



## Economic Growth Program Summary

October 2009

Total USAID Economic Growth Funding Level in FY 2009: \$39.9 million\*

\*Note: \$11 million of the above amount is reflected under the Social and Economic Services program area for livelihoods interventions.

### Background

The formation of the inclusive government in February 2009 marked the departure from the blatant macroeconomic policies of a ZANU-PF-led government that resulted in hyperinflation (231 million percent in August 2008), acute shortages of foreign currency and basic commodities, multiple exchange rates, and the collapse of the social service delivery system. Under reformist leadership, the Ministry of Finance is now attempting to restore economic sanity, stability, and prosperity to Zimbabwe through targeted economic reforms. Price and exchange control restrictions have been lifted. The Zimbabwe dollar was demonetized and a multi-foreign currency system was introduced, decriminalizing the sale of goods and services in foreign currency and halting hyperinflation. Quasi-fiscal activities of the central bank have largely been halted and the institution has been forced to revert to its traditional role. A three-year Short-Term Economic Recovery Program (STERP) has been crafted and is in the process of being implemented by the transitional government to bring about economic recovery. In addition, in consultation with the IMF Article IV mission, a revised balanced budget of \$1 billion has been drafted and is serving as the basis for government decision making; this has required the government to operate a cash budget and live within its means.

Goods are now available in shops even though they are still relatively expensive. The Mid-Term Fiscal Policy Review by the Minister of Finance shows an upward rise in revenue streams from as low as \$6 million in February to more than \$70 million in June 2009, prompting the government to revise upwards the \$100 per month allowance for civil servants to \$200. Public services are slowly returning to normal as civil servants have an incentive to work, even though challenges still remain. For the first time in many years, the government forecasts economic growth to be positive as a principal result of growth in the agricultural sector. Nonetheless, the country needs \$8.5 billion over the next three years to implement STERP, and there is a serious shortfall of funding for this endeavor. Bilateral and multi-lateral donors are willing to offset budget expenditures through ongoing program work, however, there is a donor consensus not to provide any direct budget support until there is evidence of real reforms by the transitional government.

Through primarily the World Bank, International Monetary Fund, African Development Bank, European Commission, and Department for International Development, targeted technical assistance is being provided to strengthen the ability of the Ministry of Finance

to manage its own budget. As part of these combined efforts, a payroll audit, public financial management assistance, and guidance on development of the 2010 budget will be provided.

## **Program**

In February 2009, USAID/Zimbabwe, with the assistance of Booz Allen Hamilton consultants, crafted an Economic Growth and Agriculture Development strategy, which lays out the immediate and medium-term private sector, agriculture, and macroeconomic interventions that are critical to economic recovery and growth. The strategy, which is based on broad stakeholder input, also defines what USAID's role might be within the overall needs assessment, vis-à-vis the plans of other donors. Within the current USG policy framework, there is agreement to fund continuing analysis for economic growth planning, livelihoods activities that increase income and employment opportunities, and agricultural activities. Summarized below are USAID's plans for immediate engagement in the economic sector, based on USG policy consensus to date:

Livelihoods, Income Generation, and Employment: USAID/Zimbabwe is in the process of awarding multiple livelihoods-oriented grants, with a cumulative price tag of approximately \$14 million (average award estimated at \$2 million). The grants, which are for an 18-month duration on average, are principally agricultural focused. Illustrative activities include those that stimulate agricultural production and restore the agricultural value chain, establish savings and lending schemes to offer people access to basic financial services, strengthen agricultural extension services and outreach capacity, improve livestock management, and link farmers to markets. Such programs will help bridge the gap between humanitarian assistance and longer-term agricultural recovery and private sector development programs, the latter of which will be phased into the Mission's portfolio, as planning evolves and donor principles for re-engagement are met.

Development Credit Authority Loan Guarantee Program: USAID/Zimbabwe is implementing a \$20m, five-year revolving loan guarantee program with Standard Chartered Bank of Zimbabwe. The loan guarantee targets lending in the agricultural sector. USAID/Zimbabwe believes that it is the best way to introduce increased liquidity to agricultural enterprises and to provide much needed technical assistance and inputs to smallholder farmers. Standard Chartered Bank has established relationships with the qualified borrowers envisioned to provide technical assistance to smallholder farmers but does not have sufficient funds to meet borrower demand without the guarantee. The loan guarantee will result in increased food security through smallholder food production, reducing the need for donors to provide food aid. The program will also result in a reduced food import bill, thereby freeing government resources for use in support of other development priorities. Furthermore, it will revitalize the agricultural value chain by kick-starting private sector-driven agricultural recovery; and, spin-off effects in other sectors that have forward and backward linkages with agriculture will be achieved.

Farmer Association Strengthening Program: Farmers unions, producer associations, and commodity associations will be strengthened to improve their ability to conduct analysis and advocate their interests to government. In so doing, agricultural sector stakeholders will become a more effective leverage point to press the transitional government to undertake necessary reforms to achieve economic recovery and growth.

Business Enabling Environment: In preparation for assistance that will improve the business enabling environment, USAID/Zimbabwe sponsored an assessment that examines key constraints related to starting a business, getting credit, protecting investors, dealing with licenses, trading across borders, and enforcing contracts. USAID/Zimbabwe contracted Booz Allen Hamilton, which in turn brought together a team of experts to conduct this study using a USAID methodology known as BizCLIR, the Zimbabwe Business Climate Legal and Institutional Reform Diagnostic. BizCLIR is a quantitative and qualitative assessment of the legal, policy, institutional, and societal dimensions of the business and trade environments of a country. The diagnostic is based on a 360° review of the institutions and actors involved in commerce – from high level government offices and officials to micro, small, and medium enterprises. The analysis identifies programmatic priorities for remedying *Doing Business* problem areas; and provides recommendations based on global experience. This analysis will be shared with the private sector to inform their efforts to lobby government for key reforms that will improve the business enabling environment.

Until the transitional government demonstrates more progress against the donor principles for re-engagement, the Mission will not undertake activities that promote business development through micro-finance, skills development, and business support services.