NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA
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Memo

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CABINET BRIEFING ON ZIMBABWE: INPUT FOR THE PRESIDENCY

NOTE: THIS IS NOT A REPLY TO THE QUESTION, IT MERELY PROVIDES BACKGROUND INFORMATION TO FRAME THE REPLY
QUESTION 4 FOR ORAL REPLY IN THE NCOP ON 13 SEPTEMBER 2005

- In June 2005, Minister Manuel was informed of Zimbabwe's impending expulsion from the International Monetary Fund by the Fund's Deputy Managing Director, Anne Krueger. Zimbabwe has been in continuous arrears to the Fund since the middle of February 2001, and has had successively harsher sanctions ("remedial measures") imposed on it by the Fund for this reason. These have included the suspension of voting rights, technical assistance and new borrowing.

- The final step in the remedial process is "compulsory withdrawal from the Fund". Zimbabwe was facing a possible recommendation of compulsory withdrawal by the IMF Executive Board on 3 August 2005. At that time, Zimbabwe owed US$295 million to the IMF.

- Expulsion from the IMF would have serious consequences for Zimbabwe, because of the extremely negative signal it would send to investors and donors[1]. The last remnants of Zimbabwe's credibility with the international

[1] Both foreign investors and donors rely on the IMF to a certain extent to signal whether the country is committed to implementing good economic policies. For example, if a country is in

community would be destroyed. Only one country has been forced to withdraw its membership of the Fund previously, namely Czechoslovakia in 1954. Moreover, it would likely take many years for Zimbabwe to rejoin the Fund once it had been expelled. External resources from the IMF, coupled with economic reforms, could greatly assist Zimbabwe in rebuilding its economy, so an expulsion from the Fund could prejudice the country's prospects for recovery.

- The IMF Deputy Managing Director suggested that South Africa consider assisting Zimbabwe in avoiding expulsion from the Fund.

- About half of Zimbabwe's arrears to the Fund at that time ($155 million) was due to the General Resources Account (GRA), while half ($155 million) was owed to the Poverty Reduction and Growth Facility (PRGF) Trust Account. Only the amount due to the GRA needed to be cleared for the de-escalation process to begin, since the remedial measures only relate to GRA arrears. Once these arrears have been cleared, Zimbabwe's voting and related rights can be restored. However, both the GRA and the PRGF arrears will have to be cleared before Zimbabwe can regain access to Fund resources.[2]

- The Zimbabwean Minister of Finance and Central Bank Governor met with Minister Manuel in June 2005, with a proposal for a "turnaround programme", including a request for a loan to the value of US$1 billion. The request was for a loan not only to be used to clear Zimbabwe's arrears to the IMF, but also to repay various other creditors, including the World Bank, African Development Bank and the Paris Club. South Africa's final proposal to the Zimbabweans was for a US$412 million credit facility, to be used to partially settle Zimbabwe's arrears with the IMF and for the revitalisation of the agricultural sector, coupled with US$58 million in food aid.

- In order to give time for a loan agreement to be finalised between South African and Zimbabwe, Minister Manuel wrote a letter to the head of the African Department at the IMF, Mr. Bio-Tchane, requesting that the discussion on Zimbabwe's compulsory withdrawal be postponed by a month. The IMF agreed and the discussion is now scheduled to take place on the 9 September 2005.

- Thus far, no agreement has been reached between the South African and Zimbabwean authorities on the proposed loan. The area of negotiation between the two countries is focused on the political and economic conditions which South Africa wants to attach to the loan.

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arrears to the Fund or goes "off-track" with their IMF programme, donors may be reluctant to provide aid or debt relief, whilst foreign investors would regard this as an important risk factor.

[2] [2] It should be noted that there is no formal test to ascertain whether a country has become cooperative. This will be a judgement call to be made by the Executive Board, on a case-by-case basis.

- If assistance is extended to Zimbabwe, this will not result in the reprioritisation of government programmes, and thus the delivery of services to communities will not be affected.

- An IMF mission visited Zimbabwe during August 2005 to assess progress on economic reform and to assess prospects for debt repayment.

- On the 29 August 2005, Zimbabwe made a payment of US$120 million to the Fund to settle some of its arrears. It is not clear where and how Zimbabwe obtained these funds; they are however, not from South Africa. Given that a substantial payment has been made already, the Executive Board is less likely to vote to initiate the process of compulsory withdrawal. The most probable recommendation from Fund staff to the Board is that the matter be reviewed again in 6 months time.

- Since the directive for extending a financial assistance package to Zimbabwe came from the Presidency, it is to be expected that the Presidency would better be able to respond to this aspect of the question.