TABLE OF CONTENTS

VISION

"To build a sustainable developmental State through the medium of a dynamic and stable economy."

Operational Objectives

As stated in STERP, "Our Vision of the house we are constructing is an inclusive, sustainable developmental Zimbabwe that is based on participatory democracy".

In this regard, the operational objectives of the Inclusive Government as clearly enunciated in STERP are:

- *The creation of a responsive, yet efficient State that uses redistributive mechanisms, social rights, while maintaining social development;*
- *Building of a strong economy, using market principles with careful State interventions to advance social protection and justice;*
- *Establishment of a participatory political democracy through the new people driven Constitution and the rebuilding of fundamental democratic institutions in our country.*

PREFACE

Since the formation of the Inclusive Government in February 2009 and the launch of the Short Term Emergency Recovery Programme (STERP) as its economic blue print in March 2009, a number of achievements have been made in the economic domain, particularly, in achieving some macro-economic stability.

However, notwithstanding these developments, our economy, for the past decade has withstood a number of socio-politico-economic challenges that have not been fully resolved under STERP. These challenges are, however, not insurmountable. Hence, the need for great resolve and commitment on the part of Government and the country at large to unite in the face of these challenges.

It is through this commitment to reform that the Inclusive Government has managed to stabilise the macro-economic environment. However, the challenge in going forward is to anchor sustained growth and development on the macro-economic stability that has been achieved to date. This will be done through increased production in the agriculture, mining, manufacturing and other key sectors of the economy.

In this regard, Government has formulated a successor policy to STERP, the Three Year Macro-Economic Policy and Budget

Framework, which will build on the macro-economic stability attained under STERP, to achieve a robust economy necessary for the socio-economic transformation of our people over the next three years to 2012.

For this Policy Framework to succeed, it is of paramount importance that the Unity of the Inclusive Government is preserved and sustained, in the interest of our people, whom we serve. For it is only through Unity of purpose that we can defend the gains of our Independence, and chart our destiny as an Independent and Sovereign State.

I commend this document to the people of Zimbabwe.

His Excellency, R.G. Mugabe

PRESIDENT OF THE REPUBLIC OF ZIMBABWE

FOREWORD & ACKNOWLEDGEMENTS

The challenge on African leaders and policy makers is that of transformation of small dual, enclave, gate-keeping economies into structurally sustainable vibrant economies that are developmental, equitable, growth oriented and more decisively, that are technologically functional.

Indeed, the imperator is to develop an economy that is responsive and cognisant of the huge seas of poverty, unemployment, inequality and downright deprivation.

The lessons of the past forty years of Africa's independence are that economic transformation alone is a hollow slogan unless anchored in a new institutional architecture founded on live Constitutions, strong institutions, entrenched democracy, a vibrant press, an independent Judiciary, and most importantly, a strong civic society in respect of which strong trade unions and business associations are dominant.

It was on the appreciation of the above, that the Inclusive Government launched the Short Term Emergency Recovery Programme (STERP), as an economic imperator under the Global Political Agreement (GPA) signed on 15 September 2008.

STERP, therefore, became the policy instrument used by the Government to tackle the transformative challenge raised above.

STERP was a nine months programme to December 2009 focusing on political & governance issues, social protection programmes, supply side reforms, and macro-economic reforms.

The short-term nature of STERP meant that some programmes and projects would not be fully implemented within the time frame of nine months. Hence, continuation of all such programmes beyond 2009 was implied from the onset in their design, resource requirements and implementation scope.

In this regard, at its meeting in Nyanga in August 2009, Government took the decision to develop two critical policy documents to succeed STERP – the Three Year Macro-Economic Policy and Budget Framework and the Medium Term Development Plan.

The Three Year Macro-Economic Policy and Budget Framework will lay out macro-economic policy instruments that will anchor the rolling budget for the years 2010 – 2012, whilst the Medium Term Plan will deal with broad developmental and growth oriented policies. The Framework, therefore, bridges the gap between STERP and the Medium Term Plan, which is under formulation.

This policy framework is anchored on the need to move the country's economic reforms beyond STERP's macro-economic stabilisation agenda towards a sustainable rapid growth and developmental mode. The Framework's Vision is to create a dynamic and functional economy that is anchored on macro-economic stability, which is promotive of inclusive growth and development.

Broadly, the three Year Macro-Economic Policy and Budget Framework is a structural and social transformative policy framework, aimed at ensuring that the socio-economic status of our people, particularly the marginalised citizens achieve higher standards of living.

The formulation of this Macro-Economic Policy Framework benefited immensely from various submissions from line Ministries and other stakeholders. The Three Year Macro-Economic Policy and Budget Framework addresses the challenges and unfinished agenda of STERP and other sector specific salient issues key for economic growth and development.

The main objective of the Three Year Macro-Economic Policy and Budget Framework, therefore, is to lay out an approach to managing the country's economy for the next three years, underpinned by the economic stability founded on the principles of STERP.

Furthermore, the Three Year Macro-Economic Policy and Budget Framework aims at putting in place a future fiscal policy strategy designed to centre itself on promoting public and private investments and expenditures that will accelerate the pace of poverty reduction and the attainment of the Millennium Development Goals (MDGs).

In summary, the objectives of the Three Year Macro-Economic Policy and Budget Framework are:

- Sustaining macro-economic stabilisation and consolidating STERP;
- Support for rapid growth and employment creation;
- Ensuring food security;
- Restoring basic services;
- Encouraging public and private investment;
- Promoting regional integration;
- Restoring basic freedoms; and
- Restoring of international relations.

The critical ingredients for achieving the above objectives are as follows:

- Political will at all levels of Government;

- Commitment by all stakeholders to implement agreed policies; and
- Public ownership & effective participation in the implementation of the Framework agenda.

It is my strong conviction that once these ingredients are in place, we will be able to turn around this economy and indeed rebuild and reposition Zimbabwe to its rightful place within the community of nations.

Lastly, I wish to thank all line Ministries, Government Departments, all stakeholders and co-operating partners and all Zimbabweans, who provided inputs in the formulation of the Policy Framework. I have no doubt that full implementation of programmes and projects contained herein, will lay a firm foundation for the Medium Term Plan, to take the economic growth agenda beyond 2012.

I Thank You.

Hon. T. Biti, MP

Minister of Finance

INTRODUCTION

1. The Three Year Macro-Economic Policy and Budget Framework for the years 2010 – 2012 anchors the three year rolling Budget formulation.

2. It will attend to the outstanding objectives, agenda and commitments of STERP, also embracing other growth-oriented stabilisation measures.

3. The Three Year Macro-Economic Policy and Budget Framework also draws from various sectoral and cluster development strategies, and the development of the 2010 National Budget will benefit from it.

4. Its formulation has been based on the broad priorities and objectives of Government endorsed during the second Ministerial Retreat in Nyanga in August 2009, as well as detailed and comprehensive inputs and submissions thereafter by the respective line Ministries, Government Departments and other stakeholders.

5. These inputs, which took account of relevant lessons from the review of STERP, also included the respective, prioritised and

sequenced measures to be pursued during the Framework period.

6. In this regard, guided by the various submissions from line Ministries and other stakeholders, the Three Year Macro-Economic Policy and Budget Framework indicates challenges which were faced during implementation of STERP and sector specific salient issues to be addressed over the Framework period.

7. The Framework also provides policies and other interventions to be pursued in addressing the attendant challenges under STERP.

8. Indicative human, material, financial and other resource requirements from Government, parastatals, investors, the public, the private sector, as well as co-operating partners are also reflected for effective implementation of prioritised programmes and projects under the Framework.

9. The successful implementation of this Programme will, however, depend on some critical factors such as political will and commitment to agreed policies, public ownership and effective participation in implementation of the Programme, as well as adequate funding of programmes and projects.

10. The Framework also recognises the importance and need for Government to develop a systematic monitoring and evaluation mechanism over the specific, time-framed and sequenced activities, with set targeted deliverables of the various clusters and line Ministries during the period 2010 – 2012.

11. There will also be need for training and capacity building to support line Ministries in the implementation of work programmes.

12. In this regard, targets set for the three years and consolidated into comprehensive work programmes over the priorities of Government have all been linked to the Budget process – critical for accountability, effectiveness and improved co-ordination in the delivery of public services.

13. Also central to the success of this Framework will be the uninterrupted supply of such key enablers as electricity, water, coal, rail network, among others, and these would be given adequate attention and support.

14. The Framework also recognises that effective implementation of Government work programmes will need to be buttressed by

review and enactment of a number of pieces of legislation for submission to Parliament. In this regard, the legislative programme will be accelerated under this Framework.

Framework and Medium Term Plan

15. The Framework lays a foundation for the Medium Term Plan (MTP) and, therefore, must be seen as feeding into the MTP, whose formulation will be based on a broader and more comprehensive stakeholder consultative process.

REVIEW OF STERP

16. The design of the Three Year Macro-Economic Policy and Budget Framework, as well as the development of the Medium Term planning process, draws lessons and experiences from implementation of STERP, which focused on the following key areas:

- Political and Governance Issues;
- Social Protection Programmes;
- Supply Side Reforms;
- Macro-economic Reforms;
- Labour Market and National Employment Policy;
- Utilities, Amenities and Infrastructure.

17. A review of progress in the implementation of the above major pillars of STERP during 2009 has been undertaken. This indicates mixed results, with some progress having been recorded in a number of key areas, and some outstanding issues and challenges requiring further attention during the Framework period.

18. The implementation of STERP had some positive achievements, particularly on the economic front, in such areas as inflation reduction, resuscitation of business activity and subsequent improved supply response, removal of price distortions, improved management of public resources, recovery of basic public services provision, normalisation of financial services, re-engagement with the international community, as well as confidence building.

INFLATION REDUCTION

19. The adoption of the prevailing system of stable multiple currencies in domestic financial transactions helped ease inflationary pressures in the economy.

20. Since the adoption of the multiple currency system in January 2009, the general price level has been following a downward

trend, largely reflecting the self correction of prices and increased availability of commodities.

21. This instantly plugged inflation arising out of money printing in support of quasi fiscal operations, self fulfilling expectations, arbitrage opportunities and other rent seeking behaviours.

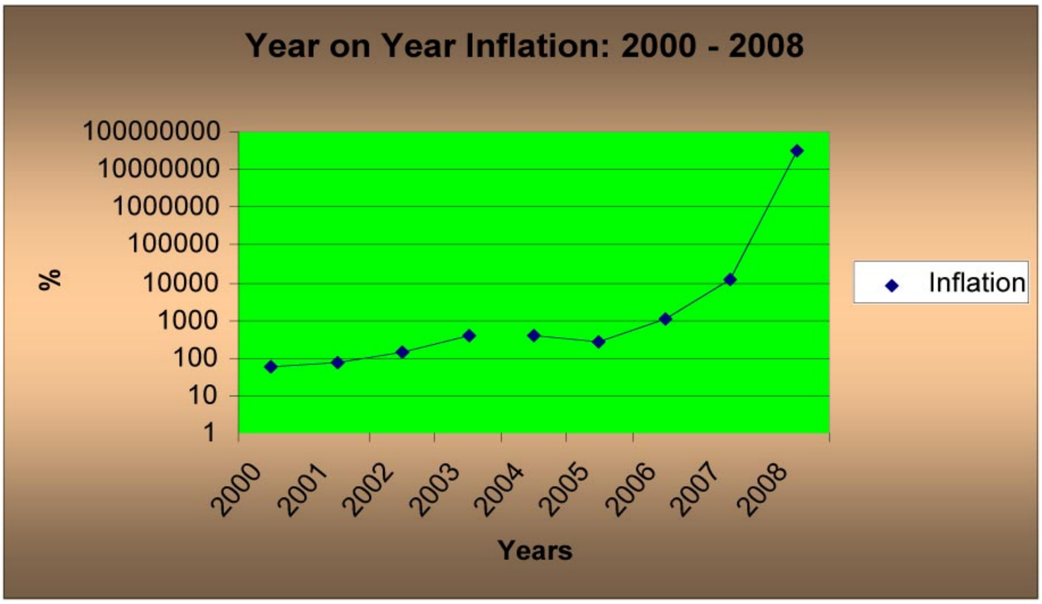
22. This, coupled with other liberalisation measures, also removed price distortions in the goods and foreign exchange markets, which nurtured speculative dealings at the expense of production.

23. The introduction of cash budgeting, which meant that Government had to operate within the available resource envelope, automatically restrained all expenditure overruns.

24. Dampening of inflationary pressures also benefited from improved supply of goods in the formal market, against the background of extension of duty concessions on imported basic commodities. The relaxation of import duties also served to raise competition over the domestic market, that way managing some of the pre-STERP speculative pricing tendencies.

25. As a result, inflation, which had reached recorded peaks of hyper-inflationary levels of 231 million percent by July 2008,

decelerated to deflationary levels, averaging -2% for the first five months to May 2009.

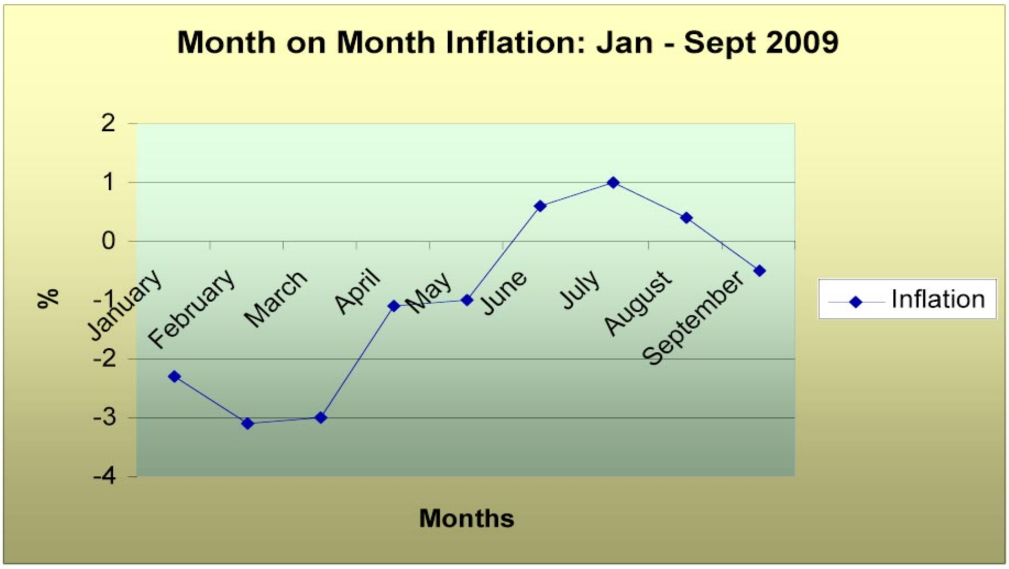


26. However, the rate at which prices had been declining slowed down and prices begun trending upwards, recording 0.6% and 1% in June and July 2009, respectively, before decelerating to 0.4% in August 2009.

27. The upturn in monthly inflation levels over June to August 2009 largely reflected reviews in education and housing services, as well as fuel and petroleum products, which also impacted on transport costs.

28. The month of September 2009, however, experienced deflation,

with prices falling by -0.5%. To year end, a stable price level is expected to prevail in the economy with the annual average inflation for 2009 expected to be 6%.



29. Price stability should also benefit from sustained increase in capacity utilisation by local industries, as well as improved general confidence in the economy. This should offset negative tendencies posed by continued instability in world oil prices.

30. The success attained in containing inflation[1] to single digit levels also complies with the SADC Macro-economic Convergence targets for Member States.

[1]See Table 3: Monthly inflation in SADC During 2009

31. Previously, Zimbabwe's macro-economic fundamentals were not consistent with the following SADC countries' broad macro-economic convergence indicators:

- Reducing inflation to single digit levels;
- Achieving a budget deficit of less that 5% of GDP;
- Reducing public debt to below 60% of GDP;
- Maintaining a current account deficit of less than 9% of GDP.

32. Overall, the single digit inflation levels experienced under STERP facilitated the prevalent onset of a more conducive business environment which allows for forward planning, improved savings and investment.

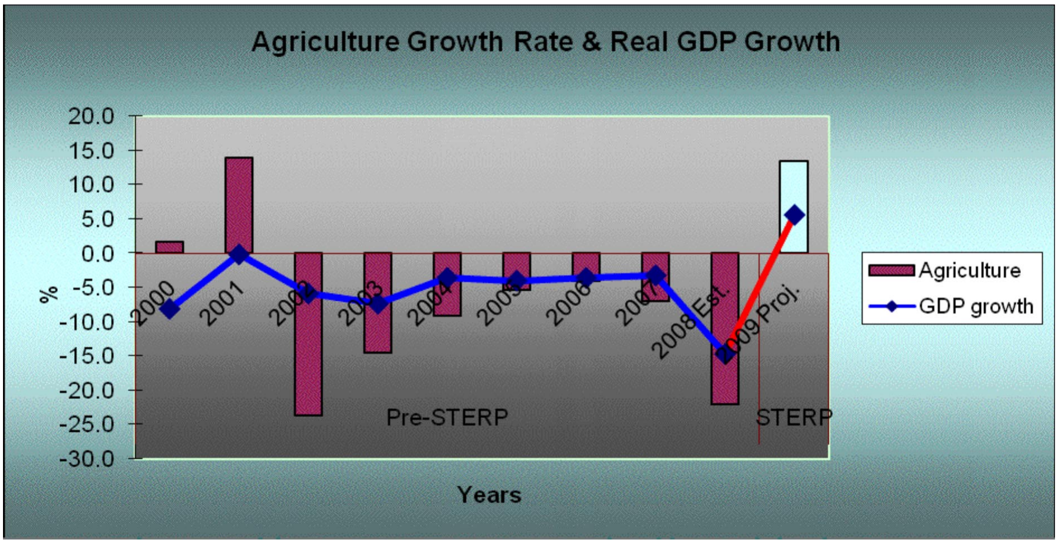
33. It, therefore, remains critical that the Three Year Macro-Economic Policy and Budget Framework consolidates the positive STERP gains on the inflation front.

34. Redress of some of the STERP challenges related to the pricing of utilities and public services, such as water, electricity, housing, transport and education, complemented by deepening of the liberalised environment, will also be necessary.

AGRICULTURE

35. In agriculture, the liberalisation measures which are meant to enhance viability of farming have also become a stimulus and empowerment factor for small scale farmers, as already witnessed in the tobacco sub-sector.

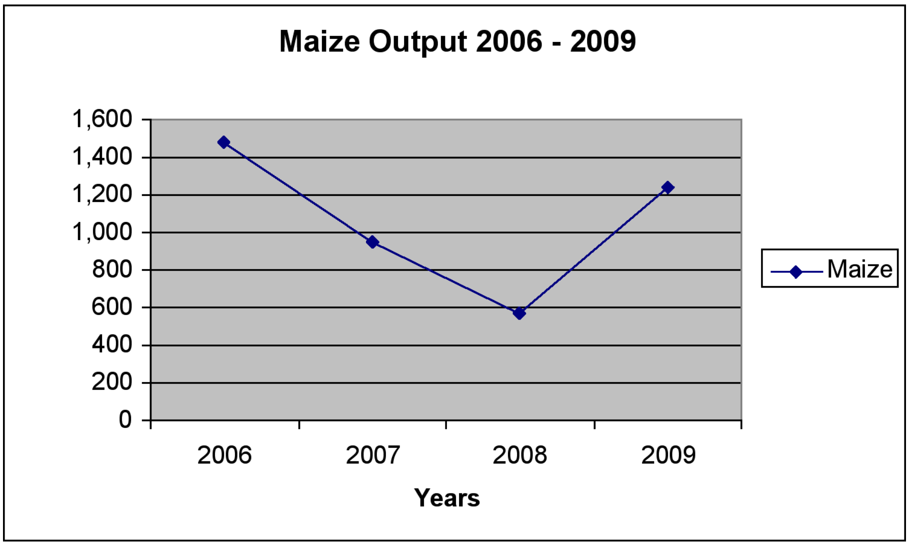
36. Over and above this, STERP embraced other critical areas necessary for turning around the agriculture sector, which persistently recorded negative growth rates during 2000 – 2008.



37. These include the land audit, addressing the security of tenure, arresting further farm disruptions and putting in place market based funding arrangements for agriculture, targeted at achieving agricultural annual growth rates of above 20%.

Maize

38. A total of 1.2 million tons of maize is estimated to have been produced from the 1.5 million ha planted in the 2008/09 season, compared to outputs of 0.953 million tons and 0.575 million during the 2006/07 and 2007/08 seasons.



39. The improved production is largely on account of a good 2008/09 rainfall season, Government support, financing through contract farming and the support received from some co-operating partners, including SADC.

40. These interventions culminated in the provision of critical inputs, such as seed and fertilizers, targeting particularly the smallholder farmers and some A2 farmers under the Champion Farmer Programme.

Tobacco

41. A total of 56.5 million kgs of tobacco went through the auction floors, realising over US$168 million at an average price of US$3.02/kg between April and August 2009.

42. The 100% retention of tobacco proceeds by farmers, under STERP's liberalised agricultural marketing framework, meant that all this income directly benefitted farmers.

43. Of this year's tobacco sales, contract farming accounted for 39 million kgs sold for US$119.6 million, while 15.7 million kgs valued at US$45.3 million was produced under individual farmer initiatives.

44. Tobacco sales during 2009 also benefitted from last year's carry-over stocks of 16 million kgs withheld and retained by farmers. This was on account of the then unrealistic official exchange rate regime, coupled with forced foreign exchange surrender requirements, all which meant selling at heavy losses.

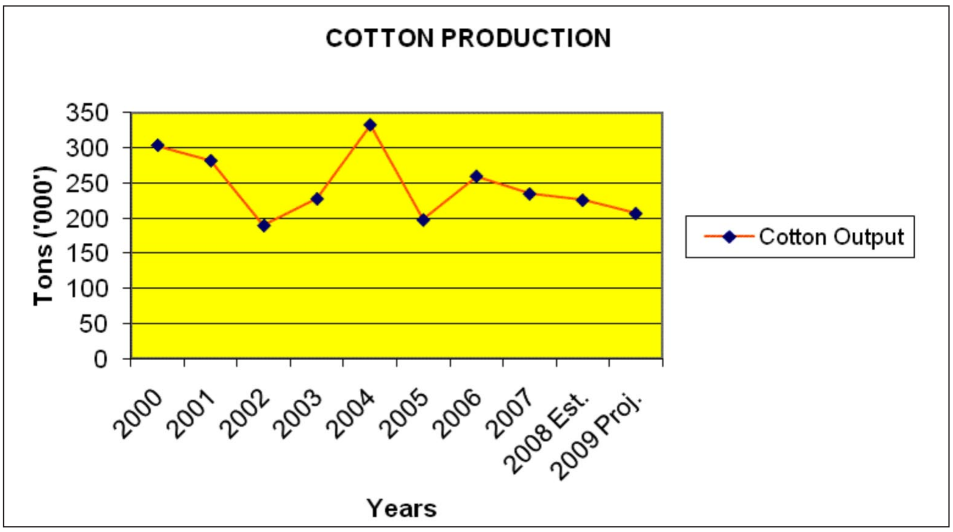
45. The higher rates of return realised by tobacco farmers during 2009, coupled with financial support from the market, offer positive prospects for increased tobacco production in 2009/2010.

46. Already, indications are that a total of 65 000 ha are being put under tobacco for the coming season, with 30 000 ha under contract farming, 20 000 ha by A2 farmers, and 15 000 ha being small scale growers under the TIMB and Agribank scheme. These efforts should raise tobacco output to 75 million kgs.

Cotton

47. In line with the decline in the cotton hectarage during the 2008/09 season to 337 671 ha from 431 131 ha in the previous season, this year's cotton production is estimated to have fallen to 210 081 tons from 241 711 tons in 2008.

48. This decline is associated with the pre-STERP history of poor earnings realised by cotton growers, which forced a significant number to scale down on plantings.



49. Furthermore, rising incidences of side marketing are compromising farming contract merchants' capacity to enhance input support programmes.

50. However, cotton production is expected to record an increase of 20% in the 2009/10 season. This increase is based on the amount of cotton seed already purchased which is enough to realise 250 000 tons of cotton.

51. The increase in capacity utilisation in spinning and weaving should also improve prospects for cotton farmers' incomes and support for improved growth of the cotton industry.

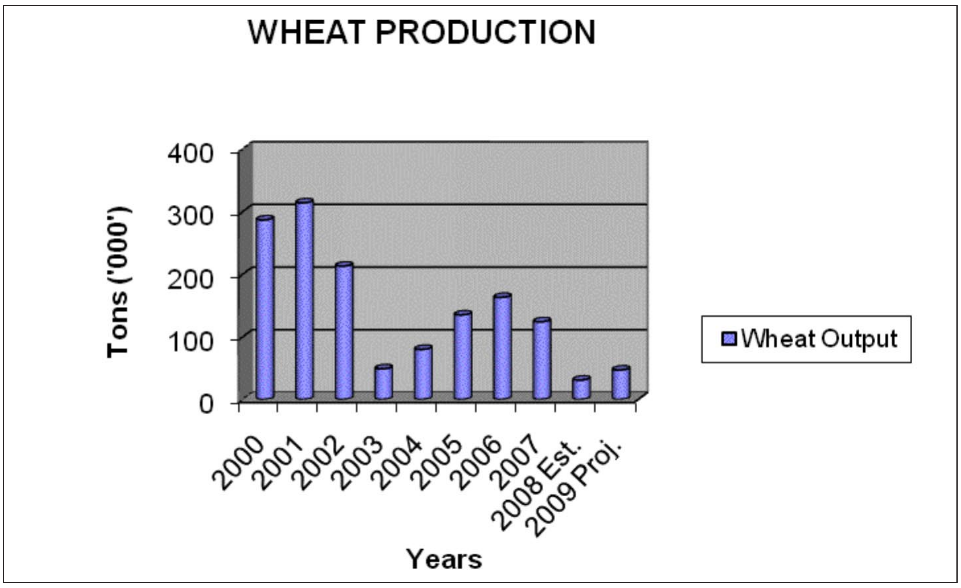
52. The new framework to regulate cotton production and marketing should also ensure fair trade practices, including enforcement of grading standards, as well as that all contractors adequately finance crop production during the coming season.

53. Requirements that contracted seed cotton shall not be purchased by any other person other than the contractor to whom the grower is contracted should overcome challenges related to side marketing.

Wheat

54. The 2008/09 winter wheat season produced only 48 000 tons of the targeted 100 000 tons of wheat. This was against the background of inadequate resources in support of the targeted wheat production in the transition to multiple currencies under STERP. Of this wheat crop, the GMB targets to procure 28 000 tons.

55. During this period, wheat farmers reliant on expensive winter irrigation programmes also found themselves incapacitated and ill-prepared to finance their cropping requirements.



56. Better resourcing and preparedness in coming seasons should support improved hectarages under winter wheat as part of the strategy towards realising the Nation's wheat self sufficiency thresholds of 450 000 tons.

Sugar

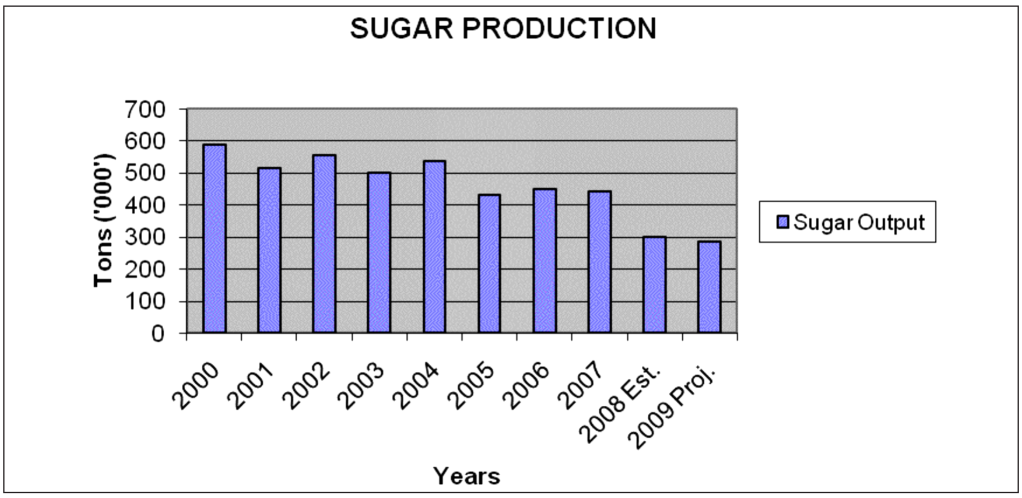
57. Sugar production remained subdued in 2009 as 286 000 tons were produced against 298 000 tons in 2008.

58. The decline was against a number of challenges, which included dilapidated irrigation equipment and labour shortages at Hippo Valley and Triangle.

59. On the milling side, depleted transport fleet to carry sugar cane to the mills, coupled with poor coal and intermittent electricity supplies also undermined sugar production.

60. New investments in plant and machinery, as well as cane transport fleet, at Triangle and Hippo Valley should overcome these challenges.

61. Hence, sugar production is expected to increase to 300 000 tons in 2010, and further to around 600 000 tons by the end of the Framework period.



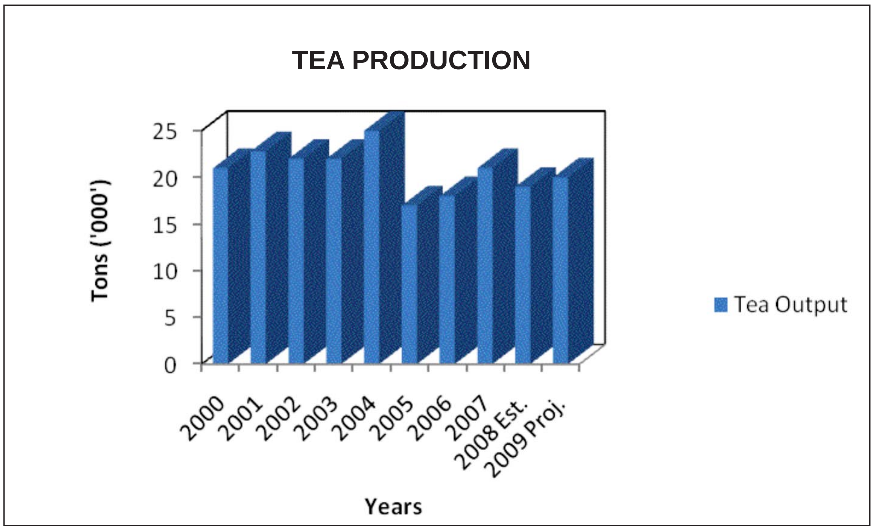
Tea

62. Tea production is expected to record a growth of over 5% from 19 000 tons in 2008 to 20 000 tons in 2009, boosted by investments being undertaken in tea growing in the country.

63. These include a six year programme to develop and supply 3 000 ha of land with up to 2 million plants annually from nurseries dedicated to smallholder tea production.

64. Furthermore, the Agricultural Rural Development Authority (ARDA) has secured a deal with Eastern Highlands Tea Estates under Rehabilitate-Operate terms for Katiyo Tea Estates.

65. Initially, a total of 700 ha will be placed under tea. This hectarage will be doubled over the coming 18 to 24 months.

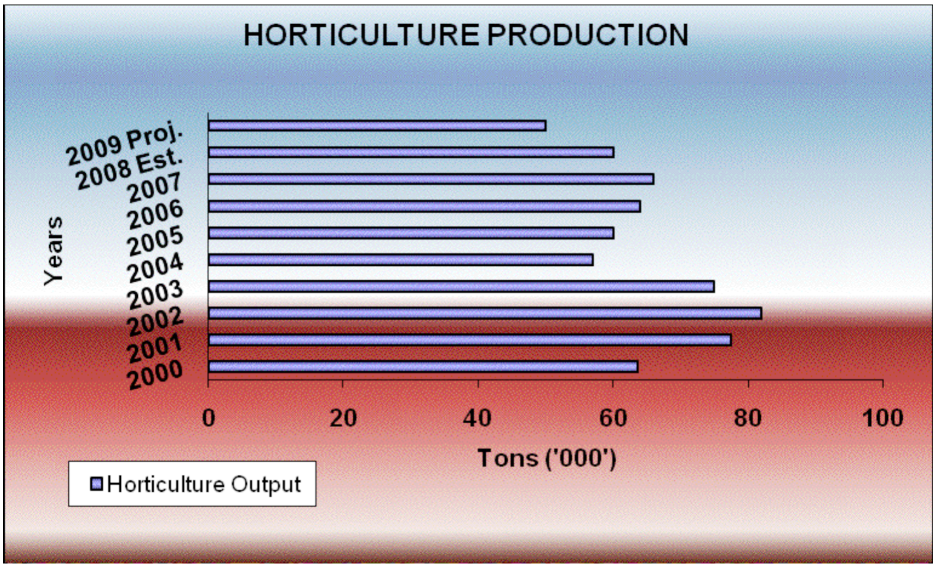


Horticulture

66. Horticulture production declined from 60 000 tons in 2008 to 50 000 tons in 2009, with power outages and changing weather patterns compounding farming problems.

67. Furthermore, this decline is also attributed to the high cost of inputs, against the background of the 30% fall in international market prices of horticultural commodities following the global financial crisis.

68. However, the sector is expected to recover in 2010 due to anticipated recovery of international prices, the refurbishment of destroyed infrastructure, as well as expansions into new markets.

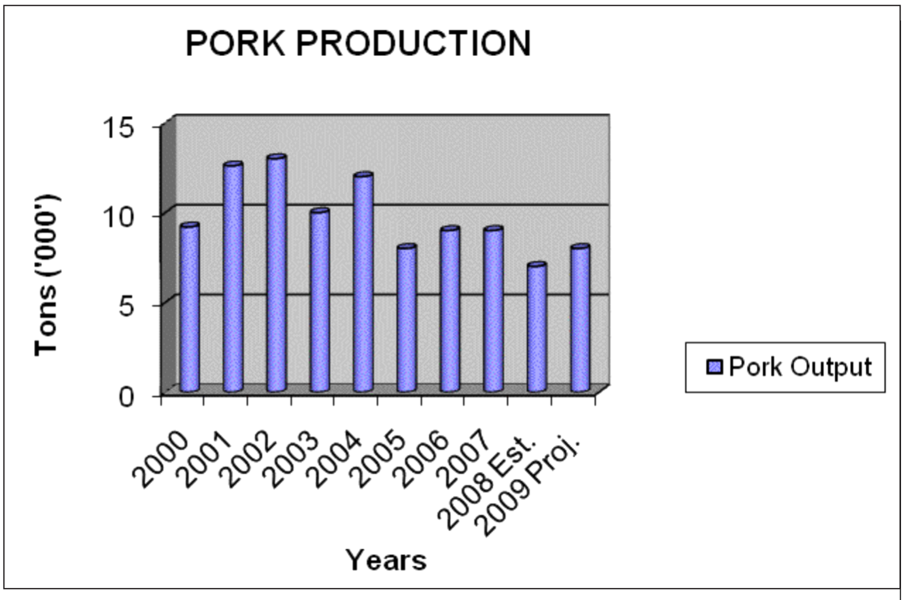


Pork

69. Notwithstanding producers cutting down on their stock due to viability problems, pork production increased from 7 000 tons in 2008 to 8 000 tons in 2009.

70. Pork production is expected to further improve to 9 000 tons in 2010, benefiting from out-grower schemes meant to rebuild the pig herd to optimum levels of around 18 000 tons.

71. This will be achieved through supplying breeding stock and feeds to some targeted 600 smallholder farmers.



Payments to Grain Farmers

72. Government interventions in support of payments to farmers for grain deliveries through the GMB have enabled the GMB to pay US$18.9 million for 51 694 tons of maize and 8 469 tons of wheat delivered to its depots.

73. This intervention was in response to market failures to adequately support farmers market their agricultural produce, a development which would have compromised their ability to plan for the forthcoming season.

74. To avoid this, adequate arrangements have now been put in place to ensure that farmers who deliver grain, including maize, sorghum, wheat, groundnuts and other grains will be paid within 10 working days from the date of delivery.

75. Prompt payments to farmers not only inject money into the rural areas which stimulates activity, but also are an incentive for continued grain production which is critical for food security at both household and national levels.

76. The grain purchased by the GMB under this arrangement and through Government intervention, will be held as part of the National Strategic Grain Reserves.

Inputs Schemes

77. A key undertaking by Government in STERP has been the inculcation of a culture that shifts away from free input handouts in favour of guaranteed availability of inputs for purchase in the open market throughout the country, allowing for farmers' forward planning on land preparations and crop planting programmes.

78. Consistent with this principle, critical actions necessary for better coordination and timely preparation for the 2009/2010 summer cropping season were taken.

Requirements

79. Assessments of summer input requirements, also taking account of absorptive capacity, indicate optimal requirements for grain production at 400 000 - 600 000 tons for fertilizers and 50 000 - 55 000 tons for seed.

Facilities

80. Government, working closely with banks and input suppliers, facilitated farmers' access to seeds and fertilizers on credit through the GMB countrywide 84 depot network.

81. The first Input Scheme unveiled in early August 2009 was triggered off by the provision of a US$10 million payment by Government, against which 2 695 tons of maize and sorghum seed and 9 222 tons of fertilizers were delivered.

82. Availability of inputs to the farmers was augmented by an additional window arranged by Government through the domestic financial system in partnership with local seed houses and fertilizer manufacturers.

83. This guaranteed the supply of 12 000 tons of seed maize and 53 200 tons of fertilizers, all valued at US$55.5 million. Of the fertilizers, 25 000 tons were Compound D, 13 200 tons AN and 15 000 tons, Compound C.

Subsidy Window for Communal and A1 farmers

84. Cognisant of the need to assist 585 000 farmers not covered by development co-operating partners under a facility co-ordinated through the FAO, Government put in place a 75% subsidised input loan scheme, with repayments after harvest.

85. Under this window, eligible communal farmers pay 25% of the unit price, with individual quantities limited to 10 kgs of seed, 100 kgs of compound D and 100 kgs of AN.

86. Government’s US$45 million commitment towards this is enabling the supply of 5 000 tons of seed maize, 50 tons of sorghum seed, 29 000 tons each for Compound D and AN fertilizers through facilitation by local fertilizer companies and seed houses.

FAO Smallholder Input Support

87. Over and above this, support from co-operating partners had resulted in the mobilisation of resources worth US$74.8 million to benefit 742 000 smallholder households against a target of 800 000 households under the humanitarian food security programme.

88. Under this scheme, inputs secured include 12 000 tons of Compound D, 38 000 tons of AN, and 6 150 tons of seed maize, 1 115 tons of legumes and 818 tons of sorghum.

Open Market Sales

89. Indications are that local inputs suppliers are marketing close to 200 000 tons of fertilizers and 26 000 tons of seed directly through the traditional agricultural stockists and retailers.

90. This, coupled with interventions by Government and co-operating partners, should make available significant quantities of fertilizers and seed, which will be complemented by carry-over stocks from previous seasons and imports by individuals.

MANUFACTURING

91. One of the key objectives of STERP was to resuscitate manufacturing activity, and increase capacity utilisation levels from below 10% to over 60% by the end of the programme.

92. The resuscitation was premised on securing financial credit facilities for the importation of raw materials, re-tooling, among others.

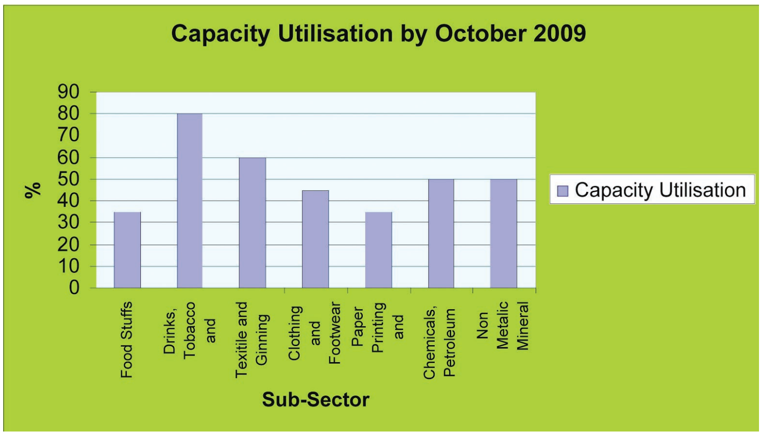
93. In this regard, the recovery of bank deposits from US$200 million in February to over US$1 billion by end of October 2009 also enabled banks to begin lending to the productive sectors of the economy, that way supporting the resuscitation of local production.

94. Total lending to the productive sectors amounted to over US$480 million in October 2009, with over US$210 million directly going to the manufacturing and distribution sectors. This will allow the major agro-industrial, edibles and detergent manufacturers to produce at capacities closer to the STERP target of 60%.

95. Already, higher capacity utilisation levels of over 70% are now being realised at some of the beverages, packaging and maltings plants. In this regard, investment in new plant installations, packaging lines and containers should anchor expansion of production capacity.

96. Similarly, capacity utilisation in the tobacco industry has also risen on the back of acquisition of new tobacco processing equipment. These investments were supported by access to lines of credit.

97. In the food industry, capacity utilisation increased to around 30%, mainly on the backdrop of increased domestic demand and a stable macro-economic environment.



98. A growing number of the larger retail chains, buoyed by the wider availability of basic foods and non-food stuffs from local manufacturers, are now resuming selling own branded products which are now readily evident on their outlets' shelves.

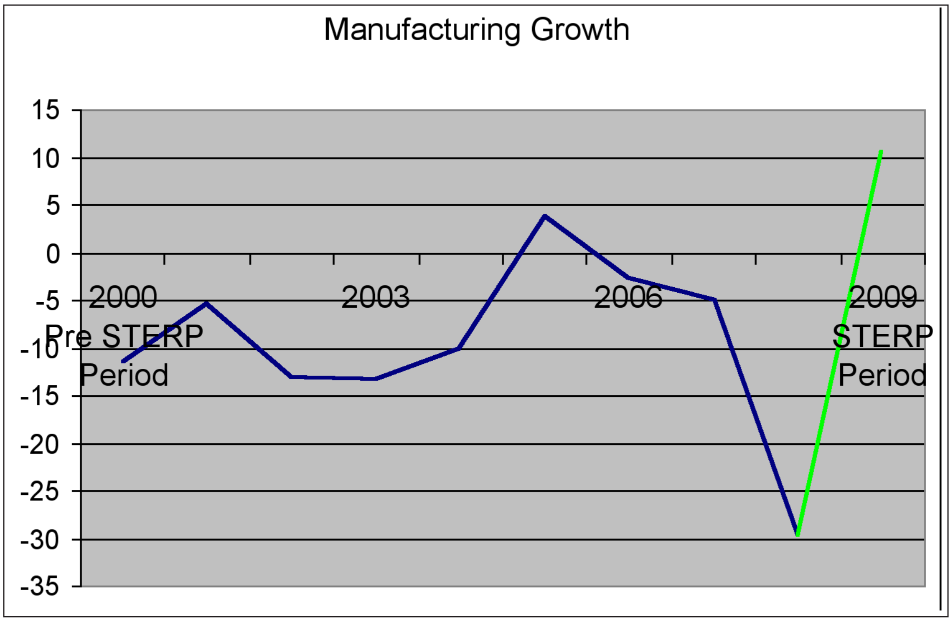
99. Other sub-sectors experiencing notable gains in domestic industrial production include the textile and ginning industry, clothing and footwear, paper printing and publishing, chemicals and petroleum products.

100. Growth of domestic industrial production of goods and services not only boosts domestic incomes of workers which support the generation of domestic demand in the country, but also creates scope for increased capacity and opportunities for exporting.

101. Furthermore, the increase in domestic VAT collections from US$435 578 in February this year to over US$43 million for the month of October 2009 is an indication of increased production by local industries.

102. However, challenges related to obsolete equipment and technology which no longer manufactures products that are in line with prevailing fashion trends continue to undermine clothing and footwear. Similar challenges are being experienced in the non-metallic mineral products where capital investment programmes for upgrading and expanding industrial production capacity remain critical.

103. Overall, the manufacturing sector is projected to grow by 10.5% in 2009, from a negative 29.6% in 2008, underpinned by the liberalisation measures introduced under STERP.



Supply of Goods

104. The above capacity utilisation developments, following the implementation of STERP, show marked improvement in the supply of goods through the formal market.

105. Improved supply of goods also benefited from the introduction of duty concessions on imports of selected basic goods, over and above the stimulating effects of the prevailing stable macro-economic environment.

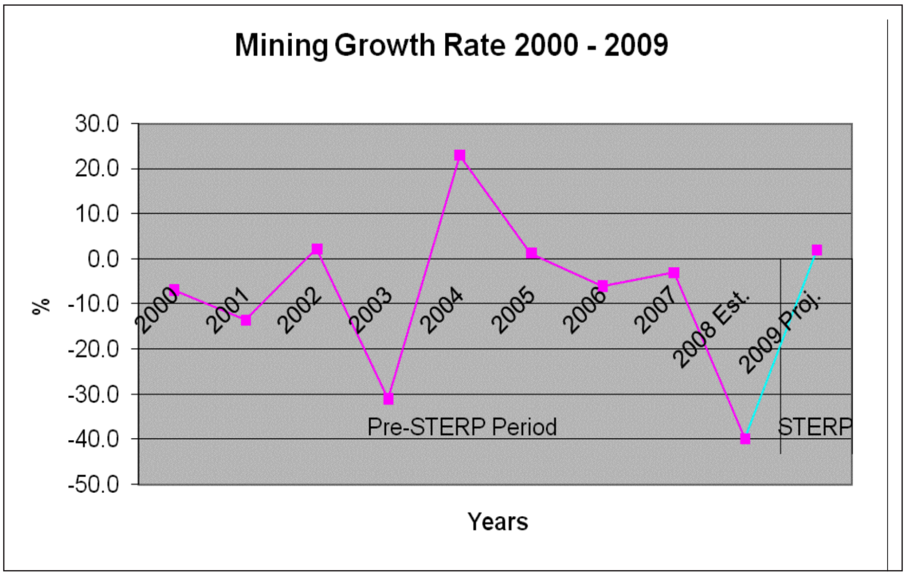
106. While market supply of goods was initially predominantly anchored on imports, local products which were no longer being manufactured have started resurfacing on the market. This is following increased production by some manufacturers as they gradually adapt to foreign competition over the domestic market.

107. Increased domestic industrial capacity utilisation, given the attendant production economies of scale, should see more local products stand their own ground over imported goods in terms of quality as well as competitive pricing.

MINING

108. STERP proposed a number of measures meant to revive the mining sector. These measures include removal of forced surrender requirements, beneficiation and value addition, exploration, a new framework for mining rights, pricing of minerals, among others.

109. As part of implementation of the above, the mining sector is showing signs of recovery. The sector is, therefore, expected to grow by 1.7% in 2009, compared to a decline of -22.1% in 2008.



Gold

110. The country used to be the third largest gold producer in Africa, with a peak production of 27 tons in 1997, which dropped to about 3 tons by 2008.

111. During the first quarter of 2009, no gold deliveries were recorded, as most mines had either closed down or stopped producing, as a result of the unconducive economic environment.

112. However, the launch of STERP liberalisation measures, under which producers are now marketing their own gold, allowed miners to begin to benefit from record high world bullion prices. This, coupled with the removal of surrender requirements, resulted in enhanced viability of gold mining operations and re-opening of closed mines.

113. Gold deliveries, responding to the liberalisation framework, gradually improved from the second quarter of the year.

114. During the first half of 2009, most big mining houses such as Mwana Africa, Metallon, Blanket Mine, the Development Trust of Zimbabwe (DTZ) which had closed in 2008 resumed operations.

115. As a result of issuance of gold dealership licences to DTZ, the Chamber of Mines, the Zimbabwe Gold Miners and Millers Association, Blanket Mine, improved gold deliveries were also recorded from these companies.

116. Furthermore, How Mine and Shamva Mine also resumed production and are currently producing 64 kgs per month, which is equal to 25% of their designed capacity.

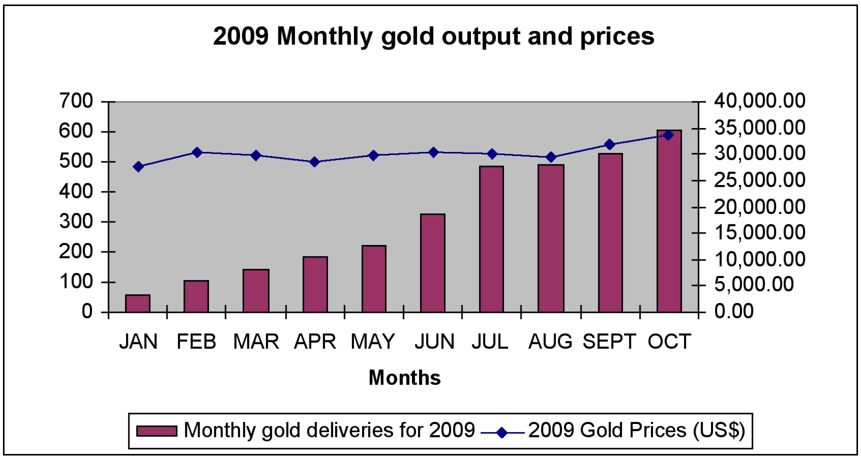
117. In response, gold deliveries improved gradually from 182.9 kgs in April to 603 kgs by October 2009. Deliveries for the nine months April to December 2009 are expected to total 5 tons, compared to 3.1 tons in 2008.

118. In 2010 gold output is expected to increase to 6.4 tons. This is underpinned by injection of over US$8 million into Zimbabwe's

operations by Mwana Africa. The injection by Mwana Africa has enabled Freda Rebecca Mine to complete its first phase of operation in September 2009, with the second phase earmarked for completion in September 2010. As a result, output is expected to increase to 1 600 kgs per annum.

119. Furthermore, Metallon Gold is set to bring on board Acturus Mine in January 2010 and Redwing Mine in June 2010, targeting to produce between 1 600 - 3 200 kgs of gold annually by the end of the year.

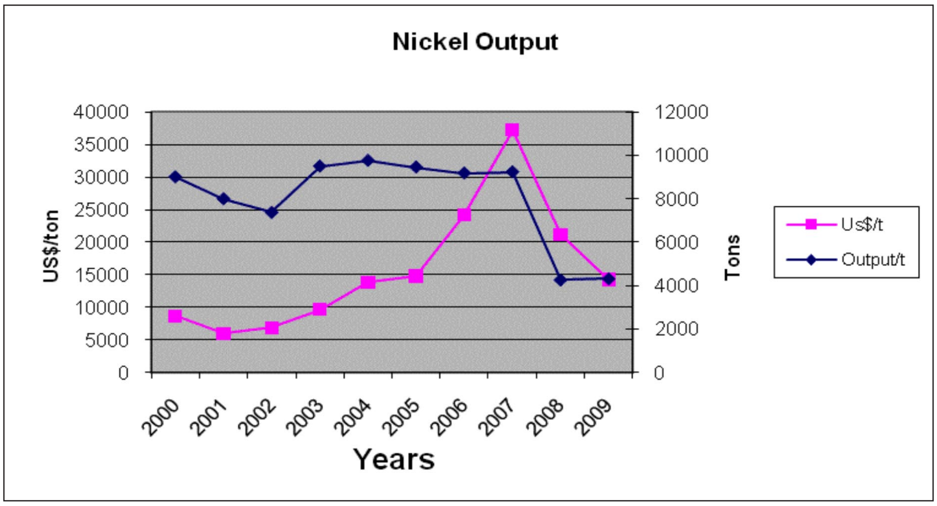
120. In addition to the above factors, the continued firming of gold prices to US$1 043 per ounce by the end of October 2009 and uninterrupted water and electricity supplies should sustain the recovery of gold mining. In October 2008, international market gold prices were US$712 per ounce.



Nickel

121. Despite the conducive macro-economic environment, nickel production remained subdued in 2009. Nickel production has been heavily affected by the world recession, resulting in the giant Bindura Nickel Corporation closing operations towards the end of 2008. As a result, nickel production declined from 6 354 tons in 2008 to 4 324 tons in 2009.

122. However, following the improvement in international prices of nickel, which stood at US$18 468 per ton at the end of October 2009, Bindura Nickel Corporation's Trojan should be able to resume production. As a result, output is, therefore, expected to increase to 6 000 tons in 2010. Nickel prices were US$8 980 per ton towards the end of 2008.



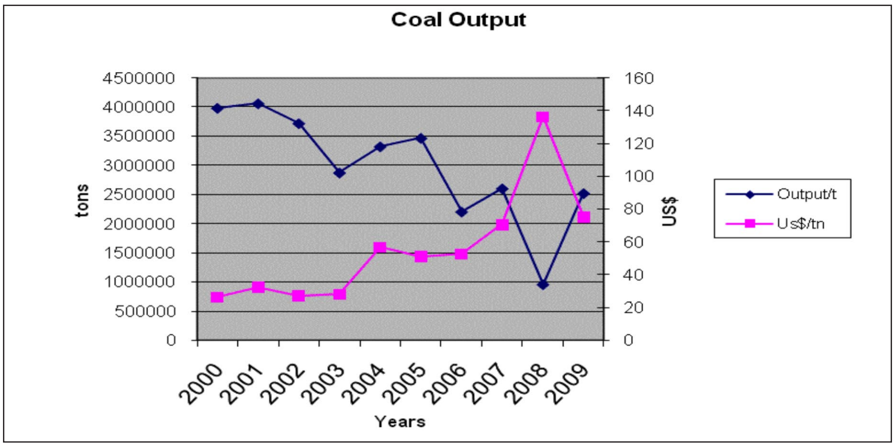
Coal

123. Coal production is currently operating well below its installed capacity. A total of 1.9 million tons is expected to be produced in 2009, from 1.7 million tons in 2008.

124. Supply of coal to date has failed to meet demand as a result of challenges at Hwange Colliery.

125. These have included frequent breakdown of obsolete equipment, including the dragline, loss of critical human resource skills to neighbouring countries and abroad, as well as cashflow problems related to inconsistent payments by some of their customers.

126. Coal mining has, however, begun to benefit from the adoption of cost reflective tariffs, now applicable as part of the STERP liberalisation measures.



Asbestos

127. Asbestos production continues to face viability challenges, largely due to a combination of failure to secure the much needed lines of credit for working capital and operational efficiencies.

128. Production is, therefore, expected to decline from 11 489 tons in 2008 to 5 500 tons in 2009. The outlook for 2010 is also not positive, as production is expected to remain stagnant at 2009 levels.

129. The worldwide campaign against the use of asbestos also continues to cast a dark cloud over global production and long term market availability for the mineral.

Platinum

130. The platinum group of metals has significant growth potential, especially as local mining operations are at relatively shallow depths, compared to operations elsewhere in the world.

131. Platinum production, which had prior to STERP benefitted from preferential operating and marketing arrangements, will increase to 5 600 kgs in 2009 from 5 495 kgs in 2008. The output is set to further increase to 6 500 kgs in 2010.

132. Growth in platinum mining is underpinned by increased investment and expansion programmes by platinum producers. These include a US$10 million offshore line of credit secured by Zimplats, completion of the commissioning process at Zimplats' Ngezi Mine and Mimosa.

133. The opening of Unki Platinum Mine for production, expected in the last quarter of 2010, should also add onto overall platinum production.

Chrome

134. Chrome production remains subdued as most chrome mining companies closed in October 2008 citing viability challenges. Major chrome producer Maranatha is struggling to re-capitalise its operations.

135. As a result, overall chrome production is expected to decline from 442 584 tons in 2008 to 242 590 tons in 2009.

136. However, production is expected to increase to 500 000 tons in 2010, following the expected opening of ZIMASCO's fifth plant in March. This has the potential to produce an expected output of 165 400 tons of high carbon ferrochrome.

Diamonds

137. Diamond mining will benefit from Government efforts to implement policies that encourage transparent exploitation of the Marange alluvial deposits, bringing on board competent private sector investors.

138. Successful tapping into this natural resource endowment will extend diamond mining beyond the established Murowa and River Ranch Mines.

139. These include curbing illegal mining, plugging any leakages, setting up of the necessary monitoring, surveillance, licencing and control systems.

140. Cross-border control to restrict smuggling will also be enhanced, including border patrols by trained and equipped enforcement personnel, in co-operation with regional partners.

141. These initiatives should be complemented by support to Government by the Kimberley Process in the areas of the necessary technical expertise, as well as guidance over meeting the full compliance criteria.

142. This should create the necessary investor confidence for new players to invest in Zimbabwe's diamond mining industry.

TOURISM

143. The implementation of STERP, coupled with the improved image of the country under the inclusive political framework, is bearing positive prospects for the country's tourism industry, notwithstanding the general 4–6% decline in global tourism.

144. Tourist arrivals to Zimbabwe are expected to ride on the positive effects of the formation of the Inclusive Government, which has seen countries like Canada, Germany, Japan, Norway, Sweden, the United Kingdom and the USA lift previous travel warnings against visiting Zimbabwe.

145. The stabilisation of the economy, including improved availability of consumer goods and services, also offers renewed opportunities for the hospitality industry, now able to showcase the country's tourism products and facilities.

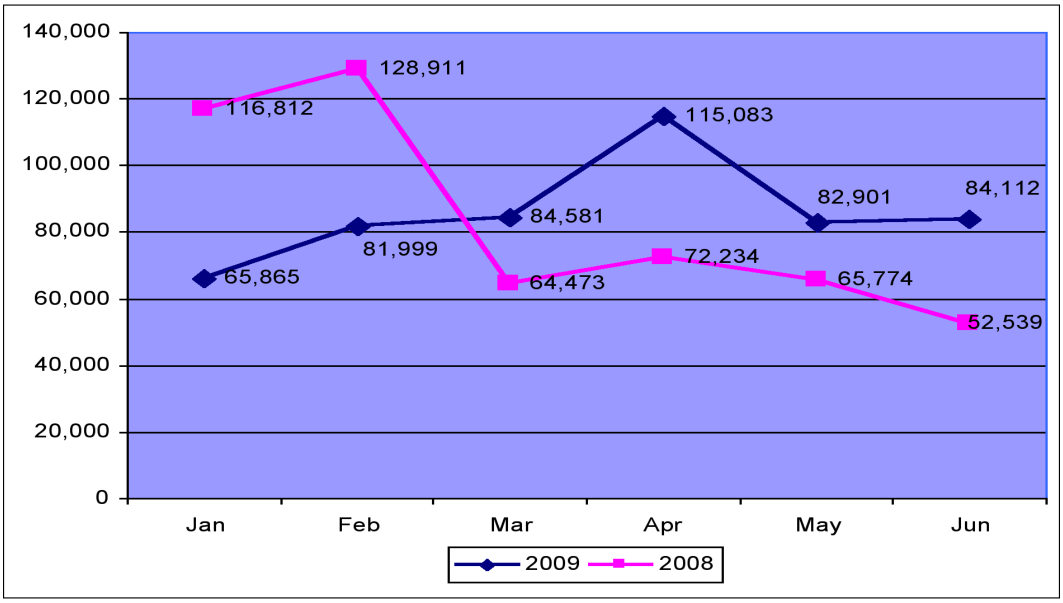
146. With the monthly tourist arrival trends steadily increasing from April 2009, the first half of 2009 recorded a total of 514 541, a 2.8% increase from 500 743 over the same period in 2008.

147. Of this, the market share for the overseas market stood at 23%, mostly from Europe with 39%, followed by Asia with an overseas market share of 26%.

148. Mainland Africa had a 3% decrease in arrivals from 409 075 in the first half of 2008 to 398 382 in the first half of 2009. This was partly due to a decline in arrivals from some of Zimbabwe's largest regional markets, including Zambia, Mozambique, Malawi and the Democratic Republic of Congo.

149. Arrivals from South Africa, Zimbabwe's largest regional market, however rose by 28% during the period under review.

Monthly Arrival Statistics January – June 2009 vs 2008



Hotel & Lodges Occupancy

150. Despite the positive performance in tourist arrivals, average hotel room occupancy levels fell from 39% to 31% in the first half of 2009, while average bed occupancy fell from 28% to 24% compared with the same period in 2008.

151. However, tourist expenditure rose from US$38.7 million in January to US$56.3 million in June this year.

ENERGY

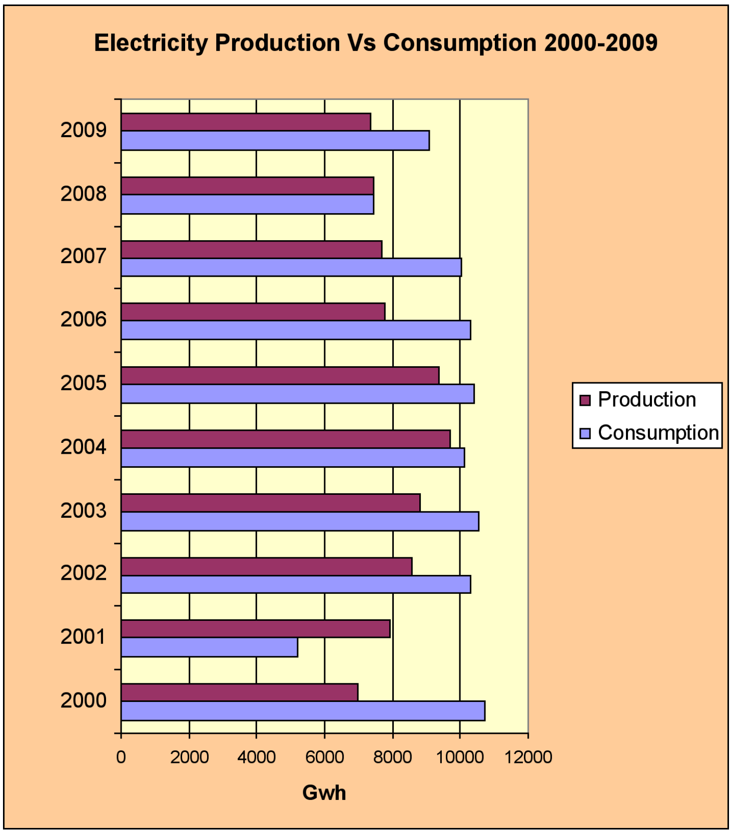
152. STERP prioritised provision of adequate and reliable energy supplies as critical for enhancing capacity utilisation in industries and mines, among others.

Electricity

153. Electricity generation benefited from the removal of the sub-economic tariff regime prevalent under the pre-STERP period.

154. The dispensation to allow electricity tariffs to reflect economic pricing, in line with regional best practices, enhanced overall revenue generation in support of improved supply of electricity.

155. Improved revenues in 2009 also allowed importation of electricity to meet increasing domestic demand.



156. Furthermore, economic pricing for coal in support of improved coal supplies and delivery arrangements, coupled with settlement of some of the debts between Hwange Colliery Company and ZESA, should support thermal electricity generation.

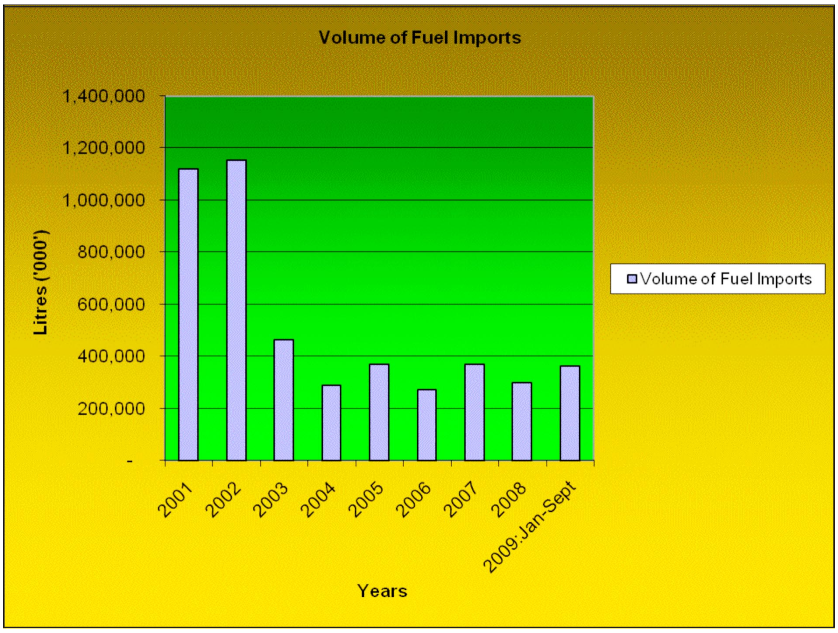
157. Anticipated maintenance works at Kariba South Power Station will, however, constrain overall power supply, resulting in widespread load shedding in the last quarter of 2009.

Fuel

158. Deregulation and liberalisation of fuel procurement, marketing and pricing under STERP has overcome previous challenges related to distribution and availability of fuel throughout the country.

159. In the prevailing situation, under which NOCZIM is competing alongside private fuel importers and distributors, motorists are guaranteed of supplies and at competitive prices, fluctuating in line with international oil prices.

160. Furthermore, periodic reviews of duties on fuel by Government have served to also support relative stability in fuel prices, that way contributing towards recovery of the productive sectors.



INFORMATION COMMUNICATION TECHNOLOGIES

161. The implementation of STERP, coupled with the creation of a window through which information communication technology (ICT) products are imported duty free, has facilitated growth of ICT in the country.

162. The licencing regime has been fine-tuned to cater for the dynamic changes taking place in the sector. This has seen a lot of operators being licenced to offer ICT services such as third generation (3G) to the public.

163. Zimbabwe joined the big league of mobile telecommunications technology when Econet Wireless launched the 3G service, becoming the fourth mobile operator in sub-Saharan Africa to offer the service.

164. Increased investment in ICT is also benefitting the telecommunications industry, which should see Zimbabwe join the rest of the world in moving up the ladder with regards to penetration rates for use of both mobile and fixed telephones.

165. Already, the penetration rate for the use of mobile telephones, which was 10% in 2008, has risen to levels of over 30% by November 2009.

TRANSPORT

166. The road network remains in need of rehabilitation for the rural, urban, as well as the country's trunk network.

167. Shortage of critical road equipment, as well as resources to procure consumable materials, has contributed to the slow pace in the rehabilitation of the country's road network.

168. In addition, high skills flight in search of greener pastures has left maintenance programmes dependent on inexperienced staff, compromising on road maintenance.

169. Similarly, the rail network remains in need of major investment in terms of the rolling stock, signalling and track systems. This was against the background of inadequate generation of resources needed to undertake investment in new equipment as well as rehabilitation of obsolete one.

170. In the absence of adequate shareholder re-capitalisation, sub-economic tariffs exacerbated the situation, a situation that has left the rail sector unable to take advantage of the increased demand for rail freight services as economic activity recovers.

Toll Fees

171. Under STERP, Government introduced and operationalised, on 18 August 2009, toll gates as a strategy for mobilising additional resources for the rehabilitation and maintenance of the country's road network.

172. Toll gate revenue collection developments so far indicate weekly inflows averaging close to US$350 000, the bulk of which is immediately transferred to the Zimbabwe National Road Authority (ZINARA) for distribution to respective road authorities, including the Department of State Roads, District Development Fund and local authorities.

173. A sustainable significant source of domestic revenue generation also enhances scope for attracting access to additional alternative financial resources from private players through Public Private Partnership arrangements, in support of broadening and expediting the trunk road network rehabilitation as well as construction of new roads.

174. Already, the strong toll fee performance is providing the necessary capacity for Government to improve on all the road approaches towards toll gates, that way enhancing efficiency and overcoming delays at toll gates.

EXTERNAL SECTOR

175. The country's external position remains precarious, with merchandise exports projected to decline in 2009.

176. This is against the effects of the recent global financial crisis which has left major economies in recession, implying that companies could not fully take advantage of the conducive business environment ushered in by STERP.

177. Key export sectors of the economy have been operating below capacity largely due to frequent power outages, limited credit lines to re-equip and rehabilitate production lines, and relatively higher operational costs.

178. Recovery of the export sectors, therefore, largely depends on the pace of recovery of the global economy, particularly those markets which absorb the bulk of the country's exports.

179. The capital and financial account is projected to record a surplus in 2009, reflecting, in the main, improved capital inflows in the form of short term private sector loans and portfolio investments due to improved investor confidence.

Exports

180. For the period January to October 2009, total export shipments[2] amounted to US$1 009 million, compared to US$1 226.2 million exported during the same period in 2008, representing a 17.7% decline.

181. Declining export performance is largely attributable to depressed international commodity prices, frequent power outages and limited access to both domestic and offshore credit lines.

Remittances

182. Remittance inflows from non-resident nationals through Money Transfer Agencies amounted to US$159.1 million during the ten months to October 2009.

Imports

183. During the period January to October 2009, banks processed foreign exchange payments amounting to approximately US$1.3 billion for various imports.

[2] See Table 4: Total Export Shipments 2009 and 2008 (US$ m)

184. This level of imports into the country this year represents a 15% decline on the US$1.5 billion realised during the first ten months of 2008.

External Debt

185. The country's external debt totalled US$5.4 billion[3] as at the end of October 2009.

186. Of the total country external debt, public and publicly guaranteed debt accounted for US$4.6 billion, while private external non-guaranteed debt accounted for the balance.

187. External payments arrears, which started accumulating in year 2000, amount to US$3.8 billion.

188. The growth in external debt is also a reflection of interest and penalty charges on external payment arrears. These account for US$723 million of the country's total external indebtedness.

[3] See Table 5: External Debt Including Arrears as at end-2008

FINANCIAL SERVICES

189. STERP has also registered major strides in overcoming the crisis of confidence in the local banking sector which set in during 2007 and 2008, leading to the erosion of bank balances due to hyperinflation, coupled with severe cash crises, forcing households, firms and traders to engage in speculative activities.

190. The adoption of the multiple currency regime, which eliminated the hyper-inflationary environment, resulted in the recovery of banking sector activity.

Deposits

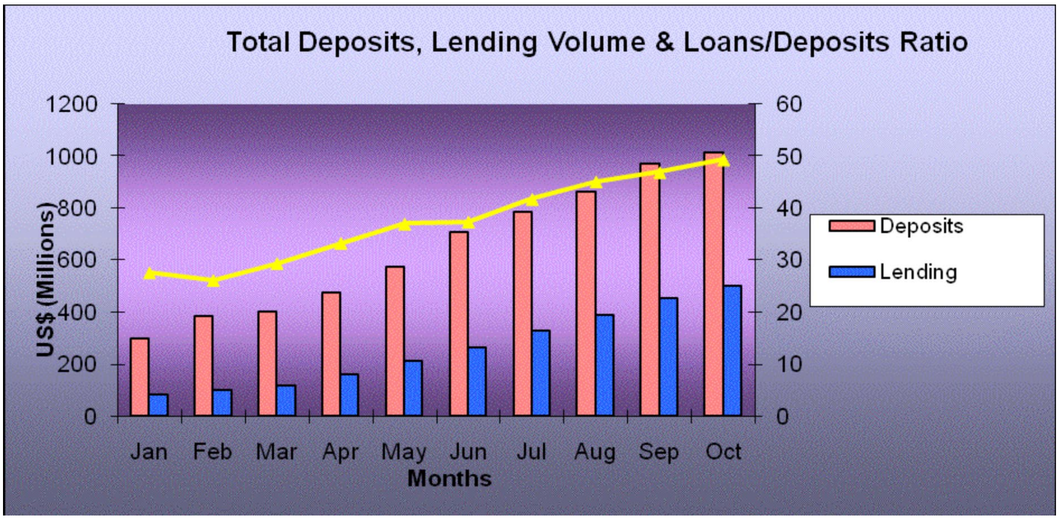
191. As a result, the banking sector deposit base increased from US$376 million in March to over US$1 billion by October 2009[4]. Further growth is anticipated, in line with growth of incomes.

192. This growth largely reflects a surge in commercial and merchant banks' deposits in foreign currency at US$852 million and US$105 million, respectively. Building societies accounted for US$43 million, while the POSB accounted for US$15 million of total deposits.

[4]See Table 6: 2009 Banking Sector Deposits, Loans and Advances

193. Demand deposits and time deposits of under 30 days continue to dominate total deposits, reflecting low income levels and the inclination towards a cash economy.

194. However, the steadily growing domestic deposit base is not being complemented by ready availability of long term credit facility lines from external financiers, that way limiting the rapid take-off of the productive sectors.



Loans & Advances

195. The increase in bank deposits has enhanced banking sector capacity to extend loans and advances to the productive sectors.

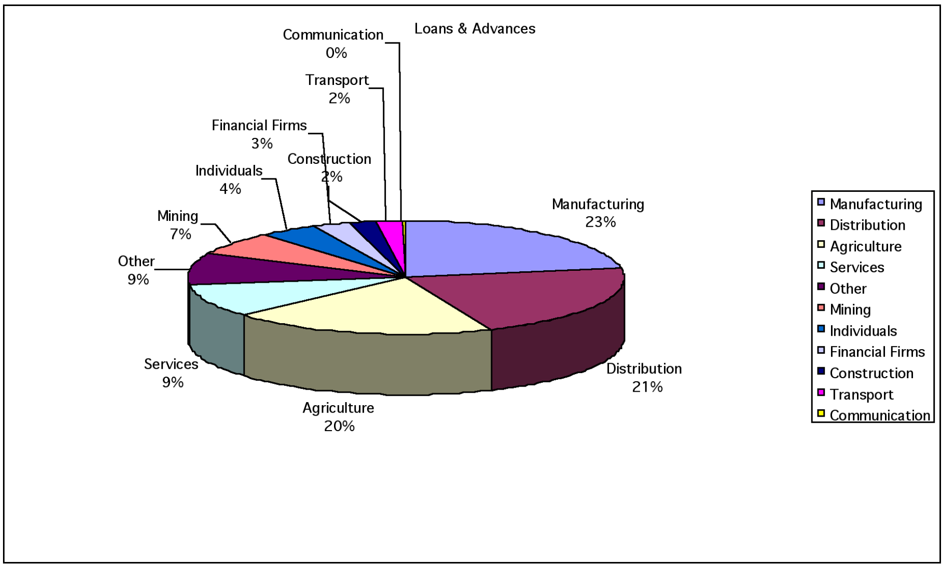
196. Total banking sector loans and advances which amounted to US$263.5 million as at 30 June 2009, had almost doubled to US$499.9 million by end of October 2009.

Sectoral Lending

197. Of this amount, the manufacturing sector got the largest allocation of US$107.7 million, followed by distribution US$103 million, and agriculture, US$94.7 million. Loans to the services sector were US$45.5 million, while those to 'other' services amounted to US$43.3 million, and mining, US$33.5 million.

198. Individuals accounted for US$20.7 million, with financial firms at US$13 million, and construction US$9.1 million. The transport sector weighed in with US$9 million, whilst the communication sector borrowed US$1.9 million.

Bank Lending By Sector



199. Hence, notwithstanding liquidity constraints, most banks have begun to give out loans, though largely restricted to a selective category of high net worth and blue chip clients.

200. Further upsurge in bank deposits should create more capacity for increased lending to industry. This will require that depositors are compensated for foregoing consumption through more meaningful savings rates and lower charges on savers' bank deposits by banks.

Interest Rates

201 The current absence of payment of interest on deposits by banks continues to militate against increased bank deposits by the public. Instead, depositors face relatively high bank charges, which serve as a further deterrent to savings mobilisation.

202. This development has contributed towards limiting the level of investible surpluses available to the banking system. This has forced financial institutions to structure their limited lending around short term credit facilities, largely 90 days.

203. The applicable lending interest rates of up to a maximum of 25% remain too high, given regional average lending rates of 7%.

Payments System

RTGS

204. The country's payments system experienced improved performance, with the Real Time Gross Settlement System (RTGS) recording significant growth in transactions under the multiple currency arrangements.

205. RTGS transactions since introduction of multiple currencies in mid April 2009 to mid November 2009 amounted to a cumulative total of 514 948 transactions. The value of these transactions processed through the RTGS system was US$4.83 billion.

Card Payments

206. Growth in card payments through ZIMSWITCH, Electronic Funds Transfer and Point of Sale, and Intra-Bank Automated Teller Machines (ATMs) has, however, been not as rapid.

207. The value of ATM transactions between April and October 2009 amounted to US$2.9 million, with US$2.4 million of this in the months of September and October 2009. Point of Sale transactions amounted to US$4.6 million during the period April to October 2009.

Cheque System

208. Payments through the inter-bank cheque system, re-introduced from mid-August 2009, also reflect continued reliance on cash payments under the multiple currency regime.

209. In this regard, the volume of cheques between mid August and mid November 2009 remained under 10 000 transactions, with a cumulative value of US$2.2 million.

Mobile and Internet Transactions

210. Internet transactions, however, fared better with a total of US$25.9 million transacted through this platform. Use of mobile banking, however, remained modest, accounting for under US$500 000 between April and October 2009.

Central Bank Reforms

211. Government has already initiated a process for reforming the Central Bank through amendments to the Reserve Bank of Zimbabwe Act [*Chapter 22:15*] with the objective of realigning

the Reserve Bank's institutional framework to the economic reforms that the country has adopted.

212. The Bill seeking to bring these Amendments has been gazetted and is currently under Parliamentary consideration.

Inter-Bank Market

213. Developments in the inter-bank market have also seen banks now beginning to extend to each other overnight borrowing to cover short term liquidity positions in multiple currencies.

214. This is notwithstanding absence of Central Bank lender of last resort facilities and increased risk aversion among banks under the multiple currency system.

Capital Adequacy Compliance

215. Following the adoption of the multi-currency regime, Government introduced a minimum equity capital requirement for financial institutions with a phased approach for compliance as follows:

Type of Institution	Minimum Capital Requirements (US$) as at 30 September 200	Minimum Capital Requirements (US$) as at 31 March 2010
Commercial Banks	6.25 million	12.5 million
Merchant Banks	5.0 million	10 million
Building Societies	5.0 million	10 million
Finance Houses	3.75 million	7.5 million
Discount Houses	3.75 million	7.5 million

216. Under the first phase of re-capitalisation, 23 out of the 26 banking units, and 16 out of 17 asset management companies, met the first phase of the minimum capital adequacy levels by the extended deadline of 31 October 2009, while those that had not complied submitted their re-capitalisation plans.

Zimbabwe Stock Exchange

217. Trading on the Zimbabwe Stock Exchange, closed from towards the end of 2008, resumed on 19 February 2009 with settlement for all trades quoted in US dollars.

218. The few deals which went through in February and March 2009 were mostly transactions for individuals and corporate companies trying to raise cash.

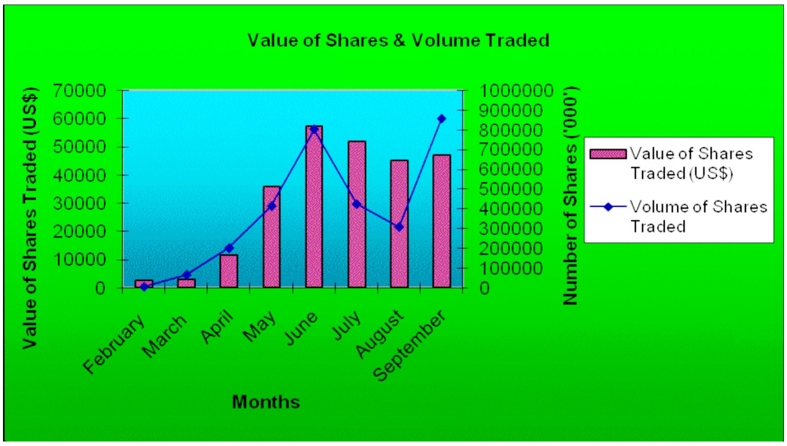
Volume of Shares Traded

219. Volumes started showing signs of picking up from April, with foreign investor participation becoming noticeable, largely due to improved investor perception of the market[5].

220. As a result, the volume of shares traded increased from 68 474 347 in March to 202 899 250 in April 2009. The rising trend increased in May and June to 415 378 287 and 804 724 442 shares traded, respectively.

221. Volume of shares traded, however, declined to 425 496 166 shares in July. Lack of liquidity was noticeable as foreign investors continued to dominate the market and local institutions remained on the side lines.

222. As a result, prices weakened and the market value in turn followed the declining trend. The fungible Old Mutual share price rose and fewer shares were moved to external registers.



[5]See Table 7: Stock Market Performance during 2009

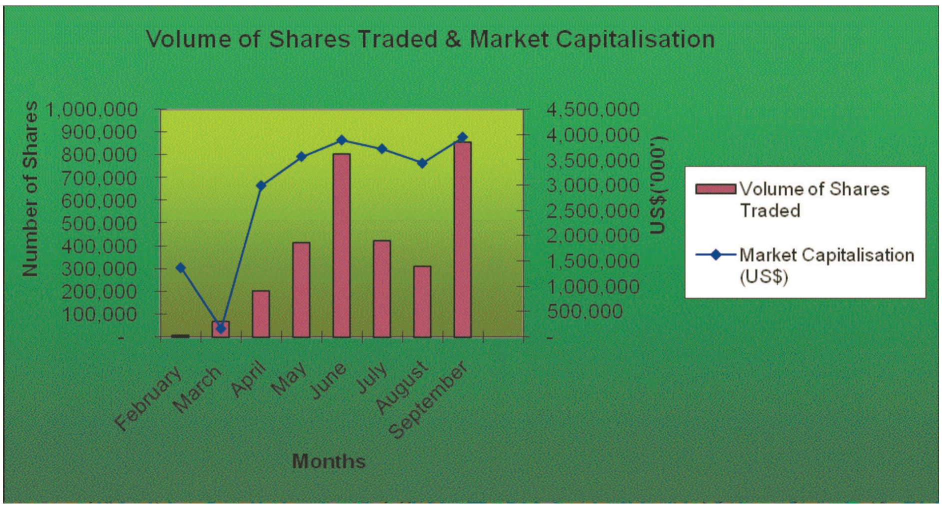
Value of Shares Traded

223. In line with the increase of shares traded, the value of shares traded also picked up from US$3 014 535 in March to US$11 634 695 in April 2009.

224. The upward trend continued in May and June as the value of shares traded reached US$35 721 245 and US$57 173 844, respectively. Due to declining volumes in July, the value of shares also dropped to US$51 715 587.

Market Capitalisation

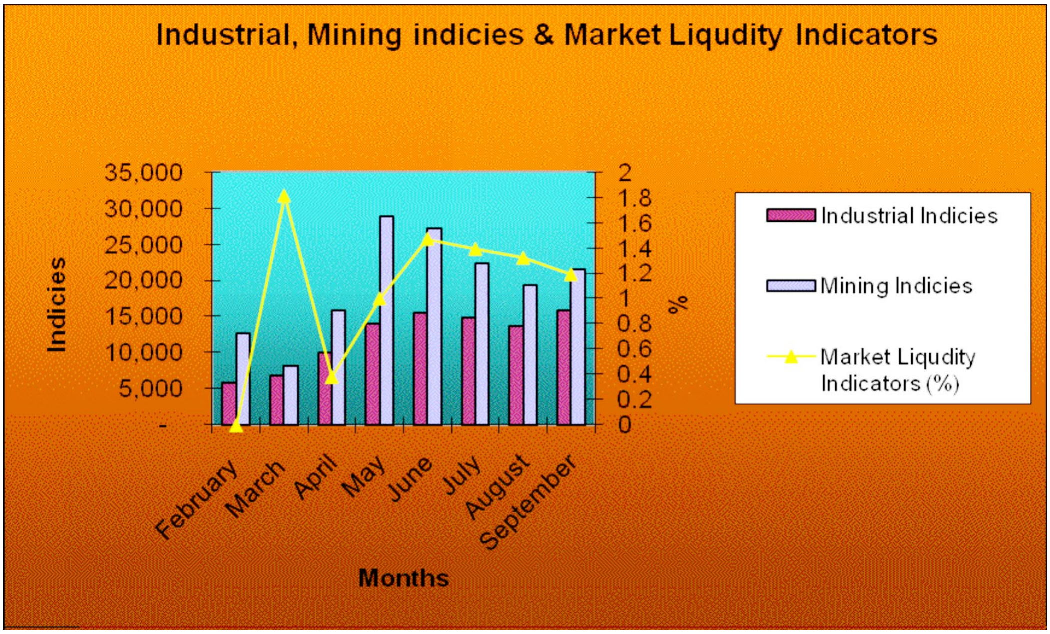
225. In line with the movement of shares traded, market capitalisation rose from US$1.6 billion in March to US$3.89 billion in June 2009, before declining to US$3.72 billion as of July 2009.



Indices

226. The Industrial index rose from 67.73 in March 2009 to 154.42 in June 2009, before declining to 148.48 in July 2009.

227. Similarly, the Mining index rose from 81.88 in March to 271.85 in June 2009, before declining to 222.55 in July 2009.



REMOVAL OF DISTORTIONS

228. A major positive effect on overall economic activity of STERP has been the liberalisation measures which removed controls on prices in the goods and services markets and deregulated controls over charging of sub-economic tariffs in the public sector.

229. This has removed a lot of distortions which had been undermining efficient resource allocation for over a decade, including in the markets for foreign exchange, fuel, agricultural inputs, among others.

230. Implementing cost reflective tariffs in line with regional best practices also allows public institutions to develop the necessary capacity to provide and deliver mandated services.

231. Furthermore, unnecessary subsidies are avoided, with resources freed for support targeted at the vulnerable and others in need of social protection.

232. However, there is evidence that tariffs and other charges by public enterprises, Government departments and local authorities, if not restrained, threaten to become a driver of inflationary pressures. This will require redress during the implementation of the Framework.

PUBLIC SERVICE DELIVERY

Education

233. Prior to the launch of STERP, the education sector had almost

collapsed as evidenced by failure by many teachers to report for duty, and failure to conclude the June and November 2008 public examinations on time.

234. Most teachers had left the country seeking opportunities in neighbouring countries and beyond, whilst others occupied themselves in unproductive speculative activities.

235. STERP, therefore, prioritised the resuscitation of the education sector with measures which focused on improving the conditions of service, acquisition of learning and teaching material and equipment and the marking of examinations.

236. The introduction of foreign exchange based allowances to civil servants including teachers, under a stable macro-economic environment characterised by low inflation, provided welfare relief and an incentive for resumption of classes as teachers started reporting for duty.

237. The active participation and involvement of parents/guardians in the management of their respective institutions also ensured the availability of teaching and learning materials, equipment and normalcy in the education sector.

238. Furthermore, the reasonably stable macro-economic environment afforded Educational Authorities, institutions as well as parents/guardians scope for better planning and effective implementation of their programmes and projects.

239. In addition, outstanding public examinations were attended to and concluded by June 2009. The dispensation to allow schools to charge school levies provided schools with resources to buy text books and other learning materials and equipment.

240. Furthermore, the University of Zimbabwe which had remained closed owing to severe water shortages and inadequate teaching staff was finally opened in August 2009, following the intervention of Government with the support of UNICEF in the restoration of water at the institution.

241. However, the education sector still faces a number of challenges, particularly with regards to inadequate teaching and learning material, low remuneration for teaching staff, and ageing or lack of infrastructure, especially in the new resettlement areas, which have all undermined service delivery in the education sector.

Health

242. Under STERP, the Inclusive Government prioritised the restoration of health delivery services in most hospitals, which were either closed or operating well below capacity as a result of deteriorated health infrastructure, shortage of equipment, loss of experienced health professionals and drug shortages.

243. In order to derive maximum benefits from limited resources, a targeted approach was adopted where resources available at any given period were directed and concentrated towards critical immediate requirements for selected institutions. In line with this approach, Harare Central, Mpilo Central and Mutare General Hospitals were prioritised.

244. In this regard, Government availed US$3.8 million to Harare Central Hospital, US$3 million to Mpilo Central Hospital and US$3 million to Mutare General Hospital. These resources were utilised for the procurement of drugs, medical supplies and equipment, and rehabilitation of infrastructure, among others.

245. The balance of the resources was used for purchase of ambulances and other service vehicles, computerisation, installation of gas piping, repairs of floor elevators and the refurbishment of floor theatres, among others.

246. These interventions allowed for overall improved service delivery at the above hospitals, following the re-opening of closed Units, increased drug supply from an average of 36% in March 2009 to over 80% by August 2009, and the availability of equipment and other medical facilities.

247. The improvement in service delivery has brought much relief to the general public who rely on these public institutions for health services.

248. However, the health sector remains confronted by a number of challenges which will be addressed under this Framework.

249. The drug situation in hospitals remains constrained, while the general shortage of health staff persists in most public health institutions. This has been compounded by antiquated equipment and rundown infrastructure which require rehabilitation.

SOCIAL PROTECTION PROGRAMMES

250. Social protection was one of the pillars of STERP. The planned programmes were expected to focus on improving access to education, through strengthening the Basic Education Assistance Module (BEAM) meant to assist vulnerable children.

251. In health, STERP targeted provision of assistance towards vulnerable groups such as the elderly, orphans and vulnerable children and Institutions for children and the elderly.

252. Rights based welfare services to persons with disabilities and cash transfer to vulnerable households were also part of the social protection programme.

Access to Education

253. Under BEAM, the target was to assist about 1 million vulnerable children in 2009 at an annual cost of US$95.5 million.

254. However, owing to resource constraints, only US$5 million was raised from donors under the Programme of Support for the National Action Plan for Orphans and Vulnerable Children.

255. This amount was able to provide assistance only to about 500 000 primary school beneficiaries for the third term of 2009. Of this amount, 10% was set aside for disabled children at primary and secondary school level.

256. Whilst funds have been availed through donor support for the third term of 2009, about 455 000 secondary school

beneficiaries could not be supported due to insufficient resources. Furthermore, resources for 2010 to support both primary and secondary school beneficiaries are yet to be secured.

Access to Health

257. About 100 000 vulnerable persons were expected to access health services through the Assisted Medical Treatment Orders Programme which had a budget of US$2 million in 2009. By October 2009, only 720 vulnerable persons had been assisted at a cost of US$19 782.

258. Resource constraints again were a major setback for the Assisted Medical Treatment Order (AMTO) Programme.

259. In most cases, AMTOs were not backed by resource availability and, hence, health service providers became hesitant to honour AMTOs.

260. Therefore, it will be necessary to firm up resource availability and timeous disbursements against issued AMTOs in order to ensure that deserving persons do access health services.

Specially Targeted Vulnerable Groups

261. Under STERP, an Older Persons Bill was to be enacted to facilitate direct support to vulnerable elderly persons. This did not take place, prompting delayed support to them.

262. However, eight institutions for orphans and vulnerable children got limited assistance through State funding. This enabled these institutions to provide basic services for the pupils.

263. An appeal for humanitarian assistance on behalf of these institutions resulted in UNICEF availing US$497 500 to assist towards procurement of emergency supplies and minimal repairs to equipment and infrastructure.

264. For the period under review, most assistance for OVC has come from civil society activities funded through the Programme of Support for the National Action Plan for the Orphans and Vulnerable Children.

265. Enactment of the Older Persons Bill, necessary to allow for a holistic provision of support to vulnerable older persons, remains outstanding.

266. State support to institutions caring for OVC also remains limited, whilst infrastructure at these institutions deteriorated, thereby constraining their ability and capacity to assist and support more children.

Persons with Disabilities

267. Welfare services to persons with disabilities are offered over and above the other social services. These include the critical vocational training, necessary for capacitating the disabled with the necessary skills for life.

268. During 2009, notwithstanding delayed disbursements, US$100 000 was released out of an amount of US$3 million provided in the 2009 Budget, to allow for the enrolment of only 89 students against a target of 400 potential beneficiaries. In addition, NGO institutions were able to support 5 more students against a demand of 200 students.

269. Hence, in 2009 support for vocational training for disabled persons was inadequate resulting in only 94 out of 600 students being supported. It is, therefore, critical that these be prioritised in the 2010-12 Budgets.

Cash Transfers through Public Works

270. Vulnerable and poor able bodied households with labour, but living in households headed by people with disabilities, chronic illnesses and elder persons, were to participate in labour intensive public works provided by local authorities.

271. This programme targeted a 15 day working month in exchange for an allowance of US$20, based on an average cost of a basic food basket comprising of 30 kg mealie-meal, 2 litres cooking oil, 2 kg beans and 500g salt. The programme had targeted to benefit 61 980 households, based on 2008 Zimbabwe Vulnerability Assessment Committee assessments.

272. The envisaged type of work included road maintenance, focusing on pothole repairs and road shoulder rehabilitations, upgrading of earth roads in rural areas, clearing and construction of storm water drains, grave digging and cemetery maintenance, among others.

273. However, this programme could not be undertaken owing to inadequate resources.

Utilities & Infrastructure

274. STERP prioritised the rehabilitation, expansion and maintenance of the country's infrastructure and utilities to facilitate efficient delivery of public services and economic stabilisation and growth. This entailed rehabilitating and upgrading infrastructure in water, power, roads, railways and telecommunications sectors.

275. A number of programmes were undertaken which facilitated improvement in water supply, transport and expansion of telecommunication services, among others.

Water & Sanitation

276. Major challenges remain with regard to delivery of safe water, which sustained poor sanitation conditions – culminating in the cholera outbreak experienced for most of the first half of 2009.

RE-ENGAGEMENT WITH THE INTERNATIONAL COMMUNITY

277. Following the launch of STERP, the Inclusive Government undertook a broad-based re-engagement exercise with the international community aimed at the removal of sanctions, and mobilising the necessary external support for economic recovery and growth.

278. The engagement strategy involved dialogue with the SADC, the European Union countries, the United States (USA), East Asian countries and multilateral financial institutions.

279. The international community has been supportive of Government's efforts and STERP through various pledges from multilateral financial institutions such as the African Development Bank (ADB), the International Monetary Fund (IMF) and the World Bank.

280. Further support was received from the Southern Africa Development Community (SADC), the European Union countries, the USA, Japan, China, South Korea, among others.

281. However, the mobilisation efforts by Government in support of STERP have realised limited results.

282. Furthermore, commitments received from various co-operating partners have largely been for humanitarian assistance, leaving developmental programmes, as well as lines of credit for the business sector, severely under-funded.

283. The global financial crisis, which became severe in 2009, has also diverted attention of the donor community from needs of developing countries to their own domestic challenges.

KEY LESSONS FROM STERP

284. The key challenges and lessons drawn from the above review of the implementation of STERP guide the design of the Three Year Macro-economic Policy and Budget Framework for 2010 – 2012.

285. In this regard, Government will take the opportunity offered by this Framework to reprioritise urgent issues and re-strategise its interventions, drawing from challenges, lessons and the unfinished agenda under STERP.

286. Such lessons and challenges include, among others, the following:

Political & Democratisation Issues

287. STERP recognised the close relationship between economic and democratisation parameters for the successful and sustainable implementation of the economic recovery programme.

288. In this regard and consistent with the provisions of the Global Political Agreement, STERP prioritised the following political and democratisation issues:

- The Constitution and the Constitution making processes;
- The Media and Media reforms;
- Legislation reforms intended at:
    - ➢ Strengthening Governance and Accountability,
    - ➢ Promoting Governance and the Rule of Law;
    - ➢ Promoting Equality and Fairness, including Gender Equality.

289. However, several democratisation issues in the Global Political Agreement (GPA) signed on 15 September 2008 still remain outstanding, reflecting the deep seated suspicions and fragility of the Inclusive Government.

290. Hence, a key lesson during the implementation of STERP is the fact that the main actors in the Inclusive Government remained locked up for the greater part of 2009 in unnecessary persistent disputes, attrition and conflicts, which severely retarded progress in the implementation of STERP.

291. This is notwithstanding the fact that STERP was very clear in underlining and underpinning issues of political reform and democratisation as a necessary pillar and precondition for economic stabilisation and development.

Global Competitiveness

Risk Perceptions

292. The political and social challenges experienced over the period 2000 to 2008 impacted heavily on Zimbabwe's competitiveness in a number of indicators used to assess risk perception.

293. Hence, the implementation of various measures under STERP was aimed at addressing a number of challenges also meant to enhance the country's competitiveness.

294. However, any deficit of performance under STERP, contributes significantly to low levels of business confidence in the economy and to the slow pace of re-integration with regional and global markets.

295. The economy, therefore, needs to remain attractive in terms of receipt of external savings and foreign direct investment, which are critical for sustainable economic growth and development.

296. The success or failure of the Framework depends entirely on the success in the implementation and execution of agreed policies and measures, underpinned by a Shared Vision.

Investment Requirements

297. Furthermore, the numerous obligations and requirements by the Zimbabwe Investment Authority to potential investors intending to start up businesses in the country also leave Zimbabwe uncompetitive when compared to other countries.

298. Government will, therefore, have to review the prevailing numerous obligations and requirements on potential investors intending to start up businesses in the country.

299. The thrust of such review should be to make Zimbabwe move up the global competitiveness ladder, that way facilitating the required inflows of foreign direct investment.

Confidence Building

300. Commitment of all Parties and other stakeholders to the Inclusive Government, coupled with timeous implementation of agreed policies, is essential for building the business and investor confidence necessary for facilitating the required domestic and foreign investment, crucial for rapid economic growth.