears. Therefore, any combination of repayment terms is considered to be of equal value to the Fund. It should be noted, however, that Zimbabwe has agreed to a repayment period that is shorter than those negotiated in recent debt settlement plans of a similar nature. This can be positively interpreted as a sign of its commitment to re-engagement with the Fund.
22. A detailed repayment schedule for the proposed debt settlement plan is provided in appendix IV.

Telephone: 739453/742518
Fax: 737737
Tlx: 2434
Telegrams: "MINFIN", Harare
Private Bag 7705, Causeway
Harare, Zimbabwe



ZIMBABWE

Reference:

MINISTER OF FINANCE
NEW GOVERNMENT
COMPOSITE OFFICE COMPLEX
CNR 4th STREET/
SAMORA MACHEL AVENUE
HARARE

22 June 2015

President Kanayo Felix Nwanze
International Fund for Agriculture Development
Via Paolo di Dono 44
001142
Rome
ITALY

Your Excellency

**RE: RE-ENGAGEMENT ON ZIMBABWE'S ARREARS TO THE
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
(IFAD)**

I am very pleased with the recent visit of Mr. Sana F.K. Jatta, Regional Director of the East and Southern Africa Division, IFAD. Both Hon. Dr. J. Made (M.P.), Minister of Agriculture, Mechanisation and Irrigation Development and myself held very fruitful and cordial consultations with Mr. Jatta.

I am glad to inform you that we have agreed to engage immediately in negotiations with IFAD on finding a solution to the problem of arrears, which will facilitate the resumption of IFAD support to our agricultural sector.

We also informed him that Zimbabwe will make a pledge to the IFAD-10 replenishment.

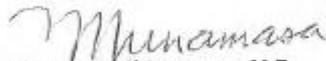
In this regard, I would like to extend an invitation to IFAD to send a team to undertake detailed consultations on the modalities for dealing with the arrears problems, taking into account our payment capacity and in a manner that normalizes our relations with IFAD.

A handwritten signature in dark ink, appearing to be 'J. Made'.

We are grateful for the support IFAD provided to the smallholder irrigation sector of Zimbabwe in the past. We are keen to re-engage with your Institution in consolidating that support and to scale it up further, especially for the communal irrigation schemes, including the A1 schemes recently established under our Land Reform Programme.

Finally, your Excellency, I am pleased to inform you that, notwithstanding Zimbabwe's limited fiscal space, we will pledge USD300,000 to IFAD-10 resources to enable IFAD to continue to deliver its honourable mandate of rural poverty alleviation globally. I will send you a separate pledging letter to that effect.

Yours Sincerely



Hon. P.A. Chinamasa, M.P.

MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT



REPUBLIC OF ZIMBABWE

NEGOTIATIONS ON IFAD DEBT RESCHEDULING AND ARREARS RESETTLEMENT

Agreed Minutes of Negotiations

1. Following fruitful consultations between the Ministers in charge of Finance and Economic Development (Hon. P. A. Chinamasa) and Agriculture (Hon. Dr. Joseph M. Made) of the Republic of Zimbabwe (the Borrower) and IFAD's Regional Director for the East and Southern Africa Region (Sana F. K. Jatta) in Harare, on 22 June 2015, the Borrower requested, by letter dated 23 June 2015, the President of IFAD "...to send a mission to Zimbabwe: ... to discuss possible ways to reschedule Zimbabwe's arrears and debt to IFAD". The Government of Zimbabwe is keen for IFAD to resume its country operations urgently. An IFAD delegation subsequently visited Zimbabwe, between 24 and 28 August 2015, and held detailed and comprehensive consultations with representatives of all the concerned ministries and departments of the Government of Zimbabwe on the mutually acceptable terms and conditions for the rescheduling of the Republic of Zimbabwe's existing debt owed to IFAD.

2. The participants in the formal negotiations were as follows:

A. Representing the Borrower¹ (Borrower's Delegation) were:

Hon. Patrick A. Chinamasa Minister of Finance and Economic Development	Head of Delegation
Hon. Dr Ignatius Chombo Acting Minister of Agriculture, Mechanisation, and Irrigation Development (MAMID)	Member
Mr John Mangudya, Governor of the Reserve Bank of Zimbabwe	Member
Mr. Willard L. Manungo Secretary to the Treasury, Ministry of Finance and Economic Development	Member
Mr. R. J. Chitsiko Permanent Secretary, Ministry of Agriculture, Mechanisation, and Irrigation Development (MAMID)	Member
Mr. John Mafarikwa Head Zimbabwe Debt Management Office, Ministry of Finance and Economic Development	Member
Mrs. Margerita Makuwaza Director, International Cooperation, Ministry of Finance and Economic Development	Member
Mr. Joseph Gondo Director, Extension Services, MAMID	
Dr C. Zawe Director, Irrigation Development, MAMID	Member

B. Representing IFAD (the IFAD delegation) were:

Mr. Sana F.K. Jatta Regional Director, East and Southern Africa Division	Head of Delegation
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¹ The complete list of the officials who assisted the members of the Delegation of the Republic of Zimbabwe is attached to the present Minutes of Negotiations as Annex I

Mrs. Ruth Farrant
Director and Controller, Financial Services Division.

Co-Head of Delegation

3. These Minutes of Negotiations record key conclusions and agreements reached between the two delegations and, in particular, they also state the agreement of the Borrower and IFAD delegations on a number of follow-up actions to be immediately carried out by each side.

A. THE DEBT RESETTLEMENT PLAN

4. IFAD's Controller's and Financial Services Division prepared, and submitted, three indicative scenarios for a potential settlement plan of Zimbabwe's approximately SDR 16.6 Million (to be confirmed) debt owed to IFAD as of December 2015, that would continue to secure the Net Present Value (NPV) to IFAD, which is a condition of any such settlement plans as per IFAD rules and regulations. The scenarios provided are:

- (a) Five year plan: 10% down payment; 0 year grace period; and repayment over 5 years;
- (b) Five year plan: 10% down payment; 2 years grace period; and repayment over 3 years;
- (c) Seven year plan: 20% down payment; 2 years grace period; and repayment over 5 years.

5. IFAD had prepared further proposals for 9 year and 10 year repayment periods with varying grace periods and down payments and shared the underlying financial impact with the Borrower, but these were not formally discussed because the Borrower opted for a faster repayment schedule of Five Year Settlement Plan, with the following terms and conditions:

- (a) A down payment, equivalent to 10% of the total debt stock in US\$ equivalent, will be effected by end of October 2015;
- (b) There will be no grace period, and the repayment period will be five years;
- (c) Efforts will be made to ensure effectiveness of the Legal Agreement in 2015, for which the Borrower will sign prior to the 2015 December EB session and the IFAD President will counter sign immediately following the EB and prior to Christmas leave; and
- (d) Further the Borrower is committed to repaying the three loans which have not yet fully matured when they fall due from January 2016, by rolling up the related payments into the resettlement instalments due to avoid the risk that they do not pay on time as and when those three loans fall due on separate months.

6. The IFAD Delegation highlighted the need to present a credible plan to IFAD senior management and thereafter to the IFAD Executive Board within the parameters of past practice and also suggested limiting the overall financial exposure of IFAD in the medium term which could otherwise impact negatively on the approval process of the plan. This advice was readily accepted by the Borrower's Delegation who indicated their strong commitment to honour the conditions and agreed to work with IFAD in immediately drafting the Legal Agreement for the Debt Resettlement Plan for signature and subsequent submission to the IFAD Executive Board (see below).

B. IFAD'S PIPELINE OF LOANS AND GRANTS FOR ZIMBABWE

7. In light of the strong and convincing commitment from the Borrower to settle the arrears owed to IFAD, the IFAD Delegation confirmed IFAD's commitment, in return, to the following:

- (a) A Project Inception Mission will be dispatched to the country within one to two months following the signing of the present Minutes of Negotiations;
- (b) The mission will be charged with the preparation of the **Concept Note**, containing a clear conceptual framework of a possible pipeline project focusing on improving the incomes, food and nutrition security of smallholder communal farmers involved in smallholder

irrigation, with a suitable combination of activities that may include one or several of the following: irrigation infrastructure improvement and development, scheme management, and improved operation and maintenance; commercial agricultural production and income generating activities; market access and agribusiness development and promotion. These are only indicative at this stage;

- (c) If the Borrower honours the first condition of the agreed Settlement Plan and makes the down payment by end of October 2015, the draft Concept Note for the pipeline project will be submitted for approval by IFAD Management in November 2015 to early December 2015, even before the full settlement plan is approved by the IFAD Executive Board during its mid-December 2015 session. IFAD Management will be willing to take this risk in the hope that the EB will approve the plan based on the Government's very strong commitment demonstrated by their willingness to take on the more onerous scenario out of the various options offered by IFAD, but there is no guarantee it will be approved;
- (d) Assuming the final approval by the December 2015 EB session of the lifting of the suspension of IFAD operations in Zimbabwe, IFAD will endeavour to complete the design of the new project for possible consideration and approval by the IFAD Executive Board session scheduled to be held in September 2016;
- (e) The total IFAD funding for the new project will be at least US\$30 million, with a total project cost around US\$50-60 million. The balance of the funds will be mobilised from other grant resources to be identified together by IFAD and the Government. They may include other grant resources that IFAD has access to, co-financing from bilateral donors active in the country, as well other interested multilateral donors and UN Agencies.

8. The Borrower's Delegation requested that IFAD consider increasing its core contribution to the project to up to US\$ 50 Million given the fact that Zimbabwe did not benefit from IFAD resources for such a long time since its suspension. And the IFAD Delegation promised to bring this to the attention of the IFAD Management for their consideration and decision.

C. AGREED FOLLOW-UP ACTIONS

9. The key next steps to be urgently jointly, or individually, performed by both IFAD's and the Borrower's Delegations are as follows:

- (a) IFAD and the Borrower will agree the exact debt and related NPV based on the contractual interest rates in individual loan agreements as at the IFAD EB approval in mid-December 2015;
- (b) The Borrower will mobilise the down payment and effect it not later than end of October 2015;
- (c) The IFAD Delegation will submit, during the course of September-October 2015, the present Minutes to Senior Management of IFAD for approval and decision to proceed with executing its provisions immediately;
- (d) IFAD will draft a formal Legal Agreement detailing the above mentioned terms and conditions of the Settlement Plan of arrears owed to IFAD and submit the draft to the Government not later than end October 2015. Once approved this will be the key document to be submitted to the IFAD Executive Board at their session in December 2015;
- (e) IFAD and the Government will jointly undertake the Inception Mission of the new project in September-October 2015, and proceed with obtaining the final approval of the Concept Note of the new project before the end of 2015;
- (f) Assuming the 2015 December session of IFAD's EB approves the Debt Settlement Plan, IFAD and the Government will jointly undertake the design of the new project during the

first semester of 2016 and ensure it is ready for consideration by the 2016 September session of the IFAD Executive Board. Implementation of the approved version of the new project proposal, taking into account the comments of the Executive Board, can start implementation during the 4th quarter of 2016 with immediate impact on the positive overall flow of funds from IFAD into the Zimbabwean economy.

10. The successful implementation of all the above steps will be challenging, given the time constraints and the long period of inactivity in the country, but is possible and will indicate a great team work between the Parties of the Agreement. It will significantly impact the positive development of the smallholder agricultural sector of Zimbabwe with overall positive impact on the economy as a whole almost instantaneously.

25th Day of August 2015, Harare, Republic of Zimbabwe

For the Borrower of the Republic of Zimbabwe	For the International Fund for Agricultural Development (IFAD)	
 Hon. Patrick A. Chinamasa Minister Finance & Economic Development	 Sana F. K. Jaita Regional Director East and Southern Africa Division	 Ruth Farrant Director and Controller Controller's & Financial Services Division

Annex 1: List of Officials Who Assisted the Delegations

A. Ministry of Finance and Economic Development:

1. Rumbidzai Daitai, Assistant Chief Debt Office
2. Brighton Shayanewako, Deputy Director, International Cooperation
3. Patrick Tuluzawu, Economist
4. A.M Chidakwa, Ministry of Finance and Economic Development

B. Ministry of Agriculture, Mechanisation, and Irrigation Development

1. Mr K. Zata, Director

C. Ministry of Foreign Affairs

1. Francis Chigaazira, Ministry of Foreign Affairs, Zimbabwe

D. IFAD Delegation

1. Mrs Joylyn Ngoro, IFAD Consultant

As Of Date: 30/09/2015 Country: ZWE Currency: XDR

Cust. Sh. Name	Src. Of Fin.	Alt. Acc. Num.	Account Number	Approval Date	Signing Date	Entry Into Force Date	Financed Amount
ZIMBABWE	IFAD	L-I-123-	1000001980	21-04-1983	29-07-1983	17-11-1983	11,498,507.44
	IFAD	L-I-248-	1000002118	06-12-1989	24-01-1990	01-08-1990	11,859,629.33
	IFAD	L-I-341-	1000002222	02-12-1993	27-01-1994	12-05-1995	5,013,066.22
	IFAD	L-I-382-	1000002267	13-09-1995	23-10-1995	02-11-1998	2,911,352.09
	IFAD	L-I-490-	1000002387	02-12-1998	17-02-1999	14-09-1999	893,500.28
TOTAL							32,176,055.36

Debt Settlement Repayment Schedule		
Total Period of Repayment Plan		5
Grace Period Years		0
Repayment Years		5
Total Compensation Value		16 627 519
Downpayment (10%)		1 662 752
Discount Rate	As per Original Loan Terms	Repayment Amounts
Repayment Dates		(XDR)
2015	Downpayment	1 662 752
2016	01/02/2016	1 603 042
2016	01/08/2016	1 603 042
2017	01/02/2017	1 603 042
2017	01/08/2017	1 603 042
2018	01/02/2018	1 603 042
2018	01/08/2018	1 603 042
2019	01/02/2019	1 603 042
2019	01/08/2019	1 603 042
2020	01/02/2020	1 603 042
2020	01/08/2020	1 603 042
Total Repayments		17 693 174