

CO-OPERATION

REPUBLIC OF ZIMBABWE

AND

THE EUROPEAN COMMUNITY

JOINT ANNUAL REPORT

2001-2002

## **1 THE EXECUTIVE SUMMARY**

During the period covered by the report the Government implemented the Millennium Economic Recovery Programme (MERP) The period saw the Government maintaining the official exchange rate of ZWD55/USD as well as abolishing the Bureaux de Change and increasing the private sector remittance of foreign exchange earnings. In October 2001 the Government also introduced price controls on numerous key commodities.

In the social sectors Government policy continued to aim at having the highest possible level of health for all its citizens as well as regarding education as a basic human right. However, the attempt to guarantee every Zimbabwean access to comprehensive and effective social services was hampered by inadequate resources.

In 2001 the Government embarked on the Government-driven fast-track land resettlement programme based on rapid land acquisition, settler selection and provision of infrastructure over a period of 10 years. This approach was not supported by the EU and other international donors on the basis that the process was flawed.

The country experienced several climatic shocks in the period: a serious drought in 2001, Cyclone Eline and late rains in 2002, which significantly affected agricultural production.

In March 2001 Zimbabwe and the EU agreed to launch political consultations under Article 8 of the Cotonou Agreement. On October 29, 2001, the EU decided to launch further consultations with Zimbabwe under Article 96 due to the lack of progress under Article 8. The EU focused on five areas of concern: political violence, freedom of media, independence of judiciary, illegal occupation of properties, free and fair elections and election observation. The Government of Zimbabwe was requested to take urgent remedial measures in these areas.

Following a worsening of the political violence in the run up to the presidential elections in 2002 the EU ended the Article 96 consultations and suspended the cooperation under the Cotonou Agreement on February 18, 2002. At the same time targeted sanctions in the form of a 6-month visa ban and asset freeze was applied to some members of Government (and was later renewed and expanded to all members of ZANU PF politburo in July and September 2002) together with an embargo on sale of military equipment etc.

The suspension of cooperation resulted in the reorientation of existing programmes under the 8<sup>th</sup> EDF to focus exclusively on ‘direct support’ to the population. Humanitarian aid was increased considerably in 2002 to help the people of Zimbabwe cope with the effects of the 2001/2002 drought.

The economy was badly affected by the inflationary monetary policy, the fixed exchange rate, a decline in investor confidence, the fast-track resettlement programme, price controls/freezes and a slowdown in donor funding. From January 2001 to December 2002 inflation rose from 55.2% to 198.9% and the market-determined parallel exchange

rate depreciated from ZWD70/USD to ZWD1400/USD. The economy declined by 8.4% in 2001 and 12% in 2002.

The welfare of the population was under increasing pressure during 2001 and 2002 from HIV/AIDS, a decline in real disposable incomes and decreasing real Government spending on social services. The real value of Government social spending fell by a third between 2000 and 2002.

The mid-season drought in 2001/02 combined with the other difficulties in the agricultural sector seriously affected the food supply situation in Zimbabwe during 2002. The cereal production decreased by 57% and maize output decreased by 67%. The resulting cereal gap of 1.6 million tonnes was largely filled by humanitarian assistance from the international community.

During 2002 the Health Sector Support Programmes (HSSP) I and II were re-oriented towards the supply of essential drugs, other medical supplies and procurement for the National Blood Transfusion Service. The Education Transition and Reform Programme (ETRP) mainly undertook recruitment and training during 2001/2002 as well as disbursement of school improvement grants to 284 schools.

During the period the Micro-project Programmes (MPP) approved and funded 438 projects under the 11<sup>th</sup> MPP and 362 projects under the 12<sup>th</sup> MPP. The projects were in the areas of rural development, health and education. The implementation suffered due to the hyperinflationary environment, shortages and reduced stakeholder participation and in some cases the projects had to be scaled down. The Zimbabwe Decentralised Cooperation Programme carried out a community needs identification exercise, developed various frameworks, undertook promotional activities and implemented 10 projects in the areas of food security, urban development and education.

During 2001 ECHO provided € 500,000 for the emergency relief programme for flood victims in Chimanimani district following Cyclone Eline. During 2002/03 the European Community made a significant humanitarian aid intervention (channelled through WFP, ECHO and Europe-aid) with commitments for food and non-food totalling € 79.5 million.

Following the EU Council decision to suspend development cooperation with Zimbabwe the European Commission suspended financial support for all projects except those in direct support of the population. A restructuring exercise was then undertaken in cooperation with the National Authorising Officer (NAO). Following this exercise it was agreed that the Micro-projects and Decentralised Cooperation Programmes as well as a large part of the Health and Education Programmes would be maintained and only policy reform and institutional strengthening components were to be taken out of the programmes.

The funds made available from the restructuring exercise and the uncommitted balances from the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> EDF are estimated to total approximately € 18 million. In late 2002 it was agreed with the NAO that these funds should mainly be used for: renewal of the Decentralised Cooperation and Micro Project Programmes; democratisation; unforeseen health sector needs; feasibility studies and improvement of capacity to implement EDF projects; preparation for forthcoming negotiations for the Economic Partnership Agreements (EPAs).

The Country Strategy Paper (CSP) programming process in Zimbabwe commenced in September 2000 and was completed in agreement with both the Commission and the Government of Zimbabwe in July 2001. It was characterized by intensive dialogue between the Commission, the NAO, the Member States and other major donors and by the participation of non-state actors grouped under the Non-State Actors Forum. Unfortunately, due to deteriorating relations between Zimbabwe and the EU, the CSP was never discussed by the EU Member States in the Framework of the European Development Committee and therefore never approved and adopted.

## **2 THE POLICY AGENDA OF THE PARTNER COUNTRY**

### **2.1 Economic Policy**

From 2000 to 2002 the Government implemented the Millennium Economic Recovery Programme (MERP) with the purpose of restoring macroeconomic stability. The MERP focused on fiscal and monetary reforms to foster price stability and economic growth.

In 2001, the Government of Zimbabwe implemented a number of fiscal and monetary policy measures. Negative real interest rates and on-lending of statutory reserve deposits at concessional interest rates were introduced. This period saw the government maintaining the official fixed exchange rate of ZWD55/USD. This policy had been in force since October 2000 and was continued during 2002 as well. In November 2002 the Government also abolished Bureaux de Change and increased the private sector remittance of foreign exchange earnings to the Reserve Bank of Zimbabwe (RBZ).

In October 2001 the Government introduced price controls on numerous key commodities, including maize, wheat, bread, maize-meal, cooking oil, sugar and agricultural inputs. The Grain Marketing Board's monopoly of trade in maize and wheat was also restored. In 2002 the price controls were intensified into price freezes.

In February 2003 the Government introduced the National Economic Revival Programme (NERP) containing an exchange rate adjustment, reviews of interest rates, price controls and fuel etc., provision of subsidized credit to productive sectors and other sectoral initiatives to revive the economy.

### **2.2 Health Policy**

The Government of Zimbabwe aims at having the highest possible level of health and quality of life for all its citizens. This means guaranteeing every Zimbabwean access to comprehensive and effective social services. This effort has been hampered by inadequate resources.

Reorganisation of MoHCW was completed during 2001. After a series of strikes and other industrial action taken by health staff earlier in the year, calm later returned to the sector although attrition of trained staff from the sector still continues, particularly doctors, nurses and pharmacists: many are emigrating. The mentioned changes in health sector resources and capacity combined with the restructuring of EC funded programmes (to "direct support of the population") following the Council decision of February 18, 2002, have directed EC programmes away from their original focus of development

towards what is essentially provision of humanitarian assistance. Details of the two health programmes are discussed in chapter 4.

### **Challenges facing the health sector**

The goals of the National Health Strategy 1997 to 2007 (NHS) remain fundamental in the design of health interventions in the public sector. In this regard the process of strengthening public health care in the context of decentralized health delivery remains the cornerstone of the Government's health policy. This is reflected in the human development strategic thrust aimed at strengthening resource utilisation at provisional and district health level through deliberate training and capacity building initiatives.

The strategic and policy perspectives mentioned in the preceding paragraphs recognise the commitment of central Government to the public health sector amid competing national priorities. The negative economic performance and the growing incidence of poverty are real challenges that face Government in meeting the financing needs of the public health sector. This disposition has encouraged the Ministry to adopt a two-pronged approach in the utilisation of its financial resources:

- Effective utilisation of available resources to foster equity, fairness and access to quality health services at all levels of public health delivery and;
- Exploitation of other sources of health financing including the Social Health Insurance.

In response to the HIV/AIDS epidemic, a statutory National Aids Council (NAC) and the AIDS levy were put in place. The NAC has the mandate of mobilising, coordinating, facilitating and monitoring the national multi-sectoral response to HIV/AIDS in accordance with the National Aids Council of Zimbabwe Act and the National Policy. The National AIDS Council board was appointed in August 2001, hence allowing disbursement to start.

NatPharm was formed to take over the activities of Government Medical Stores (GMS) in an effort to ensure that the health delivery system would be guaranteed of drug supplies. NatPharm became fully operational from October 2001 as the official agency responsible for the procurement, distribution and supply of drugs and other supplies within the public health sector. It has since taken over assets of GMS, including headquarter buildings.

### **2.3 Education policy**

The Government of Zimbabwe has since inception, regarded education as a basic human right and has thus seen great achievements in the area of quantitative expansion in education, making it accessible to all children of school going age. However, this quantitative expansion was not matched by qualitative development. In fact most indicators of qualitative growth deteriorated during this period and have continued to do so. Low quality was accompanied by low institutional and administrative capacity, inadequate and inequitable public funding, unaffordable schooling for the children of the poor, especially the traditionally disadvantaged groups on the commercial farms, children in rural areas that are remote from metropolitan centres, the orphans, etc.

Government has continued its commitment to invest in the education sector as shown by its continued allocation of more resources to the education sector. This however reflects

absolute figures and real figures have been going down. In most recent years there has been a decline in budget allocations to education due to new priorities.

The education vote as share of total government appropriation has decreased from 35.5% in 2000 to 18.8% in 2003. Moreover, inflation triggered in part by the extra-budgetary expenditure eroded the allocation in real terms.

The Ministry's current thrust is to consolidate the gains so far made and ensure quality education is affordable, accessible and relevant to the needs of the country.

The Ministry has thus, put in place policies aimed at achieving the set goals. The policies include among others:

- Ensuring equity in the provision and delivery of education services, with focus on marginalized and disadvantaged groups, including the girl child.
- Paying greater attention to the education of children with special needs.
- Strengthening partnership between Government, parents, the community and the private sector in meeting the costs of education and training.

### **Challenges facing the education sector**

There are a number of challenges that have to be addressed in implementing the above policies. Major challenges are as follows:

- Since education in Zimbabwe is not yet free and compulsory, not all children of school going age are at school. Furthermore, education facilities still have to be set up in the remote rural and newly resettled areas.
- There is inadequate supply of learning and teaching materials in schools due to inadequate financial resources.
- There are classes still being taught by under qualified or untrained teachers partly due to brain drain and the negative effects of HIV/AIDS.
- Lack of equipment and appropriately trained staff hinders the full implementation of the technical and vocational thrust.
- Complete integration of early childhood education into the education system has not yet been realized due to budgetary constraints.
- The lack of electricity and the shortage of computer hardware in the majority of schools hinder the schools from joining the information super highway.

## 2.4

### Agriculture Policy

The agricultural sector continues to play a central role in economic growth and development. The manufacturing sector depends on the agricultural sector for its supply of raw materials. The sector is the single largest employer of paid labour contributing about 25% to total employment in the formal sector. It contributes over 40% of annual exports and accounts for about 17% of the Gross Domestic Product. Over 70% of the population live in the areas where agriculture is the prime economic activity.

2001 saw the Government of Zimbabwe embarking on the government-driven fast track land resettlement programme, which was meant to:

- a) create conditions for sustainable economic, political and social stability;
- b) transfer not less than 60% of land from the commercial farming sector to the rest of the population;
- c) develop and integrate small-scale farmers into the mainstream of commercial agriculture;
- d) reduce the extent and intensity of rural poverty among communal families and farm workers by allocating them agricultural land; and
- e) promote environmentally sustainable utilization of land.

The fast-track approach was based on rapid land acquisition, settler selection and provision of infrastructure was to be spread over 10 years. By 16 November 2001, an estimated 4,874 farms, covering 9.2 million ha, had been listed for acquisition. By late 2002 this figure had risen to 10,8 million Ha compulsorily acquired representing about 78% of the commercial farming land. An estimated 210,000 new farmers have been resettled on Model A1 while model A2 seeks to settle at least 54,000 farmers. .

However, this approach was not supported by the EU and other international donors on the basis that the process was flawed with irregularities.

The country experienced climatic shocks in this period, Cyclone Eline in 2002, a serious drought in 2001 and late rains in 2002, which significantly affected agricultural production. In order to address challenges faced by the land reform programme the Government of Zimbabwe commissioned a Land Review Commission in May 2003 to assess progress on achieving the Land Reform's policy objectives, outline on-going challenges and constraints and recommend policy interventions.

The Ministry of Lands, Agriculture and Rural Resettlement was restructured during 2001 to reflect Government's commitment to the Land Reform Programme as the new Ministry and to refocus its strategies to adequately address the needs of new farmers as well as commercialise the existing farmers. Partly as a result of these new priorities, Government did not pursue the liberalisation and commercialisation process envisaged under the Agricultural Services and Management Programme (ASMP). In fact the Government abandoned the privatisation process in 2002 and pursued commercialisation of parastatals instead.

### **3 UPDATE ON THE ECONOMIC AND SOCIAL SITUATION**

#### **3.1 The Political Context**

In March 2001, Zimbabwe and the EU agreed on a political dialogue under Article 8 of the Cotonou Agreement after which officials from both sides engaged in discussions on the framework for this dialogue. Due to the absence of an ACP and EU framework, a lot of valuable time, between March and July 2001, was spent on procedural framework issues.

On 29 October 2001 the EU decided to end dialogue under Article 8 and launch consultations under Article 96 of the Cotonou Agreement. There were serious delays in the effective launching of these consultations, which only took place on the 11 January 2002 in Brussels. The EU focused discussion on 5 areas of concern which it requested the Government of Zimbabwe to take urgent remedial measures: political violence; freedom of the media; independence of the judiciary; illegal occupation of properties; free and fair elections and election observation, including the invitation of international observers to the March 2002 Presidential election.

The Zimbabwean authorities expressed a willingness to go some way to meeting EU concerns and stressed that land was a core historic problem that the Cotonou Agreement brings mutual obligations. Its concerns also included what it saw as interference into the internal affairs of the country by some Member States of the EU through alleged funding of the opposition, the broadcast of hostile propaganda from their territories, and selective condemnation of acts of political violence.

However, despite further exchanges between the GOZ and the EU, the worsening of the political violence in the run up to the presidential election, the failure to stop the illegal occupation of properties amongst other things, and, in particular, the difficulties surrounding the deployment of the EU observation mission, led the EU to end the Article 96 consultations and suspend cooperation under the Cotonou Agreement on the 18 February 2002. At the same time targeted sanctions in the form of a 6 month visa ban and asset freeze was decided on by the EU Council to be applied to some members of Government together with an embargo on sale of military equipment etc. This was renewed and extended to all members of the ZANU PF politburo in July and September 2002 for a further 6-month period.

Zimbabwe considered that consultations under Article 8 were not given a proper chance and that the 60 day limit under Article 96 had not been respected when it was terminated by the EU after 48 days. Zimbabwe then moved to declare a dispute under Article 98.

The suspension of co-operation did not result in a withdrawal of aid but in the reorientation of existing programmes under the 8<sup>th</sup> EDF to focus exclusively on 'direct support' to the population mainly in the social sectors. Signature of the 9<sup>th</sup> EDF Agreement was however frozen.

Co-operation in the economic and trade sectors was not affected. Humanitarian aid was considerably increased in 2002 to help the people of Zimbabwe cope with the effects of the 2001/2002 drought.



There was no further dialogue between the EU and the GOZ in 2002 except in the humanitarian field.

### 3.2 The Economic Context

The economy has been badly affected by the inflationary monetary policy, the fixed exchange rate, a decline in investor confidence, the Fast Track Resettlement Programme, price controls/freezes and a slowdown in donor funding. Inflation rose from 55.2% to 112.1% during 2001 and from 116.7% to 198.9% in 2002. The market-determined parallel exchange rate depreciated from ZWD 70/USD to around ZWD 200/USD in 2001 and from ZWD 322/USD to ZWD1400/USD in 2002.

In 2001 the economy declined by an 8.4% and 2002 saw a continued decline of 12%. This has been precipitated by persistent inflationary pressures, uncertainty over the land reform programme, declining business confidence, withdrawal of support by the international community and shortages of foreign exchange

In 2001 savings declined to below 10% of GDP, and the decline continued in 2002 to below 9.2%. This situation has denied the country resources for productive investment, at a time when both the public and private sectors require much higher levels of investment.

In 2001, the budget deficit was estimated to be 8.2% of GDP, owing to lower than expected expenditures. Most of the explanation relates to interest payments, which were Z\$53 billion, or 10.7% of GDP, below budget because of the prevailing negative domestic real interest rates. Another important factor was the erosion of civil service remuneration by inflation – civil servants’ real earnings fell by 17% over 2001, saving the budget another Z\$ 13.5 billion, or 2.7% of GDP. The Central Government deficit therefore fell from 23% of GDP in 2000 to 11-13% in 2001. The estimated budget deficit for 2002 was 17.8% of GDP.

In April 2003 the inflation rate reached a high of 269.2% and the market-determined parallel exchange rate rose to ZWD2000 to 1USD in May 2003. Shortages of foreign currency brought about widespread shortages of fuel, food, coal, cement etc.

The World Bank and the IMF have both suspended all programmes and loans to Zimbabwe due to the failure to meet arrears payments. The IMF decided to suspend Zimbabwe’s boarding rights at a meeting on June 6, 2003.

	2001	2002
<b>GDP (at market prices)</b>	-8.8	-12.8
<b>Inflation (December)</b>	112.10%	198.90%
<b>Parallel exchange rate USD/ZWD (December)</b>	345	1500
<b>Official exchange rate USD/ZWD (December)</b>	55.04	55.04

### 3.3 The Social Context

The welfare of Zimbabwe’s population was under increasing pressure during 2001 and 2002 from HIV/AIDS, a decline in real disposable incomes and decreasing real Government spending on social services. The 2000 UNAIDS sentinel survey showed an overall national HIV prevalence of 35% (of the adult population), compared to 29% in 1997. UNAIDS estimates that at the end of 2001 there were 2.3 million adults and

children living with HIV/AIDS in Zimbabwe. Real earnings continued to fall, in line with the decline in real GDP. EMCOZ and wage-survey data suggest that the real earnings per head of most formal sector employees are falling by around 5-10% per year. Financial pressure on parents led to increasing withdrawals from education, particularly of girls.

In 2001 41% of Zimbabweans were living on less than 1 USD/day since then inflation has increased this trend. According to the Consumer Council of Zimbabwe a monthly budget for an average family of six (incl. food, clothing, accommodation, transport, health care and education) has increased from ZWD 4,757.99 in January 1999 to ZWD 107,103.00 in March 2003.

The real value of Government's social spending fell by a third between 2000 and 2002. Despite supplementary budgets for the Ministry of Health and Child Welfare and nominal increases in budget allocations in 2001 and 2002 in real terms there was a decline in allocations to the health sector because of inflation. Government budgetary allocations to the sector have fallen from a peak of about US\$22 *per capita* in the early 1990s to probably about US\$8 *per capita* now.

The vacancy rate for doctors and nurses increased from 31 % and 24 % in 1999 to 55% and 31% respectively in 2002. According to a health assessment conducted by WHO in May 2002 there has been a depletion of essential drugs in 73% of the facilities. It also concluded that 1 million people in the country lack basic health services.

<b>Zimbabwe: Public Expenditure on Social Sectors</b>					
Nov. 13, 2001					
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2002</u>
	Actual	Revised	Revised	Budget	Revised
<b>Expenditure in Social Sectors as % of GDP</b>					
<b>Total</b>	<b>11.10%</b>	<b>13.50%</b>	<b>11.20%</b>	<b>9.30%</b>	<b>12.90%</b>
Health and Child Welfare	3.00%	2.80%	2.50%	2.30%	3.60%
Education	6.30%	7.80%	6.20%	5.10%	5.90%
Higher Education	1.60%	2.10%	1.50%	1.30%	1.50%
Social Welfare	0.20%	0.70%	1.10%	0.60%	1.90%
Real Growth Rate of expenditure in Social Sectors			-24%		-6.50%
Cumulative (2000-2002)					-30.5

<b>MDG Indicators</b>	<b>1995</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
1. Proportion of population below \$1 per day	36.0% (WDI)	N/A	36.0 % (UNDP, 1983-2000)	N/A	N/A
2. Prevalence of underweight children (UNDP)/ child malnutrition (WDI) (under-five years of age)	15.5% (WDI)	13% (WDI)	13% (UNDP)	13% (WDI)	N/A
3. Under-five mortality rate	102.1 (WDI)	N/A	115.8 (WB)	123.0 (UNDP)	125.0 (WDI)
4. Net enrolment ratio in primary education	N/A	80.2 (WDI)	N/A	N/A	N/A
5. Primary Completion Rate	N/A	N/A	N/A	79.6% (WDI)	N/A
6. Ratio of girls to boys in primary and secondary education	94.0 (WDI)	N/A	N/A	94.5% (WDI)	N/A
7. Proportion of births attended by skilled health personnel	69.0% (WDI)	84.0% (WDI)	73% (UNDP)	72.5% (WDI)	N/A
8. Proportion of 1 year old children immunised against measles	87% (WDI)	79% (UNDP)	N/A	68.0% (UNDP)	N/A
9. HIV prevalence among 15-24 year old women	N/A	24.5% (WDI)	N/A	33.0% (WDI)	N/A
10. Proportion of population with sustainable access to an improved water source	N/A	N/A	85% (UNDP)	83% (WDI)	N/A

### **3.4 The Agricultural Context**

In 2001, the state-owned Grain Marketing Board opened additional depots in various districts, thereby cutting down on transport costs incurred by the producers in delivering as well as buying grain as well as accessing agricultural inputs. To improve the distribution of reduced quantities of grain to the nation, the Government re-introduced the GMB monopoly on maize and wheat marketing through the gazetting of Statutory instrument 235 A of 2001. Shortages of maize grain started to emerge towards the end of the marketing year due to reduced size of the maize crop from the 2000/2001 growing season. The Ministry of Lands, Agriculture and Rural Resettlement embarked on a maize import programme to improve the domestic supply of grain. The grain requirements were also revised upwards following another drought year in the 2001/2002 growing season.

The agricultural sector suffered many difficulties in 2002. The cereal production was down 57% and maize output was down 67%. This resulted in a maize gap of approximately 1.6 million tonnes. This was largely filled by humanitarian assistance from the international community. More information about the humanitarian assistance can be found in section 4.3.4.

Furthermore, the country suffered from the outbreak of foot-and-mouth disease, which remains one of the key challenges facing the agricultural sector. Since the outbreak in 2001 Zimbabwe suspended exports of chilled and frozen boneless beef to the EU. .

Shortages of vaccines and capacity to maintain fencing are making it difficult to get the problem under control.

#### **4 OVERVIEW OF PAST AND ONGOING CO-OPERATION**

Reference is made throughout this chapter to the restructuring of EU cooperation programmes in Zimbabwe following the EU Council decision on the 18<sup>th</sup> February 2002 under which all cooperation was suspended except for those programmes providing direct support to the people of Zimbabwe (See Chapter 5). Financing has therefore been re-oriented to activities in direct support of the population, in particular in the social sectors. This restructuring exercise has been carried out in co-operation with the National Authorising Officer (NAO).

Basically, it has been agreed that Health, Education, Micro-projects and Decentralised Co-operation Programmes will be maintained. The capacity-building, institutional strengthening components of the health and education programmes have been suspended and funds are being reoriented within those programmes.

Projects in other areas (such as agriculture), which are not in direct support of the population, have been suspended and funds are being redirected.

The information contained in section 4.4.3 to 4.4.8 inclusive does not necessarily represent the opinion of the National Authorising Officer, who is not involved in the management of projects financed from the EU budget.

#### **4.1 Indicative programme focal sectors and macro-economic support**

##### **4.1.1 Health**

##### **Health Sector Support Programme 1 (8/ACP/ZIM/10)**

##### **(a) Results**

The overall objective of this Programme is to promote social justice through improved quality of life amongst the most vulnerable by developing a sustainable and efficient health system. Programme implementation began in 2000 and will continue for 5 years.

The Programme was designed to support the three year rolling plans of the Ministry of Health and Child Welfare and was aimed at enhancing sector wide approaches.

Achievements in 2001 included improvements in the operation and administration of the decentralised Health Services Fund and preparations for the commercialisation and contracting out of services. In 2002 there were no activities in direct support of the Ministry as foreseen under this programme which was re-orientated towards the provision of drugs and equipment in direct support of the population.

### **(b) Activities during 2001**

The Programme disbursed ZWD 76,5 million into the Health Services Fund (HSF), a decentralised fund for meeting expenses at district level initially set up for the retention of user fees. The programme has assisted the Ministry to develop reporting formats on financial information and to finalise the HSF manual. It initiated and supported the National Health Accounts study in 2001, and has conducted a study on commercialisation and contracting out of services. Achievements were in line with the targets set in the 2001 Work Programmes, except the disbursements into the HSF were 50% lower than anticipated.

### **(c) Activities during 2002**

In cooperation with the Ministry of Health, the project was reoriented towards the provision of essential drugs, supplies, vaccines, equipment, spare parts, etc that are for the direct benefit of the population. Up to €16,9 million was thus made available for such procurement. However due to administrative delays in signature of the Rider to the Financing Agreement these actions could not be implemented until the second half of 2003.

Efforts were made to ensure continued support for decentralisation by ensuring reciprocal contribution of funds from the national budget to the Health Services' Fund.

Monitoring of all of the EC's (and other donor) support to the health sector was strengthened through provision of technical assistance.

## **Health Sector Support Programme II (8/ACP/ZIM/19)**

### **(a) Results**

The overall objective of this programme decided in July 2001 is to reduce the incidence and alleviate the impact of HIV/AIDS and other priority diseases in Zimbabwe.

The programme is supporting the procurement of essential drugs and supplies, and the recapitalisation of the National Blood Transfusion Service through purchase of supplies and equipment necessary to continue to deliver on its core business. It is also supporting the enhancement of the management capacity of both the National Pharmaceutical Company of Zimbabwe (NatPharm) and the Zimbabwe National Blood Transfusion Service (NBTS).

Key achievements in 2001 were the preparation and launching of the first drugs supply tender and in 2002 the arrival and distribution of the drugs. The provision of drugs from other developing countries (other than the EU and ACP States) resulted in considerable savings and provision of a greater amount of drugs than originally foreseen.

As at the end of 2002 the commitments were in line with the timetable set in the Financing Agreement

## **(b) Activities during 2001**

The start-up event was the award of the contract for procurement services to NBTS. Preparatory work on an open international tender for the procurement of drugs and medical supplies commenced in July, and the tender was launched in December. The Commission approved a derogation from the usual EDF rules to allow for the supplies whose procurement is funded under this programme to originate from any developing country as well as the EU and ACP States. As at the end of 2002 the commitments were in line with the timetable set in the Financing Agreement.

## **(c) Activities during 2002**

Key activities for the year include:

Delivery and distribution of drugs and supplies tendered for in 2001.

Implementation of drug pricing study intended to enable the Ministry of Health to fix the price at which it would purchase drugs provided by the EU from NatPharm.

There was an evaluation and award of a contract for technical assistance to NatPharm that arrived in January 2003 for assistance in distribution and monitoring of the donated drugs.

There was a tender evaluation and award of contracts for delivery of blood bags and equipment and supplies to the Blood transfusion service.

### **Improvement of effectiveness of the programmes.**

The main current problems facing the health projects and which are under discussion with the Ministry of Health and of Finance to be addressed in the coming months include:

- The decrease in purchasing power of the project budgets due to fixed exchange rate and high rate of inflation. This situation has been improved since the introduction of a new and more realistic exchange rate in November 2002.
- The continued social and health crisis arising from the HIV/AIDS epidemic. The HIV/AIDS interventions planned under HSSP II will be activated in 2003 and enable the EU to increase its support in this critical area.
- Current drug distribution problems due to shortage of transport and erratic fuel supplies. This problem is being addressed by the EU through the provision of means of transport in the form of trucks through HSSP I to the MOH. Furthermore the team of EU funded monitors present in NatPharm have a major role in assisting in improving distribution and monitoring transparency of distribution. However, primary responsibility remains with the government to ensure that drugs are distributed in a transparent manner and that they reach the intended beneficiaries.
- A drug pricing strategy applied to drugs provided by the EU has now been adopted by the MOHCW whereby the drugs are being purchased from NatPharm

at a price that takes account of inflation levels in order to ensure replenishment of its purchasing capacity.

- In order to address the severe human resource gaps in the MOHCW the government is trying to reintroduce appropriate training programmes for nurses and pharmaceutical technicians.

#### **4.1.2 Education**

##### **Education Transition and Reform Programme (ETRP) (8/ACP/ZIM/13)**

###### **(a) Results**

The overall objective of the ETRP is to contribute to a more efficient, equitable and sustainable education system in Zimbabwe. The purpose is to improve access and learning outcomes of poor children, particularly girls, in primary and secondary education in eight districts through the following project components: (i) Institutional Capacity Building (ii) School Improvement Grants (SIG) in four very poor districts and (iii) Support to disadvantaged children through scholarships and vouchers in four less poor districts.

This project remained more or less dormant until October 2001 while the Ministry of Education, Sports and Culture reconsidered the relevance of the project to its policy priorities. Following discussions with a mission from Brussels, the Ministry decided in late-2001 to press ahead with the project.

Most of 2002 was taken up with staff recruitment and it was only in late 2002 with the establishment of a fully operational management team that the first activities were carried out.

###### **(b) Activities during 2001**

None

###### **(c) Activities during 2002**

Preparations were made for the disbursement of school improvement grants including extensive field visits to the pilot areas. These visits showed that some schools did not have the skills in financial management and procurement. A number of capacity building workshops were then conducted in the four districts of Binga, Buhera, Mudzi, and Mwenezi. The major content of the workshops was training in financial management, accounting and well as strengthening procurement systems for schools in preparation for the first disbursement of school improvement grants.

In late 2002 the first disbursement of school improvement grants totalling ZWD33.6 million were made to 284 schools benefiting a total of 134 000 children in the four districts. However this amount was not enough to cover the needs of the children given the escalating prices of books.

The mid-term evaluation and re-orientation study was also launched in late 2002 with results becoming available in early 2003.

## **Improvement of effectiveness of the programme**

- The lack of confidence and skills among school headmasters and staff needs to be remedied to ensure proper execution of this project and increased systems and capacity building support to strengthen economic and financial planning management and analysis will be an important focus of the next phase.
- The current food shortages and increasing poverty in the pilot district areas is seriously hindering school attendance and reducing the effectiveness of the project. Measures will be explored to increase cooperation with NGOs providing food assistance in the target areas and allow flexibility to schools include feeding schemes in their development plans. However, enrolments are also affected by other socio-economic factors.
- Logistical difficulties experienced in the remote district of Binga need to be addressed through provision of suitable vehicles and increased use of district and community based monitors.
- Decline in the Government's budgetary allocation for capital expenditures in real terms due to inflation needs to be reversed and will continue to be the subject of discussion between the EC Delegation and the Ministry of Education.
- The programme foresaw the allocation of 3 euro per child as the basis of calculation of the per capita school improvement grant. However the first allocations carried out at the official exchange rate were not sufficient and will be topped up in the first half of 2003 with supplementary funding using the new improved exchange rate.

### **4.1.3 Rural development**

#### **Agricultural Services and Management Project (ASMP) (8/ACP/ZIM/7)**

##### **(a) Results**

The objective of the € 12.7 million Agricultural Services and Management Project was to enhance the performance and sustainability of the agricultural sector and smallholder sub-sector in particular.

The project had received funding from three other sources, namely, the UK Department for International Development (DFID), the World Bank and the Government of Zimbabwe.

ASMP had been dormant since September 2000 pending reflection by the Ministry of Lands, Agriculture and Rural Resettlement (MoLARR) on how the project could be best oriented to support its current policy priorities. During 2001 the European Commission Delegation and senior MoLARR officials met on several occasions to discuss the relaunch of ASMP, but it was not possible for MoLARR to produce any formal proposals.

The World Bank and DFID withdrew from ASMP in March and June 2001 respectively, leaving the EC as the only donor. The three donors, in consultation with MoLARR, conducted a joint review of ASMP during August-October 2001. This review noted that ASMP had supported positive change in some areas of MoLARR's work, but that the



structure of ASMP and a lack of commitment by MoLARR had prevented ASMP from developing into an overall reorientation of the Ministry's activities as originally hoped.

Following the decision of the General Affairs Council of 2002 to suspend cooperation, the NAO and the Delegation agreed to partially decommit € 6.7 million from the ASMP which is being used to support new projects that directly benefited the people of Zimbabwe.

### **(b) Activities during 2001**

Although the core processes of ASMP were on hold, there was some activity on peripheral topics. The project made a first advance in 2001 to the Agricultural Research Council for the competitive awarding of research contracts. During 2001 there were also inconclusive discussions of tender documents for the contracting out of tsetse control services in Kotwa and Rushinga.

### **(c) Activities during 2002**

Following suspension of the project it was agreed that the NAO would ensure that all open commitments would be audited and the commitments closed thereafter. In the absence of a 'project implementation completion report', the Delegation prepared an internal evaluation report on the ASMP. The report basically summarised activities funded under EDF and linkages with other donors.

## **Small Scale Irrigation Programme (6/ACP/ZIM.031 & 32)**

### **(a) Results**

The financing agreement was signed in July 1990, and the overall objective of the project was to improve communal farmers living conditions through increased incomes and food security. The project purpose was to construct a 900 ha irrigation scheme in Musikavanhu and Nyanyadzi South and settle 860 families, each with an average irrigation plot size of 1.0 ha. A training phase has run from September 1998 onwards.

Achievements in 2001 and 2002 were the effective and efficient completion of the project through ensuring sufficient training, legal advice etc to participation farmers to ensure sustainability.

### **(b) Activities during 2001/02**

The 2<sup>nd</sup> rider to the financing agreement was signed in May 2001 effectively extending the project termination date to 30<sup>th</sup> November 2002. This was done in order to ensure the project's effectiveness and efficiency and, also, so that the National Authorizing Officer could arrange for the orderly closure of the project. Twenty-four specialized farmer-training courses were conducted in 2001 for a total of 958 farmers. The courses covered issues in farm business management, self empowerment and transformation, marketing, pump operation and maintenance, agribusiness management, participatory planning, post harvest technology, computer skills, horticulture, soil fertility management and socio-economic and gender analysis. In addition, five specialized courses totaling 273 person days were conducted for extension staff.

During 2002, the project rehabilitated three boreholes at Musikavanhu irrigation scheme that were damaged by cyclone Eline in 2000. In preparation for completion of the project a Legal and Institutional framework Review study was also done in 2002. Twenty-six specialized farmer-training courses were conducted in 2002 for a total of 900 farmers. The 3<sup>rd</sup> rider to the financing agreement was signed in November 2002 effectively extending the project termination date to 28<sup>th</sup> February 2003. This was done to allow for the completion of all outstanding activities before final closure. The final evaluation was also launched in November 2002 and a final report is expected during the first half of 2003.

### **Faculty of Veterinary Science (7/ACP/ZIM/039)**

#### **(a) Results**

The overall objective of the project was to improve animal health and to increase livestock productivity and farm incomes. This is being achieved mainly through support for training of future vets.

#### **(b) Activities during 2001/02**

The project successfully implemented a collaborative research and ambulatory clinic Annual Work Programme. Both students and staff of the Faculty of Veterinary Science conducted seventeen collaborative research projects. The project also ran an ambulatory clinic in 2 communal areas, Chikwakwa and Chinamora, and in the small-scale commercial farming area of Marirangwe. The ambulatory clinic is a significant teaching tool for large animal medicine and surgery and also herd health management.

#### **4.1.4 Macro-economic support**

### **Structural Adjustment Support Programme (2nd Tranche): €21 Million**

#### **(a) Results**

The second tranche of the Structural Adjustment Support Programme (SASP II) allocation to Zimbabwe was disbursed in February 1998. A total of Z\$392,524,839 Counterpart funds (CPF) was generated and deposited into the Reserve Bank of Zimbabwe in March 1998. The CPF were used to support the Government expenditures in the health and education sectors, as well as technical assistance to the Ministry of Finance and Economic Development.

Disbursement of the CPF funds have been slowed down due to slowness of the recipients the Ministries of Health and Education to account for previous disbursements.

Due to hyperinflation this has resulted in a rapid loss of value of these funds.

#### **(b) Activities during 2001**

During 2001 there were no disbursements to the health and education sectors pending accounting work on previous disbursements. The provision of technical assistance to the Ministry of Finance and Economic Development was reinforced with the creation of a new post TA support post being created in the National Authorising Officer's department and an accountant being recruited to cover SASP II and STABEX finances.

By the end of 2001 the MoFED had clarified the accounting position of SASP II CPFs and the NAO's office had drawn up a programme for allocating the remaining funds. These stood at \$ 433,997,165.96 as at 31 January 2002 because of the slowdown in disbursements during 2000-1 and interest accruals.

### **(c) Activities in 2002**

An NAO Support Programme totalling ZWD 148,090,000.00 was approved in 2002. The objective of this programme is to strengthen the capacity of the NAO's office in managing the EDF portfolio in Zimbabwe through the provision of technical assistance to the NAO's office and additional resources required for the smooth management of both EDF and STABEX programmes. Through the NAO Support Programme, 30 project officers undertook EDF training in the General seminar and Work Programme that was facilitated by the Delegation. The Delegation also approved the recruitment of a Bookkeeper (STABEX/SASP) and a Management Support Co-ordinator bringing to three, the technical assistants to the NAO's office under the NAO Support Programme. A Financial Report covering 2001 and 2002 is currently being finalised.

### **Improving effectiveness of the programme**

The capacity of the NAO's office in managing the EDF portfolio needs to be further strengthened through the provision of resources that are earmarked specifically for those additional activities that will improve the effectiveness and efficiency of EU aid in Zimbabwe. This should be done in line with the GAC decision of 2002.

## **4.2 Projects and programmes outside the focal sectors**

### **Zimbabwe/EU Micro-project Programme (8 ACP/ZIM/016, 7/ACP/ZIM 96 & 97)**

#### **(a) Results**

The purpose of the Micro-project Programme (MPP) is to assist local communities with financial and technical support to plan, implement and control sustainable projects in the focal sectors of Rural Development, Health and Education.

The number of projects implemented in 2001 and 2002 substantially met the targets outlined in the 12<sup>th</sup> Micro-projects Financing Agreement despite the problems caused by inflation and a fixed exchange rate.

#### **(b) Activities during 2001**

Four Micro-project Programmes were under implementation at the beginning of 2001. These are the 9<sup>th</sup>, 10<sup>th</sup> MPP's funded under the 7<sup>th</sup> EDF and the 11<sup>th</sup> and 12<sup>th</sup> MPP's funded under the 8<sup>th</sup> EDF. The 7<sup>th</sup> and 8<sup>th</sup> MPP's were closed during 2001. Under the 11<sup>th</sup> MPP, a total of 438 projects with an estimated EDF contribution of ZWD 183 030 000.00 were approved by the end of 2001. Of these projects, a total of 134 projects were still under implementation by the end of the year.

During 2001, the 12<sup>th</sup> MPP approved a total of 248 projects in the areas of Rural Development, Health and Education, with a total EDF funding of ZWD 330,845,700.00.

An internal evaluation of Zim/EU MPP funded solar electrification projects were carried out which recommended cessation of this type of support due to poor sustainability.

A review of the institutional framework for the MPP, which recommended establishment of provincial offices to bring project management nearer to the beneficiaries.

Staff training in gender and environmental approaches also took place and were integrated into the project appraisal process.

### **(c) Activities during 2002**

114 projects were approved for funding in 2002 in the following sectors: *Education* 84 primary schools and 11 Secondary Schools; *Health* 14; *Rural Development* 5

Implementation of these projects suffered due to the hyper-inflationary environment, foreign currency, and fuel shortages, unemployment, food insecurity and reduced stakeholder participation and in some cases had to be scaled down. Technical ministries and Rural District Councils were also constrained by the shortage of human and material resources.

Throughout the year an internal review took place on the type of projects being funded by micro-projects which were almost completely focused on infrastructure and lacked an income-generating dimension. A moratorium was placed on further funding of electrification schemes and irrigation schemes that benefited only a small number of persons. Furthermore an independent thematic impact assessment evaluation was launched at the end of 2002 as part of the mid term evaluation which is intended to review the sectors of intervention and establish an effective impact monitoring system.

Current policy guidelines and procedures were also overhauled and updated to bring them more into line with EDF practices.

A Rider to the Financing Agreement was approved in late 2002, which provided for an increase in funds of 3.8 Million Euro to help the programme meet its targets given the inflationary environment and escalating costs.

### **Improvement of the Effectiveness of the Programme**

- Some of the difficulties caused in 2001/2002 by the fixed exchange rate and high levels of inflation leading to cost overruns are being overcome through the new improved exchange rates introduced in November 2002 which have increased the value of funds by over 1000%. Euro components have been included in work programmes to enable imports of essential materials.
- The MPP is now committed to closer links with other EC funded projects in the health and education sector and with the EU funded Decentralised cooperation programme.
- The need to address critical food shortages in the country by making greater use of dams built with MPP funding has been assured by the inclusion of additional funding for irrigation projects in a new MPP programme using reoriented funds from the 8<sup>th</sup> EDF which will be established in early 2004.
- In 2003, the MPP intends to widen its interventions to include projects in peri-urban centres and to further mainstream gender, environment and HIV/AIDS in its sectors of intervention.
- Staff employment conditions: In 2002, the NAO and EC delegation inaugurated a Human Resources study and implementation programme to assess staff salaries and conditions in all EC funded programmes, to make proposals for improvement

and harmonization. This is intended to assist the NAO in the management of staff in the current hyperinflationary environment.

### **Zimbabwe Decentralised Co-operation Programme (8 ACP ZIM 11)**

#### **(a) Results**

The overall objective of the programme is to alleviate poverty through enhancement of self-reliance of selected rural and urban communities. The purpose of the programme is to improve demand driven service delivery to five disadvantaged communities by Local Communities, NSAs and private sector taking into consideration gender and environmental issues. During 2001 and 2002, capacity building of non state actors and communities at the national and local levels was the main focus of activity and successfully carried out and the project criteria and procedures were successfully established and put in place in a participatory fashion. Project identification, approval and implementation only got under way in late 2001.

#### **(b) Activities in 2001**

In 2001, criteria and project selection procedures were put in place and a participatory community needs identification exercise was done in all five pilot districts. Monitoring, evaluation, information and communication frameworks were established. Promotional activities were conducted including the commissioning of the ZDCP website, the production of ZDCP brochures, newsletters, calendars and T-shirts etc

A mid-term review and financial review of the project was conducted to assess the causes of the delay in implementation which was mainly found to have been due to the underestimation of the time needed to build non state actor capacity in the original financing agreement. The Financial review assessed the situation mainly with regard to the premature depletion of the administrative fund for the project. The final report was rejected because of the poor quality. However, it was generally agreed that the original administrative budget had been inadequate to the needs of the project.

#### **b) Activities in 2002:**

In 2002, 10 new projects in the area of food security, urban development and education amounting to ZWD 98.4 million were developed and approved. This brings the total value of committed projects to ZWD 130.8 million.

The Financing Agreement was revised by a Rider in June 2002 to increase the primary commitment by € 1,200,000.00 to € 7,200,000 to mainly cover additional costs administration cost arising out of under-budgeting in the original budget, inflation and the fixed exchange rate, A mid term evaluation of the project was launched in September 2002 to be completed in early 2003.

The ZDCP website was launched and three issues of the “ZDCP Today” newsletter were produced.

The project also increased its advocacy work by participating in radio talk shows.

Capacity building of the non-state actors was also done in 2002 through various training programmes.

## **Improvement in effectiveness of the Programme**

The programme implementation has been affected by the following problems which are being addressed by the NAO and EC Delegation together with the non state actors and ZCDP management team:

- Some of the difficulties caused in 2001/2002 by the fixed exchange rate and high levels of inflation leading to cost overruns are being overcome through the new improved exchange rates introduced in November 2002 which have increased the value of funds by over 1000%. Euro components have been included in work programmes to enable imports of essential materials.
- The ZDCP is now committed to closer links with other EC funded projects in the health and education sector and with micro-projects.
- Supplementary funding is to be provided for those projects which it has been unable to complete due to hyperinflation affecting costs and increasing poverty among community members to make up shortfalls.
- The programme is now actively committed to seeking ways to introduce components to help mitigate the impact of HIV/AIDS on communities and increase linkages with organisations implementing awareness programmes. HIV/AIDS.
- Staff employment conditions: In 2002, the NAO and EC delegation inaugurated a Human Resources study and implementation programme to assess staff salaries and conditions in all EC funded programmes, to make proposals for improvement and harmonization. This is intended to assist the NAO in the management of staff in the current hyperinflationary environment.

### **Support Services Framework Contract (8/ACP/ZIM/006)**

#### **(a) Results**

This contract was intended to be used to assist implementation of the National Indicative Programme by providing ad-hoc technical expertise in areas such as project preparation, monitoring and evaluation.

#### **(b) Activities during 2001/2002**

The only activity in this period was the carrying out of a Financial Review of the Administration Expenditure of the Zimbabwe Decentralized Co-operation Programme in early 2002. This report was rejected because of its poor quality.

### **Minefield Clearance ( 7 ACP ZIM 51 & 68)**

#### **(a) Results**

The purpose of the project was to increase agricultural production and to improve animal disease control in the area of intervention. The project, for which the field activities were concluded in December 2000, has been said to be one of the most successful projects of its type anywhere in the world. At its completion a total of 6,500,000 m<sup>2</sup> of ground were cleared and the total number of mines destroyed was 162,419.

### **(b) Activities during 2001**

The project was finally closed in 2001 after all claims had been settled with the contractor following the extension of the financial allocation of the project by 20%.

## **4.3 Other instruments**

### **4.3.1 European Investment Bank (EIB)**

The European Investment Bank did not make any new lending to Zimbabwe during 2001 and 2002. This was principally because of Zimbabwe's default on its debt-service obligations to the EIB since September 2000, but also because the adverse economic situation made the investment climate extremely unattractive.

By December 31<sup>st</sup> 2001, Zimbabwe was in arrears on the servicing of 23 loans to the tune of € 41,475,607.92 and by October 31<sup>st</sup> 2002 the arrears amounted to € 57,206,122.09.

### **4.3.2 Regional projects**

#### **SADC Scholarship Programme for Bachelor of Veterinary Science Students (7/ACP/RPR/306)**

The financing agreement was signed in 1994 and the project provides scholarships to nationals of other SADC countries to train for the Bachelor of Veterinary Science degree at the University of Zimbabwe. Five students (two from Swaziland and three from Malawi) graduated in August 2001. This brings the number of students who have successfully completed the programme since its inception to six. A further six students graduated from the programme in August 2002. The last batch of students is expected to graduate from the programme in August 2004. The level of disbursement was close to 89% by end of 2001.

#### **SADC Regional Food Security Training Programme (8/ACP/RAU/003)**

##### **(a) Results**

The purpose of this project is to improve the quality of service, advice and analysis provided by organizations in SADC concerned with food, agriculture and natural resources.

##### **(b) Activities during 2001**

The 2001 work programme sought to:

Increase the quality and quantity of food security training services available in the SADC region;

Develop and strengthen effective awareness of food security training; and

Develop a regional market for food security training.

A total of nine courses were offered in 2001, and over 245 people participated in the training activities. Resources were also provided to eight new regional training institutions as part of the project's capacity building activities. The long-term technical assistance contract was concluded in June 2001. Three work-attachment programmes were completed in 2001. The project also conducted preparatory work on developing quality control and accreditation systems for its training courses.

By the end of December 2001, almost 92 percent of the project funds had been committed and almost 66 percent of it had been disbursed.

### **(c) Activities in 2002**

A total of six new regional training programmes were developed in 2002. 383 people participated in training activities organised by the programme. Six people also participated in the work attachment programme. The mid-term evaluation was done in 2002 and the project also developed its Strategic Business Plan for the years 2003 – 2009.

## **4.3.3 STABEX**

### **STABEX 1994**

#### **(a) Results**

The STABEX 1994 transfer granted € 3,121,146 for cotton and € 2,907,877 for coffee. Its objective was to partially compensate economic operators for losses incurred and to assist the productive capability of the cotton and coffee sectors through the improvement of research and training. As part of the programme, the Government of Zimbabwe committed itself to continue the liberalisation of agricultural markets as well as facilitating exports and investments and liberalising trade.

#### **(b) Activities during 2001 and 2002**

The EC and the NAO initiated no new programme activities in 2001 pending clarification of the remaining balances available for spending on cotton and coffee under the Framework of Mutual Obligation (FMO). The main thrust of their work in 2001 was therefore to clear a backlog of accounting and auditing work for the period 1999-2000 and to prepare budgets for a re-launch of the programmes during 2002. Ongoing support for the recurrent and capital budgets of the Coffee Research Station, the Cotton Research Centre and the Cotton Training Centre continued.

No activities liberalising agricultural markets took place during the year.

The STABEX 1994 EURO-denominated account made no payments and received credit interest of €179,153.07 during 2001, leaving a balance of €4,363,988.64 as at 31.12.2001. The STABEX 1994 ZWD-denominated account with the Reserve Bank of Zimbabwe made one disbursement of ZWD 41.2m to SCORTT and SCRATT and received ZWD 5,296,965.17 in credit interest, leaving a balance of ZWD 2,144,088.89 as at 31.12.2001.

In 2002, in addition to providing support for the recurrent and capital budgets of the Coffee Research Station, the Cotton research Centre and the Cotton Training Centre, 1



million EURO worth of fertilizers was provided to the Coffee Growers Association to help revamp the coffee that was destroyed by cyclone Eline. A technical audit of the Honde Valley Smallholder Irrigation schemes was also carried out and a new contract for the finalisation of the irrigation works was developed.

Following the suspension of cooperation with Zimbabwe, support under STABEX 1994 was reoriented away from direct support to the Coffee and Cotton research centres and focused on direct support to small coffee producers in the Honde valley.

An evaluation of the STABEX programme is currently underway and a rider needs to be done on balances.

### **STABEX 1995**

Discussions were held throughout 2002 on a possible humanitarian use of these funds following the suspension of cooperation in February 2002.

### **Issues to improve effectiveness**

There is need for close monitoring and supervision of the Honde Valley irrigation schemes. The planned evaluation of the STABEX 1994 programme will also help in reprogramming the balances of the STABEX 1994 resources between coffee and cotton.

#### **4.3.4 Humanitarian aid**

### **Emergency relief programme for flood victims in Chimanimani district in Zimbabwe in 2001**

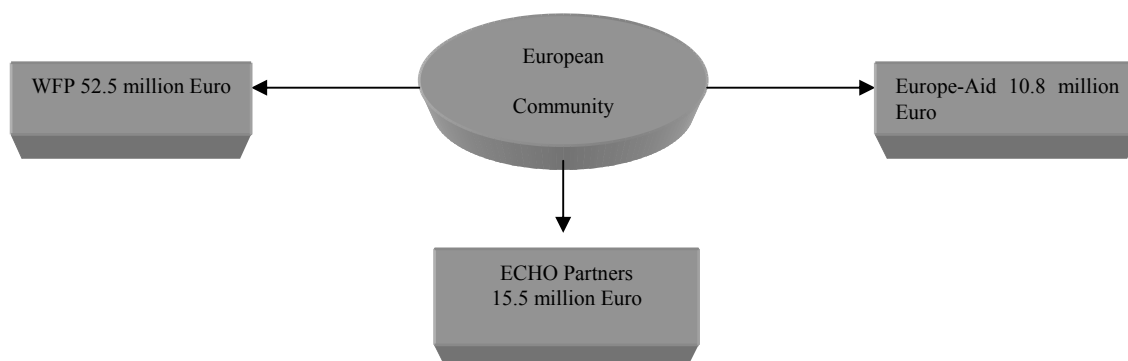
The EC Humanitarian Office (ECHO) granted the German NGO HELP €500,000 for the abovementioned project, to be implemented with the Chimanimani Development Association (CHIDA) as local partner. The aim was to support the population's recovery from Cyclone Eline in February 2001 by providing foodstuffs and agricultural inputs and implements.

HELP procured seed and food during early 2001 and distribution began on 1 April. Unfortunately a large number of looters attacked the project warehouse in Bumba on 19 April and stole 139,950 kg maize, 18,660 kg beans, 4,665 litres cooking oil and 933 kg salt. It became clear that the looting was connected to local party-political issues, so the EC instructed the programme to end in June 2001.

### **Humanitarian Aid in 2002/03**

The humanitarian needs of Zimbabwe continue to be critical. In the marketing period 2002/2003 the import requirement for maize alone was in excess of 1 million tonnes. International donors through their pledges to aid agencies and NGOs have financed the procurement, transportation and distribution of almost 300,000 tonnes. The European Commission's intervention in Zimbabwe since 2002 has been very significant. Commitments for food and non food (mainly inputs such as seed and fertilizer) projects for 2002/2003 total 79.5 million Euro. These funds have been allocated as follows:

**Pledge Allocation:**



The total food and inputs tonnage purchased with European Community funds are as follows:

**Food and non- food purchases:**

	<b>Product</b>	<b>Tonnes</b>
WFP	Maize	101,043
Europe-Aid	Maize	21,020
WFP	Veg. Oil	600
Europe-Aid	Veg. Oil	512
WFP	Beans	1,675
Europe-Aid	Beans	1,962
Europe-Aid	Corn Soya Blend	5,199
	Sugar	120
	Fertiliser	450
	Seed	60
<b>Total ALL</b>		<b>132,641</b>

The mobilization of the significant quantities required to feed the people of Zimbabwe has been achieved despite a number of logistical as well as bureaucratic difficulties. Not least has been the considerable delay in acquiring the relevant import certifications from the Zimbabwe authorities and the registration of international NGOs. Once in country secondary transport to distribution centres has been affected by the on-going fuel supply crisis.

During 2002, ECHO operations have tended to concentrate on non-food intervention by allocating € 15.8 million through 2 decisions taken during the year (of which one was part of a region-wide € 30 million decision) to support therapeutic and supplementary

food aid operations as well as logistics and coordination support for NGO partners and international agencies. The decisions also supported agricultural intervention through the provision of seed and fertilizer in a priority area, water and sanitation and home-based care projects for the chronically ill HIV/AIDS sufferers.

During 2003, ECHO has so far allocated an additional € 13 million decision supporting continued humanitarian aid efforts addressing the same sectors as in 2002 and adding support to HIV/AIDS orphans.

#### **4.3.5 Budget**

##### **NGO Co-financing (B7-6000)**

There was very little EU support for new NGO co-financed development projects in this period. No new projects were approved in 2001 and only two were approved in 2002, despite the submission of several applications. This was partially due to restructuring of the units and lack of staff dealing with NGOs in the Commission headquarters in Brussels. This situation should be rectified in 2003. Normally, a country in which the main cooperation programme is considerably reduced and suspended as is the case in Zimbabwe there should be an increase in NGO funded projects.

There are 7 projects approved in previous years, which are currently ongoing. See Annex 1 for details.

##### **Environment (B7-6200)**

There were no new approvals under this budget line in 2001 and 2002. There was one ongoing project. (See Annex 1 for details)

##### **European Initiative for Democracy and Human Rights (EIDHR) (B7-7020)**

At the end of 2001, Zimbabwe was one of 29 focus countries chosen for activities to be funded under the European Initiative on Democracy and Human Rights for the period 2002-2004. A total of € 2 million will be made available from the budget line over the period 2002-2004.

Zimbabwe was chosen as a focus country due to the EU's concern for the political and human rights situation. Human rights issues were also the subject of discussion with the Zimbabwean government throughout 2001 in the context of the Article 8 dialogue and Article 96 consultations under the Cotonou Agreement. The EU also considers that EIDHR activities can be effective in Zimbabwe due to the presence of robust, independent actors in the Parliament, the judiciary, the press and a local civil society committed to the promotion and protection of human rights. The strong interest of the international human rights NGOs' community in the situation in Zimbabwe is also an important factor.

A call for proposal for focus countries has been launched in late 2002 and funding decisions are due in mid-2003.

##### **Gender (B7-611)**

No new projects were approved in 2001 or 2002. There is one ongoing project (see Annex 1).

## **AIDS and Population (B7-6211)**

Two new projects were approved in 2002. See Annex 1 for details.

### **5 PROGRAMMING PERSPECTIVE FOR THE FOLLOWING YEARS**

#### **5.1 Background: EU Council Decision of the 18<sup>th</sup> February 2002**

Following the EU Council decision on the 18 February 2002 to suspend development cooperation with Zimbabwe under Article 96 of the Cotonou Agreement, the European Commission immediately suspended financial support for all projects except those in direct support of the population. The key clauses of this decision state that:

*“Financial support for all projects is suspended except those in direct support of the population, particularly those in the social sectors. “*

*“Financing shall be re-oriented in direct support of the population, in particular in the social sectors, democratisation, respect for human rights and the rule of law.”*

A restructuring exercise was then undertaken in co-operation with the Permanent Secretary of the Ministry of Finance and Economic Development, who, as National Authorising Officer, represents the Government in the management of the EDF.

In fact as the greater part of the EDF portfolio was already focused on projects providing direct support to the population, it was therefore largely unaffected by the GAC decision. However, each project was examined on a case-by-case basis and those elements not providing direct support to the population were suspended.

Following this exercise, it was agreed that Micro-projects and Decentralised Co-operation Programmes and a large part of the Health and Education sector projects would be maintained as they were, with only policy reform and institutional strengthening components to be re-orientated.

The main project in agriculture, providing direct support to the Ministry of Agriculture for policy reform was cancelled and those being implemented using STABEX funds (mainly cotton and coffee research) were re-orientated.

As a result of the restructuring approximately € 18 million was identified as becoming rapidly available for re-commitment to extensions of existing projects or for new projects. Additional funds would also be released later on conclusion of decommitment processes and closure of projects under the 6<sup>th</sup> and 7<sup>th</sup> EDF.

See Annex 1 for actual situation regarding each project.

#### **5.2 Procedural aspects**

The reorientation of projects required extensive procedural work by the NAO and Commission services. The premature closure of some projects and decommitment of funds require specific follow-up to ensure full accounting for advances etc. The reorientation and/or extension of other projects require the development of riders and approval by the Commissioner. Other projects have required professional evaluations to identify new activities for use of the re-orientated funds, in particular the Education programme.

This process started immediately after the Council Decision and a first agreement was reached with the NAO in May 2002 on the projects and the amounts involved. The Member States of the EU were informed in late June 2002. The riders for additional funds for the existing Decentralised Cooperation and Micro-projects were signed in late 2002. The Rider for reorientation of the Health Sector Programme No. 1 which given its large scale had to be submitted to EDF committee received this approval in early October 2002 but was not signed by Commissioner Nielson until April 2003 due to serious internal delays inside the Commission. The evaluation of the Education programmes got under way in late 2002 and results were available in March 2003 and the Rider for reorientation of this project is expected to be approved by autumn 2003.

### **5.3 Overview of the Current Situation under the 8<sup>th</sup> EDF**

Under the 8<sup>th</sup> EDF programme €110 million was made available to Zimbabwe. By the end of 2002 90% had been fully committed.

The timetable in Annex 2 indicates that all these projects will be completed at the latest by December 2005, taking into account the re-orientation. (See Chapter 4 for the specific situation regarding each project.)

A worsening of macro-economic environment may erode the resources leading to an earlier date of project completion.

All projects under the 6<sup>th</sup> and 7<sup>th</sup> EDF are expected to be closed by December 2003.

### **5.4 Use of Funds made available from the 2002 restructuring exercise and uncommitted balances from the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> EDF**

These available funds are estimated to amount to approximately € 18 million. (Plus additional unspent funds to be made available later from closure of projects under the 6<sup>th</sup> and 7<sup>th</sup> EDF)

Agreement was reached in late 2002 by the NAO and the EC Commission in accordance with the Council Decision of 18 February 2002 that these funds should be mainly used for:

- Renewal of the Decentralised Cooperation and Micro Project Programmes, including a specific irrigation component;
- Democratisation for possible capacity building for the Parliament of Zimbabwe;
- Unforeseen additional needs in the health sector;
- Funds for feasibility studies and improvement of capacity to implement EDF projects;
- Funds for preparation of forthcoming negotiations for the Economic Partnership Agreements (EPAs) for capacity building support for the private sector and other non-state actors.

See Table in Annex 2 for the Indicative Distribution and Commitment and Disbursement Timetable.

## **5.5 Situation with regard to the Draft 9<sup>th</sup> EDF Country Support Strategy Paper**

Due to the suspension of cooperation no Country Support Programme was signed with Zimbabwe.

The draft prepared in 2000/2001 which focused on the two focal sectors of health and education will be reviewed in 2003 in light of the political, economic and social changes which have taken place since then in order to maintain preparedness for the future resumption of development co-operation with Zimbabwe.

## **5.6 Humanitarian Aid Programming for 2003/2004**

Despite improved maize harvest estimates for the 2003 crop the problems of Zimbabwe will continue. Significant imports will be required to feed the country and the capacity of the Government to procure food imports has been further eroded by the continuing lack of access to foreign currency. The reduced earnings from cash crops such as tobacco are prioritised for use in the procurement of fuel and energy. It is expected that Government will again appeal to the international community for assistance.

Recognising the need for further intervention in this period, the European Commission with the approval of the Food Aid Committee has already agreed to commit the following:

- For WFP operations € 25 million
- For Europe-Aid operations € 4 million

Additionally, ECHO will continue to operate in Zimbabwe and a second financial decision for 2003 is planned for between € 10 to 12 million.

## **6. FIRST TRIAL REVIEW – SPECIFIC ISSUES**

### **6.1 Assessment of the Country Support Strategy (CSS) and Programming Process**

The CSS programming process in Zimbabwe started in September 2000 and was completed and agreed upon by both the Commission and GOZ in July 2001. It was characterised by intensive dialogue between the Commission and the NAO and with the EC Member States and other major donors in Harare. The participation of non-state actors in the process was a new feature introduced under the Cotonou agreement and this was successfully introduced in the Zimbabwean process. The Commission consulted Non-State Actors at the key stages of the process. Its main contact was the Non-State Actors Forum (NSAF), which includes local NGOs, civil society organisations, local government bodies, churches and trades unions. Apex business organisations were also consulted alongside the NSAF. The consultation stages are described below.

Non-State Actors made 6 presentations to Government and the Commission on Zimbabwe's governance, economic and social situation, each of which was followed by an open discussion. Their analyses into account when preparing the first draft of the Country Support Strategy (CSS). They were also consulted on subsequent drafts and on the 'EC Response Strategy') in June 2001.

The CSP strategy was built on the basis of two scenarios a 'probable' scenario based on the assumption of a further deterioration of the situation in Zimbabwe and an

‘alternative’ scenario based on an improvement of the situation in terms of governance and economic stabilisation. The strategy focused on two social sectors of health and education.

However, unfortunately due to the rapidly deteriorating relations between the EU and Zimbabwe, culminating in the suspension of cooperation with Zimbabwe on 18 February 2002, the CSP was never discussed by the EU Member States in the framework of the European Development Committee, which has to approve it before adoption. It therefore remains a draft document and no further progress in implementing the 9<sup>th</sup> EDF Programme has been possible in the current circumstances.

### **6.3 Clearance of Old Accounts**

During the last two years, the Delegation has given priority to the closure of all old accounts in order to release funds for further projects commitments. During 2001, 12 sleeping projects were identified and closed. This released € 246,913.05 for new projects commitments. In 2002, 9 sleeping projects were closed and a total of € 1,830,689.76 was released for new projects commitments.

By 31 December 2002, the Delegation was still to close nine “problem” sleeping projects. These projects are expected to be all closed by 31 December 2003 and a total of € 4,657,417.91 will be released for new projects commitments.

### **6.4 Assessment of the ongoing in-field dialogue and proposals for further strengthening.**

The ongoing dialogue between the EC Delegation in Zimbabwe and the NAO in the period covered by this report has been generally very satisfactory. The challenge to develop the Country Support Programme and 9<sup>th</sup> NIP in 2001 was successfully met with extensive participation of actors from the non State sector and the re-structuring of the existing EDF portfolio also took place in a constructive and cooperative manner throughout 2002 and into 2003.

Important constraints throughout this period have been the lack of human resources in the EC Delegation due to long delays in the replacement of departing advisors with new staff from headquarters.

The NAO’s office has also faced serious staff problems due to loss of qualified staff to better paid jobs elsewhere. This has often happened after the staff in question has received extensive training.

The strained political relations between the EU and the Government of Zimbabwe meant that no policy dialogue has been possible particularly in 2002 except in the humanitarian field. This lack of dialogue has impacted negatively on the policy environment in which EC projects, particularly in the health and education sectors continue to be carried out. However, the good cooperation on the working level between the EC Delegation in Harare, the NAO and officials in the Ministries of Health and Education have ensured that the problems of implementation have been overcome.

The worsening social and economic crisis has also impacted severely on the implementation of projects particularly in 2002 when hyperinflation and the fixed exchange rate between the Zimbabwean Dollar and the Euro seriously depleted the value of EU funds. Various measures were taken to combat this situation, including efforts to

ensure maximum spending in the form of Euro outside the country for project items such as essential medicines and the negotiation of a better exchange rate with the banks.

The impact of the ongoing HIV/AIDS crisis is felt in all walks of life as staff and project holders have to assume extensive responsibilities for their family and communities who are affected resulting in less availability for project implementation.



## **JOINT ANNUAL REVIEW OF EC – ZIMBABWE CO-OPERATION IN 2001 AND 2002**

### **REPORT OF THE NATIONAL AUTHORIZING OFFICER AND THE EUROPEAN COMMISSION HEAD OF DELEGATION**

#### **CONCLUSIONS**

##### ***Policy Agenda***

In 2001 and 2002 the policy agenda of Zimbabwe increasingly reflected the worsening economic situation in the country. This was evident both in the economic policy where the Government introduced fiscal and monetary reforms as well as price controls/freezes, and in the social sectors, which struggled with decreasing allocations in real terms, loss of donor funding and deteriorating infrastructure. The agricultural sector was severely affected by both climatic difficulties and other difficulties, which combined to bring about a 40% decrease in agricultural capacity in the period under review.

In February 2003 the Government introduced the National Economic Revival Programme (NERP) containing an exchange rate adjustment, reviews of interest rates, price controls and fuel etc., provision of subsidized credit to productive sectors and other sectoral initiatives to revive the economy.

##### ***Zimbabwe – EU relations***

In March 2001 Zimbabwe and the EU agreed to launch political consultations under Article 8 of the Cotonou Agreement. Due to the lack of progress under Article 8, on October 29, 2001, the EU decided to launch further consultations with Zimbabwe under Article 96. The EU focused on five areas of concern: political violence, freedom of media, independence of judiciary, illegal occupation of properties, free and fair elections and election observation. The Government of Zimbabwe was requested to take urgent remedial measures in these areas.

The Zimbabwean authorities expressed a willingness to go some way to meeting EU concerns and stressed that land was a core historic problem that the Cotonou Agreement brings mutual obligations. Its concerns also included what it saw as interference into the internal affairs of the country by some Member States of the EU through alleged funding of the opposition, the broadcast of hostile propaganda from their territories, and selective condemnation of acts of political violence.

Following a worsening of the political violence and other problems in the run up to the Presidential election in 2002 the EU General Affairs Council (GAC) on February 18, 2002 decided to end consultations under Article 96 and suspend development cooperation under the Cotonou Agreement except for that which is in direct support to the population (especially within the social sectors). A travel and assets freeze was also imposed on some members of the GOZ together with a ban on the sale of military equipment.

This was renewed and extended to all members of the ZANU PF politburo in July and September 2002 for a further 6-month period.

Zimbabwe considered that consultations under Article 8 had not been given a proper chance and moved to declare a dispute under Article 98.

### ***Economic and Social Situation***

By December 2001 inflation had risen to 112.1%, in December 2002 it was at 198.9%, and in April 2003 the inflation rate was 269.2%. The economy declined increasingly: by 8.4% in 2001, 12% in 2002 and the estimated decline in 2003 is 20%. The welfare of Zimbabwe's population is under increasing pressure from HIV/AIDS, a decline in disposable incomes and decreasing real spending on social sectors. The 2002 UNAIDS sentinel survey showed an overall national HIV prevalence of 35% (of the adult population) and meanwhile the vacancy rate for doctors and nurses in the public sector in 2002 was 55% and 31% respectively.

In April 2003 the inflation rate reached a high of 269.2% and the market-determined parallel exchange rate rose to ZWD2000 to 1USD in May 2003. Shortages of foreign currency brought about widespread shortages of fuel, coal, cement etc.

### ***Exchange rate issue***

During 2001 the parallel exchange rate increased from ZWD72 (to 1USD) to ZWD345 and during 2002 from ZWD322 to ZWD1400. During this time the official (and legal) exchange rate remained at ZWD55. The EU projects therefore suffered extensively under the continued exchange of EDF funds at the official exchange rate, which eroded the real value of the allocated funds. At the end of 2002 the Delegation obtained a better exchange rate, which improved the situation. The exchange rate used by the Delegation has been further improved in the beginning of 2003.

### ***Restructuring of the EDF Portfolio following Suspension of Cooperation.***

Following the GAC decision on February 18, 2002, the EC Delegation and the NAO were faced with the task of restructuring the EDF portfolio towards "direct support of the population of Zimbabwe" especially in the social sectors. After thorough examination of all the existing projects the outcome of the restructuring exercise was that the health, education, micro-projects and decentralized co-operation programs would be maintained, although the capacity-building and policy reform components of the health and education programs would be suspended. The Agricultural Services and Management Programme (ASMP) was discontinued.

As a result of the restructuring approximately € 18 million was identified as becoming rapidly available for re-commitment to extensions of existing projects or for new projects. Additional funds would also be released later on conclusion of decommitment processes and closure of projects under the 6th and 7<sup>th</sup> EDF.

### ***Programmes and Projects***

The Health Sector Support Programmes (HSSP) I and II were re-oriented towards the supply of essential drugs, supplies etc and procurement for the National Blood Transfusion Service. The procurement of drugs was supported by a contract for technical assistance to the National Pharmaceutical Corporation in order to monitor and strengthen distribution of drugs. At the end of 2002 3.4 mio. Euro had been spent on HSSP I and 780,000 Euro on HSSP II.

The Education Transition and Reform Programme (ETRP) mainly undertook recruitment and training as well as school disbursement grants to 284 schools. Due to the escalating prices the funds disbursed were not enough to cover the needs of the children. At the end of 2002 800,000 Euro had been spent on ETRP.

During the two years the Microproject Programmes approved and funded 438 projects under the 11<sup>th</sup> MPP and 362 under the 12<sup>th</sup> MPP. The projects are in the areas of rural development, health and education. Implementation of some projects suffered due to the hyper-inflationary environment. Some projects had to be scaled down due to shortage of funds or inputs. At the end of 2002 the situation was improved by the use of a new exchange rate and the approval of the rider to the Financing Agreement.

The Decentralised Cooperation Programme carried out needs identification exercise, developed various frameworks, carried out promotional activities and implemented ten projects in the areas of food security, urban development and education. The programme is actively committed to seeking ways to introduce components to help mitigate the impact of HIV/AIDS on communities and increase linkages with organizations implementing awareness programmes.

### ***Humanitarian Assistance***

During 2001 ECHO provided 500,000 Euro (through German NGO HELP) for the emergency relief programme for flood victims in Chimanimani district following Cyclone Eline. Commitments for food and non food (mainly inputs such as seed and fertilizer) projects for 2002/2003 total 79.5 million Euro. During 2002/2003 the European Commission has pledged 52.5 mio. Euro through WFP, 10.8 mio. Euro through Europe-aid and 15.5 mio. Euro through ECHO. The commitments have been for food and non-food projects.

The mobilization and distribution of the significant quantities of food and other aid for Zimbabwe has been achieved despite a number of logistical as well as bureaucratic difficulties. There have been considerable delays in acquiring the relevant import certifications from the Zimbabwe authorities and in the registration of international NGOs. Once in country secondary transport to distribution centres has been affected by the on-going fuel supply crisis.

### ***Programming perspective for the following years***

All projects under the 6<sup>th</sup> and 7<sup>th</sup> EDF are expected to be closed by December 2003. The funds made available through the 2002 restructuring exercise and uncommitted balances from the 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> EDF amount to approximately 18 million Euros. Furthermore, there remain 2.4 million Euros from STABEX 94 and 15.4 million Euros from STABEX 1995.

The EC Delegation and the NAO have, in accordance with the Council Decision of 18 February 2002, agreed that these funds should mainly be used for:

- Renewal of the Decentralised Cooperation and Micro Project Programmes
- Possible support for the Zimbabwean Parliament in cooperation with UNDP.
- Unforeseen additional needs in the health sector.

- Funds for feasibility studies and improvement of the capacity to implement EDF projects.
- Funds for capacity-building support for the private sector and other non-state actors in preparation for the EPA negotiations.

***First Trial Review – Specific issues***

The Country Strategy Paper (CSP) programming process in Zimbabwe commenced in September 2000 and was completed in agreement with both the Commission and the Government of Zimbabwe in July 2001. It was characterized by intensive dialogue between the Commission, the NAO, the Member States and other major donors and by the participation of non-state actors grouped under the Non-State Actors Forum. Unfortunately, due to deteriorating relations between Zimbabwe and the EU, the CSP was never discussed by the EU Member States in the Framework of the European Development Committee and therefore never approved and adopted.

The ongoing dialogue in 2000 and 2001 between the EC Delegation and the NAO has been generally very satisfactory. However, the NAO's office is seriously constrained by loss of qualified staff. The EC Delegation has also been affected by lack of human resources during this period due to long delays in the replacement of departing advisors. The worsening social and economic crisis has impacted severely on the implementation of projects and so has the HIV/AIDS crisis, which affects all levels of staff, stakeholders and communities, resulting in less capacity and availability for project implementation.

*Signed*

NICK NCUBE

National Authorising Officer

*Signed*

CLODAGH O'BRIEN

Chargé d'Affaires