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pr 613-0302
PD MAG-769
JUN 25 1980

"REHABILITATION PROGRAM GRANT"
ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

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FROM: AAA/AFR/DR, John W. Kochring

Problem: Your signature is requested on the Initial Environmental Examination and the attached Action Memorandum to the Administrator recommending authorization of the \$12,000,000 Program Grant (cash) to the Government of Zimbabwe.

Discussion: The approval of the Administrator or his designee is required for a Program Assistance Approval Document (PAAD) authorizing non-project assistance in excess of \$10,000,000.

Recommendation: That you sign the Initial Environmental Examination approving a negative determination, and the Action Memorandum to the Administrator recommending approval of the PAAD.

Clearance:

AFR/DR: NCohen	<u>qwu for</u>
AFR/SA: DCohen	<u>(draft)</u>
AFR/DP: RStacy	<u>RS</u>
GC/AFR: EDragon	<u>ED</u>
AFR/DR/SA: WWolff	<u>WW</u>

AFR/DR/SA: DKYne:agb:6/23/80

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/PPC, Mr. Alexander P. Shakov 

THRU: ES

FROM: AA/AFR, Goler T.  Fischer

SUBJECT: Zimbabwe - FY 80 \$13 Million Program Grant

Problem: Your approval is required for a Program Grant of \$13 million to the Government of Zimbabwe (GOZ) from the Economic Support Fund appropriation.

Discussion: The U.S. assistance strategy in Zimbabwe is designed to assist the new government in high priority areas designated by the GOZ. The U.S. has committed itself publicly to \$20.0 million of assistance to Zimbabwe in FY 80 to meet these priorities, followed by a proposed \$25-30 million program in FY 81. To date \$5.0 million of FY 80 funds has been pledged to the United Nations High Commission for Refugees (UNHCR) for the repatriation of refugees, and \$2.0 million has been provided to the GOZ as a bilateral project for the rehabilitation of rural health clinics. The attached Program Assistance Approval Document (PAAD) represents the remaining \$13 million in funds to be obligated during FY 80. The Program, which takes the form of a cash transfer, is designed to assist the GOZ in meeting a shortfall in the budget support requirements associated with immediate resettlement and reconstruction program needs. A review of other donor assistance available or anticipated indicates that the GOZ, even with full immediate access to the U.S. \$13 million of assistance, will be hard pressed to meet the rehabilitation and resettlement requirements over the next three months from external sources. In addition, the projected GOZ budget deficit is already excessive, capacity for additional internal borrowing is limited, and a substantive increase in the rate of inflation seems unavoidable. On the balance of payments front, a severe foreign exchange shortage is anticipated, which will be partially alleviated by the proposed cash transfer.

The grant will be disbursed to a GOZ account in a U.S. bank specified by the GOZ shortly after obligation. Financing requests will be submitted to AID within sixty days from the date of execution of the program grant agreement. Because the GOZ's normal quarterly foreign exchange and budgetary requirements exceed the full amount of the grant and because of the urgent requirement for

foreign exchange for the redevelopment program, initial disbursement will cover the full amount of the grant. The grant requires that the GOZ establish a special account which will contain the local currency equivalent of the U.S. dollar grant. Funds from this account will be used to support the GOZ construction and resettlement program. Specifically, the GOZ's Ministry of Finance intends to allocate \$5.5 million in local currency to the Department of Agriculture for vegetable packs, summer crop packs, and related training and \$7.5 million in local currency for reconstruction allocated for cattle dips, water supplies, key roads, bridges, and schools.

Certain provisions of the Foreign Assistance Act of 1961, as amended (the "FAA") require that, in furnishing assistance to any country, various specified factors shall be taken into consideration. Among these provisions are:

- 620(1) (failure to enter into investment quarantine program);
- 620(o) (seizures of or sanctions against U.S. fishing vessels); and
- 620(u) (status of obligations of a foreign country to the United Nations).

In connection with the approval of the interim FY 1980 CYB, these factors were not taken into consideration with respect to assistance to Zimbabwe. Set forth in attachment A are comments on the relevant FAA provisions as to their effect on the decision to furnish the assistance proposed herein to Zimbabwe. Your approval of the PAAD provides the occasion for taking these factors into consideration and making the required determinations.

Further, in previous years, A.I.D. has also been responsible for the consideration of FAA Section 620(i), dealing with damage to U.S. property by mob action, and Section 620(i)s, dealing with military expenditures by recipient countries. The President, by Executive Order 12163, has delegated the responsibility for these sections to the Secretary of State. The Department of State has received no information as to mob damage to U.S. property in Zimbabwe. The Government of Zimbabwe has not yet adopted a budget and no information is available at this time as to any military budget. It is unlikely that the Zimbabwean military budget would exceed the norm in terms of defense expenditures. The Department's consideration of these sections

is shown by the Department clearances shown on this memorandum.

There are no conditions, covenants, or waivers associated with this Program Grant. However, the GOZ will agree that the funds provided cannot be used for military expenditures. Congress was notified of the program on April 22 and the fifteen day waiting period expired on May 7, 1980. I have approved a negative determination for the Initial Environmental Examination.

The State Department's Office of Human Rights has provided their clearance on this memorandum. The Project Review Committee met and recommended approval of the Program Grant on June 18, 1980. The AID/W backstop officer for this program will be Douglas T. Kline, AFR/DR/SA.

Recommendation: That you sign the attached PAAD thereby authorizing the proposed Program Grant in the amount of \$13 million.

Clearance:

Acting DAA/AFR: RStacy 6/1/80
 GC: NHolmes 6/26/80
 AA/PPC: CPaolillo (above)
 GC/AFR: EDragon EAD
 HA/HR: BBowie [Signature]
 AF/EPG: DBorn [Signature]
 AFR/SA: DACohen (dft)

AFR/DR/SA: DKline:agb:6/25/80

Attachments:

- A. PAAD
- B. IIE
- C. Project Paper

AID 1123-1
(12-86)

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAL NO.
613-K-601

2. COUNTRY
Zimbabwe

3. CATEGORY
Program Grant (Cash)

4. DATE
June 26, 1980

5. TO:
A/AID, Douglas J. Bennet, Jr.

6. OYB CHANGE NO.

7. FROM:
AA/AFR, Goler T. Butcher *[Signature]*

8. OYB INCREASE
None
TO BE TAKEN FROM:

9. APPROVAL REQUESTED FOR COMMITMENT OF:
\$ 13,000,000

10. APPROPRIATION - ALLOTMENT
ESF 037-61-698-00-50-01

11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 6-26-80 - 9-30-80	14. TRANSACTION ELIGIBILITY DATE 6-26-80
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15. COMMODITIES FINANCED
None

16. PERMITTED SOURCE

U.S. only: _____

Limited F.W.: _____

Free World: _____

Cash: 13,000,000

17. ESTIMATED SOURCE

U.S.: _____

Industrialized Countries: _____

Local: _____

Other: _____

18. SUMMARY DESCRIPTION

The Mugabe-led nation of Zimbabwe inherited a country rich in natural and human resources, but one with severe budgetary and balance of payments problems, heightened expectations of the majority of the population, 1 to 1.5 million refugees and displaced persons, and damage to rural infrastructure.

The justification for this cash transfer is based on balance of payments and GOZ budget needs as the GOZ begins the process of reviving and developing the economy along more equitable lines.

Since the mid-1970s both per capita and gross domestic product and employment have fallen. As a result of the war, during the last five years per capita GDP fell about five percent per annum. Government revenues rely very heavily on sales and income taxes (over 70 percent of revenues for the period of 1 July 1979 to 30 June 1980) and these have followed the downward trend of the economy, now (1979/80) accounting for only 85 percent of 1976/77 revenues. Expenditures, driven by increased defense needs, grew 32 percent in real terms from 1976/77 to 1979/80, with defense's share increasing by 109 percent in real terms. As a result, the Central Government's current account deficit grew from \$90 million in 1976/77 to

19. CLEARANCES	DATE
REG/DP EDonoghue <i>[Signature]</i>	26 June 80
REG/GC EDragon <i>[Signature]</i>	26 June 80
AA/PC CPaolillo <i>[Signature]</i>	26 June 80
AFR/CONR FM/C ASmit <i>[Signature]</i>	26 June 80
AFR/CONR GC Holmes <i>[Signature]</i>	26 June 80
AFR/DR: AFR/SA: MY <i>[Signature]</i>	26 June 80
AFR/DR: JRoehring <i>[Signature]</i>	26 June 80

20. ACTION

APPROVED DISAPPROVED

AUTHORIZED SIGNATURE DATE

Administrator TITLE **5**

18. Summary Description (continued)

\$690 million in 1979/80.

The 1980/81 budget, not yet released, will continue the trend to increased deficit spending. No information is available but, since government revenues are tied closely to economic performance and many people are assuming a four percent real growth rate coupled with 12 percent inflation, we can project revenues of \$1.1 billion. The anticipated current account deficit for 1980/81 is \$1.0 billion based on a budget of \$2.1 billion, an increase of 30 percent over 1979/80. Much of the increase is apparently needed to pay for the three armies, which have not yet been demobilized, and to finance resettlement and development needs. While over time the demobilization and resettlement efforts will reduce the drain on budgetary resources, the scale of the budget deficit implies that there is not likely to be any great immediate "dividend" from the ending of the war.

With current estimates from balance of payments data indicating that the GOZ anticipates perhaps \$150 million from foreign grants and loans, \$860 million would need to be financed next year to meet budget requirements.

The risk of severe dislocation from continued heavy deficit financing is great. But in a country where expectation levels have been raised, a continued economic stagnation is clearly unacceptable. It will take great skill over the next few years to manage the economy in such a way as to rebuild the social infrastructure, resettle large numbers of people, and expand the productive sectors rapidly.

Zimbabwe needs massive assistance on the basis of both balance of payments and public sector budget needs. This \$13 million from the U.S. is needed quickly. Without greater inflows of foreign capital, Zimbabwe may find it impossible to finance the return to normalcy in the countryside and have the private economy pick up and absorb the large numbers of unemployed. A slower rate of resettlement and provision of public-financed infrastructure - in a period of heightened expectations - would be politically intolerable for the Government. As the GOZ attempts to accomplish both objectives, foreign exchange constraints will become tighter and tighter.

Because of the seven years of often violent and bloody warfare, many community services in the predominantly African-inhabited rural areas had fallen into disrepair, been closed or destroyed. As an example, of the some 300-odd Government rural health clinics, 159 were closed and in need of rebuilding or rehabilitation. More than one-third of the rural primary schools are closed and several hundred thousand primary school students are no longer attending class. Some rural roads are impassable and many cattle dip tanks have been destroyed. More than one million head of cattle - of the national herd of three million - have died, either short of food or from livestock diseases that could not be treated because of the war. Among other things, the cattle were used as draft animals and if they aren't replaced, farmers in the subsistence sector will have severe problems growing enough food to feed themselves.

In addition to rehabilitation of community services, the Government is faced with high costs of repatriating and resettling one to one and half million refugees and displaced persons. These people must be transported home and provided with some items in order for them to begin re-establishing themselves and become self-sufficient.

COMMENTS ON CERTAIN SECTIONS OF THE FOREIGN
ASSISTANCE ACT OF 1961, AS AMENDED,
AS THESE MAY PERTAIN TO ZIMBABWE

Section 620(1)

"The President shall consider denying assistance under this Act to the government of any less developed country which, after December 31, 1966, has failed to enter into an agreement with the President to institute the investment guaranty program under section 234(a)(1) of this Act, providing protection against the specific risks of inconvertibility under subparagraph (A), and expropriation or confiscation under subparagraph (B), of section 234(a)(1)."

Zimbabwe became an independent country on April 18, 1980. There is a clear potential for United States investment in Zimbabwe. AFR/SA has been advised that OPIC staff has the establishment of an investment guaranty program in Zimbabwe under internal discussion and consideration at this time. Considering that Zimbabwe is a newly independent country, that there has not been sufficient time to inaugurate an investment guaranty program, and that the United States intends to proceed with such a program, we do not recommend denying assistance to Zimbabwe at this time.

Section 620(o)

"In determining whether or not to furnish assistance under this Act, consideration shall be given to excluding from such assistance any country which hereafter seizes, or imposes any penalty or sanction against, any United States fishing vessel on account of its fishing activities in international waters. The provisions of this subsection shall not be applicable in any case governed by international agreement to which the United States is a party."

Zimbabwe is a landlocked country with no navy. We consider this section of the FAA as inapplicable to Zimbabwe.

Section 620(u)

"In any decision to provide or continue to provide any program of assistance to any country under the Foreign Assistance Act of 1961, as amended, there shall be taken into account the status of the country with respect to its dues, assessments and other obligations to the United Nations; and where such country is delinquent with respect to any such obligations for the purposes of the first sentence of Article 19 of the United Nations Charter, the President shall furnish the Committee on Foreign Relations of the Senate and the Speaker of the House of Representatives a report setting forth the assurance given by the government of the country concerned of paying all of its arrearages and of placing its payments of such obligation on a current basis, or a full explanation of the unusual or exceptional circumstances which render it economically incapable of giving such assistance."

Zimbabwe has recently applied for membership in the United Nations. At this time, we consider this section to be inapplicable to Zimbabwe.

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ACTION AID-59

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INFO AAAF-01 AFSA-01 AFDR-06 PPCE-01 PPPG-02 PPEA-01 ES-01
SER-01 MAST-01 AFDA-01 PDPR-01 /019 A2

INFO OCT-81 SSO-00 AF-10 EB-08 AGRE-00 10-15 CIAE-00
INR-10 INRE-00 /103 W

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O 091716Z JUN 80
FM AMEMBASSY SALISBURY
TO SECSTATE WASHDC IMMEDIATE 894
INFO AMEMBASSY NAIROBI
AMEMBASSY MBABANE
AMEMBASSY PRETORIA

UNCLAS SECTION 01 OF 04 SALISBURY 1612

AIDAC

NAIROBI FOR REDSO

PRETORIA FOR AMB. KEELEY

E. O. 12055: N/A

TAGS: N/A

SUBJ: ZIMBABWE PROGRAM ASSISTANCE APPROVAL DOCUMENT

REF: STATE 133500
SALISBURY 1212

1. AID STAFF FROM NAIROBI, MBABANE AND SALISBURY HAVE COMPLETED DRAFTING PAAD FOR REMAINING DOLS 13 MILLION FY80 AID TO ZIMBABWE. FOLLOWING IS PART I OF PAAD--ECONOMIC JUSTIFICATION. PART II OF PAAD WILL BE DISPATCHED 13 JUNE FOLLOWING AMB. KEELEY'S REVIEW. ACTION: REQUEST AFR/SA IMMEDIATELY ARRANGE PAAD DISTRIBUTION AND SCHEDULE PAAD REVIEW TO ALLOW PAAD APPROVAL NLT 30 JUNE. PLEASE ADVISE PAAD REVIEW DATE AND ANY ADDITIONAL INFORMATION REQUIRED.

2. BELOW IS PART I OF PAAD: ECONOMIC JUSTIFICATION.

A. SUMMARY: FROM THE FOLLOWING DISCUSSION IT IS CLEAR THAT ZIMBABWE NEEDS MASSIVE ASSISTANCE ON BOTH BALANCE OF PAYMENTS AND DOMESTIC BUDGET SUPPORT GROUNDS. THE PROPOSED US DOLS 13 MILLION ASSISTANCE PACKAGE (WHICH HAS ALREADY BEEN ANTICIPATED IN THE DATA EXAMINED) IS CLEARLY NEEDED AND NEEDED QUICKLY.

SINCE 1974 THE OVERALL BALANCE OF PAYMENTS HAS BEEN IN DEFICIT EVEN THOUGH THE TRADE BALANCE HAS BEEN POSITIVE ALMOST EVERY YEAR SINCE UDI. IN 1980/81 THE GOZ IS AGAIN FORECASTING LARGE BALANCE OF PAYMENTS DEFICITS. THE TOTAL DEFICIT COMPARES VERY UNFAVOURABLY WITH THE GOLD, FOREIGN EXCHANGE AND BANK HOLDINGS THAT WOULD BE REQUIRED TO FINANCE THE DEFICIT WITHOUT FURTHER INTERNATIONAL BORROWING. THE RESERVES AMOUNT TO FOUR MONTHS IMPORT COVERAGE AT 1979 RATES OF IMPORT BUT LESS THAN THREE MONTHS COVERAGE AT 1980 RATES. THIS LEVEL IS ALREADY PROBABLY UNACCEPTABLY LOW. FOR AT LEAST THE NEXT SEVERAL YEARS THERE WILL BE SEVERE PRESSURE ON THE ALREADY LOW FOREIGN EXCHANGE POSITION AND THIS WILL UNDOUBTEDLY BE A MAJOR RESTRAINT ON THE PACE AND RECOVERY OF DEVELOPMENT OF THE ZIMBABWE ECONOMY.

DECLINING TAX REVENUES COUPLED WITH INCREASED EXPENDITURES HAVE RESULTED IN A BUDGET DEFICIT OF 2 DOLS 914 MILLION OVER THE PAST THREE YEARS. IT APPEARS THAT THIS TRENT WILL CONTINUE IN 1980/81. PRESUMABLY MUCH OF THE INCREASED DEFICIT WILL ARISE FROM THE NEED TO PAY THREE ARMIES WHICH ARE SLOWLY BEING DEMOBILIZED, FROM RESETTLEMENT OF REFUGEES AND FROM RURAL RECONSTRUCTION EXPENDITURES. THE SCALE OF THE BUDGET DEFICIT IMPLIES THAT THERE IS NOT LIKELY TO BE ANY GREAT DIVIDEND FROM ENDING THE WAR WHICH WOULD ALLOW GOZ TO PUSH DEVELOPMENT ACTIVITIES.

WHILE IT APPEARS THAT GOZ COULD AFFORD SOME INCREASE IN FOREIGN BORROWING, THERE IS LITTLE ROOM FOR DOMESTIC FINANCING ON THE SCALE REQUIRED. GOVERNMENT WILL BE COMPETING FOR DOMESTIC

FUNDS WITH THE PRIVATE SECTOR AT A TIME WHEN THE LATTER WILL BE BORROWING TO REHABILITATE OR REPLACE RUN-DOWN EQUIPMENT THAT HAS DETERIORATED DURING SANCTIONS. THE EFFECT WILL BE TO DRIVE UP INTEREST RATES THAT COULD HAMPER PRIVATE INVESTMENT AND CLOW ECONOMIC RECOVERY. THE INFLATIONARY AND DISLOCATION RISKS TO THE ECONOMY FROM CONTINUED HEAVY DEFICIT FINANCING ARE GREAT. PAST DISLOCATIONS HAVE BEEN GREAT AND EXPECTATIONS HAVE RISEN; CONTINUED STAGNATION WILL BE POLITICALLY UNACCEPTABLE.

A RESOURCE TRANSFER PROGRAM IS URGENTLY NEEDED TO ALLEVIATE BOTH BUDGET DEFICIT AND BALANCE OF PAYMENTS CDNSTRAINTS TO IMMEDIATE REFUGEE RESETTLEMENT, RURAL RECONSTRUCTION AND ECONOMIC RECOVERY. END SUMMARY.

B. MACRO-ECONOMIC SETTING:

THE ECONOMIC RATIONALE FOR PROGRAM ASSISTANCE IS BASED UPON WHAT IS EXPECTED TO BE SEVERE BALANCE OF PAYMENTS PROBLEMS AND EXTRAORDINARY GOVERNMENT BUDGET DEFICITS DURING THE NEXT SEVERAL YEARS. BEFORE ANALYZING THE SPECIFIC MACRO-ECONOMIC PROBLEMS TO BE ADDRESSED BY THIS ASSISTANCE, A VERY BRIEF SUMMARY OF THE MACRO-ECONOMIC SETTING IS PROVIDED.

GROSS DOMESTIC PRODUCT (MARKET PRICES) (GDP) STOOD AT 2 DOLS 2.6 BILLION IN 1979 OR 2 DOLS 360 PER CAPITA (2 DOL 1 EQUALS US DOL 1.57). IN REAL TERMS GDP HAS GROWN BY ABOUT 2 PERCENT P.A. BETWEEN 1970 AND 1979 BUT HAS IN PER CAPITA TERMS STEADILY DECLINED FROM THE HIGH POINT (OF GDP) IN 1974. IN 1979 IN REAL TERMS PER CAPITA GDP STOOD AT 86 PERCENT OF THE 1974 LEVEL.

MANUFACTURING IS THE LARGEST CONTRIBUTOR, 25 PERCENT TO GDP (FACTOR COST). THIS IS FOLLOWED BY AGRICULTURE AND FORESTRY 12 PERCENT, DISTRIBUTION (INCLUDING HOTELS AND RESTAURANTS) 12 PERCENT, PUBLIC ADMINISTRATION 11 PERCENT, TRANSPORT AND COMMUNICATION 9 PERCENT, AND MINING 8 PERCENT. DURING THE PERIOD 1974/1979 MANUFACTURING'S SHARE OF GDP INCREASED BY 1 PERCENTAGE POINT, PUBLIC ADMINISTRATION BY 5 POINTS, AND TRANSPORT AND COMMUNICATIONS BY 1 POINT. AGRICULTURE AND DISTRIBUTION SHARES FELL BY 6 AND 5 POINTS RESPECTIVELY.

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INCOMING
TELEGRAM

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ACT:ON AID-59

SALISB 01612 02 OF 04 100840Z 004707 AIG2177
GOVERNMENT FROM SOUTH AFRICA. THE CAPITAL ACCOUNT BALANCE IN 1979 WAS IN SURPLUS BY 2183 MILLION.

INFO AAAF-01 AFSA-03 AFDR-06 PPCE-61 PPPD-02 PPEA-01 ES-01
SER-01 MACT-01 AFDA-01 PDPR-01 /019 52

AT THE END OF 1979 THE GOLD AND FOREIGN EXCHANGE HOLDINGS OF THE RESERVE BANK STOOD AT 2197 MILLION. THE BANKING SYSTEM HELD AN ADDITIONAL 2431 MILLION IN GOLD AND FOREIGN ASSETS.

INFO OCT-01 SSO-00 AF-1G EB-08 AGRE-00 10-15 CIAE-00
INR-10 INRE-00 /103 W

D. BALANCE OF PAYMENTS - PROJECTIONS

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IN 1980 AND 1981 THE GOZ FORECASTS A BASIC CONTINUATION OF THE BALANCE OF PAYMENTS TRENDS OF THE 1966-79 PERIOD. A RAPID EXPANSION OF EXPORTS LED BY MINERALS, PARTICULARLY GOLD, AND SIZEABLE INCREASES IN IMPORTS SPURRED BY A BACKLOG OF DEMAND FROM SANCTIONS FOR CAPITAL GOODS REPLACEMENT IS FORECAST LEAVING THE TRADE BALANCE NEAR ITS 1979 LEVEL. THE LIFTING OF SANCTIONS IS EXPECTED TO MAKE IMPORTS 5 PERCENT CHEAPER AND THE ABILITY TO SELL DIRECTLY RATHER THAN THROUGH THIRD COUNTRY MIDDLEMEN COULD LEAD TO AS MUCH AS A 15-20 PERCENT INCREASE IN RETURN FROM EXPORTS. GOOD EXPORTS ARE FORECAST TO INCREASE TO 23967 MILLION, A 48 PERCENT INCREASE OVER 1979; GOODS IMPORTS ARE EXPECTED TO BE 25844 MILLION, AN INCREASE OF 48 PERCENT. WHEN THOSE ITEMS ARE COMBINED WITH THE SMALLER RE-EXPORT AND INTERNAL FREIGHT ITEMS, THE BALANCE OF TRADE IS EXPECTED TO BE IN SURPLUS BY 2594 MILLION. FOR 1981, EXPORTS OF 251,100 MILLION AND IMPORTS OF 23992 MILLION WILL LEAVE A TRADE BALANCE SURPLUS OF 2373 MILLION WHEN ADJUSTED FOR THE SMALLER ITEMS.

O 091716Z JUN 88
FM AMEMBASSY SALISBURY
TO SECSTATE WASHDC IMMEDIATE 895
INFO AMEMBASSY NAIROBI
AMEMBASSY NABABANE
AMEMBASSY PRETORIA

THE "SERVICES" AND "INVESTMENT INCOME" ITEMS ARE EXPECTED TO BE SIMILAR TO THE LEVELS OF THE 1970'S. THE SERVICES DEFICIT WILL INCREASE, DUE TO THE EXPANDED TRADE-INDUCED INCREASE IN EXTERNAL FREIGHT AND INSURANCE OUTFLOWS, TO 23175 MILLION IN 1980 AND 23200 MILLION IN 1981. THE NET OUTFLOW FROM INVESTMENT INCOME IS FORECAST TO BE 2356 MILLION IN 1980 AND 2364 MILLION IN 1981.

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NET TRANSFERS ARE EXPECTED TO BECOME A SURPLUS ITEM FOR THE FIRST TIME SINCE 1968, WHOLLY AS A RESULT OF EXPECTED FOREIGN AID INFLOW TO THE GOZ. THESE INFLOWS ARE ANTICIPATED TO BE 2356 MILLION IN 1980 AND 2359 MILLION IN 1981 LEADING TO A NET TRANSFER SURPLUS OF 2330 MILLION AND 2328 MILLION IN 1980 AND 1981, RESPECTIVELY.

NAIROBI FOR REDSO

PRETORIA FOR AMB. KEELEY

THE RESULTING NET DEFICIT ON CURRENT ACCOUNT IN 1980 IS EXPECTED TO BE 23106 MILLION IN 1980 AND 23162 MILLION IN 1981. THE CAPITAL ACCOUNT BALANCE WHILE IN SURPLUS IS EXPECTED TO BE MUCH SMALLER THAN THE CURRENT ACCOUNT DEFICIT. THE 1980 CAPITAL BALANCE IS EXPECTED TO BE 2538 MILLION ARISING FROM INFLOWS TO GOVERNMENT OF 2545 MILLION. (THIS AND THE 1981 FIGURE COUNT

IN 1979, 590,000 PEOPLE WERE FORMALLY EMPLOYED IN ZIMBABWE. OF THIS TOTAL 33 PERCENT HAD AGRICULTURAL JOBS, 15 PERCENT WERE EMPLOYED IN MANUFACTURING AND 11 PERCENT IN PRIVATE DOMESTIC SERVICE. IN ADDITION TO FORMAL SECTOR EMPLOYMENT PERHAPS AN ADDITIONAL TWO MILLION PEOPLE OF WORKING AGE WOULD HAVE HAD TO FIND OTHER MEANS OF LIVELIHOOD, PROVIDED OVERWHELMINGLY BY SUBSISTENCE FARMING IN TRIBAL TRUST LANDS.

FROM 1970 TO 1979 FORMAL SECTOR EMPLOYMENT GREW BY 1.6 PERCENT PER ANNUM OR MUCH LESS THAN THE RATE OF POPULATION GROWTH WHICH IS IN EXCESS OF THREE PERCENT. FORMAL SECTOR EMPLOYMENT PEAKED IN 1975 AT 1.05 MILLION AND HAS DECLINED EVERY YEAR SINCE.

THUS SINCE THE MID 1970'S, BOTH P/C AND GDP AND EMPLOYMENT HAVE FALLEN. IT IS AGAINST THIS BACKGROUND OF FIVE YEARS OF STAGNATION AND DECLINE IN WHICH PER CAPITA GDP FELL BY ABOUT 5 PERCENT P.A. THAT THE PRESENT PROGRAM ASSISTANCE IS PROPOSED. AS INDICATED BEFORE, THE SPECIFIC ECONOMIC JUSTIFICATION IS BASED ON BALANCE OF PAYMENTS AND BUDGET SUPPORT NEEDS AS THE GOVERNMENT OF ZIMBABWE BEGINS THE PROCESS OF REVITALIZING AND DEVELOPING THE ECONOMY ALONG MORE EQUITABLE LINES.

C. BALANCE OF PAYMENTS - RECENT PERFORMANCE

THE OVERALL BALANCE IN ZIMBABWE'S BALANCE OF PAYMENTS BETWEEN 1966 AND 1979 WAS A CREDIT OF 2 DOLS 36 MILLION, BUT SINCE 1974 THE OVERALL BALANCE HAS BEEN IN DEFICIT BY 2 DOLS 83 MILLION. THE BIGGEST DEFICIT, 2 DOLS 56 MILLION OCCURRED IN 1977 WHILE IN 1979 THE OVERALL BALANCE SHOWED A DEFICIT OF 2 DOLS 21 MILLION.

SINCE 1971 ZIMBABWE'S TRADE BALANCE (INCLUDING INTERNAL FREIGHT BUT NOT EXTERNAL SHIPPING COSTS) HAS BEEN POSITIVE EACH YEAR WITH THE EXCEPTION OF 1968. THE HIGH POINT WAS REACHED IN 1978 WHEN THE NET TRADE BALANCE WAS 2 DOLS 178 MILLION. IN 1979 THE BALANCE FELL TO 2 DOLS 94 MILLION.

THE SERVICES, INVESTMENT INCOME AND TRANSFER ITEMS ARE VIRTUALLY ALWAYS IN A DEFICIT POSITION. SERVICES, PRIMARILY EXTERNAL FREIGHT AND INSURANCE AND FOREIGN TRAVEL, REACHED A NET DEBIT POSITION OF 2 DOLS 135 MILLION IN 1979 AFTER AVERAGING ABOUT 23100 MILLION THE PREVIOUS FOUR YEARS. INVESTMENT INCOME SHOWED THE GREATEST DEBIT BALANCE, 2352 MILLION, IN 1976 (2350 MILLION IN 1979). NET TRANSFER, PRIMARILY GRANT'S FUNDS, SHOWED THE BIGGEST DEBIT BALANCE 2326 MILLION IN 1975. IN 1979 THE NET DEFICIT WAS 2319 MILLION.

CUMULATIVELY THE NET DEBITS OF THESE THREE ITEMS HAVE TYPICALLY EXCEEDED THE POSITIVE TRADE BALANCE WITH THE RESULT THAT THE CURRENT ACCOUNT BALANCE HAS BEEN NEGATIVE SEVEN OF THE PAST NINE YEARS. IN 1975 THE NET CURRENT ACCOUNT BALANCE WAS IN DEFICIT BY 23121 MILLION WHILE IN 1979 IT WAS 23110 MILLION.

THE BALANCE ON CAPITAL ACCOUNT HAS TYPICALLY BEEN POSITIVE WITH THE CAPITAL INFLOW IN THE EARLY 1970'S SPURRED BY "OTHER CAPITAL TRANSACTION," AND IN 1978 AND 1979 BY NET INFLOWS BY

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INFO AAAF-01 ESB-03 AFDR-06 PPCE-01 PPPB-02 PPEA-01 ES-01
CER-01 MAST-01 AFDA-01 PDR-01 /019 A2

INFO OCT-01 SSG-00 AF-10 EB-08 AGRE-03 10-15 CIAE-60
INF-10 INF-E-00 /103 W

-----214256 100851Z /10

O 091716Z JUN 80
FM AMEMBASSY SALISBURY
TO SECSTATE WASHDC IMMEDIATE 296
INFO AMEMBASSY NAIROBI
AMEMBASSY MBABANE
AMEMBASSY PRETORIA

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AIDAC

NAIROBI FOR REDSO

PRETORIA FOR AMB. KEELEY

ONLY BORROWING FROM CURRENTLY KNOWN SOURCES.) IN 1981 THE SURPLUS ON CAPITAL ACCOUNT IS EXPECTED TO SHRINK TO Z\$22 MILLION AS THE INFLOW FROM FOREIGN BORROWING BY PUBLIC AUTHORITIES (FOR POWER EXPANSION AND ELECTRIFICATION OF THE RAILWAYS) WILL BE MORE THAN OFFSET BY NET GOVERNMENT OUTFLOWS WHICH ARE CURRENTLY FORECAST TO BE Z\$46 MILLION. THE RESULTING TOTAL CAPITAL AND CURRENT TRANSACTIONS BALANCE IS A DEFICIT OF Z\$68 MILLION IN 1980 AND Z\$141 MILLION IN 1981.

THE TOTAL DEFICIT OF Z\$209 MILLION FOR 1980/81 COMPARES VERY UNFAVORABLY WITH THE 1979 LEVEL OF OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES OF Z\$197 MILLION AND BANKING SYSTEM HOLDINGS OF Z\$31 MILLION THAT WOULD BE REQUIRED TO FINANCE THE DEFICIT WITHOUT FURTHER INTERNATIONAL BORROWING.

MOREOVER, THERE ARE A FEW POTENTIAL DEBIT ITEMS NOT INCLUDED IN THE 1980 AND 1981 ESTIMATES WHICH COULD PARTIALLY OFFSET INCREASED FOREIGN BORROWING. MOST IMPORTANT IS THE FACT THAT PAYMENTS ON GOVERNMENT-OWED DEBT TO THE U.K. (BOTH PUBLIC AND PRIVATE) HAVE BEEN EXCLUDED FROM THE ESTIMATES SINCE THE GOZ AND THE U.K. HAVE NOT YET WORKED OUT REPAYMENT ARRANGEMENTS. BY JUNE 1980, OVERDUE AND CURRENT PAYMENTS COULD EXCEED Z\$110 MILLION. IN ADDITION, FOOD IMPORTS FOR 1980 AMOUNTING TO PERHAPS Z\$5 MILLION, HAVE NOT BEEN INCLUDED IN IMPORT ESTIMATES.

THE OFFICIAL RESERVES AMOUNT TO FOUR MONTHS IMPORT COVER AT 1979 RATES OF IMPORTS BUT LESS THAN THREE MONTHS COVER AT 1980 IMPORT RATES. THIS LEVEL IS PROBABLY ALREADY UNACCEPTABLY LOW AND ANY FURTHER REDUCTIONS IN RESERVES WOULD FURTHER EXACERBATE THIS UNHEALTHY STATE OF AFFAIRS.

INCREASED FOREIGN BORROWING BY GOVERNMENT WILL UNDOUBTEDLY INCREASE OVER THE CURRENT KNOWN LEVEL PARTICULARLY IN 1981, THUS REDUCING THE OVERALL DEFICIT TO BE FINANCED BY NET FOREIGN EXCHANGE FLOWS. AS WILL BE SEEN BELOW THE CURRENT EXTERNAL DEBT POSITION OF THE GOVERNMENT IS SUFFICIENTLY COMFORTABLE TO ALLOW MORE EXTENSIVE BORROWING. NEVERTHELESS FOR AT LEAST THE NEXT SEVERAL YEARS THERE WILL BE SEVERE PRESSURE ON THE ALREADY LOW FOREIGN EXCHANGE POSITION OF THE GOZ AND THIS PRESSURE WILL UNDOUBTEDLY BE A MAJOR RESTRAINT ON THE PACE OF RECOVERY AND DEVELOPMENT OF THE ZIMBABWE ECONOMY.

E. GOVERNMENT FINANCIAL POSITION

GOVERNMENT REVENUES RELY VERY HEAVILY ON INCOME AND SALES TAXES WHICH IN 1979/80 (JULY 1, 1979 - JUNE 30, 1980) WILL ACCOUNT FOR OVER 70 PERCENT OF REVENUES. THESE TAXES WILL TEND TO MOVE IN THE SAME DIRECTION AND AT THE SAME PACE AS THE ECONOMY. THUS WITH THE ACTUAL REDUCTION IN GDP OVER THE LAST SEVERAL YEARS TAX REVENUES HAVE FALLEN IN REAL TERMS, THE LEVEL OF Z\$616 MILLION EXPECTED IN 1979/80 BEING ONLY 86 PERCENT OF 1976/77 REVENUES.

ON THE OTHER HAND, EXPENDITURES, FUELED BY DEFENSE NEEDS, HAVE GROWN IN REAL TERMS BY 32 PERCENT OVER THE 1976/77 - 1979/80

PERIOD TO A 1979/80 ANTICIPATED LEVEL OF Z\$1,055 MILLION. DURING THIS PERIOD DEFENSE EXPENDITURES INCREASED FROM Z\$98 MILLION IN 1976/77 TO AN ESTIMATED Z\$276 MILLION IN 1979/80, A 109 PERCENT INCREASE IN REAL TERMS.

THESE TRENDS HAVE CAUSED THE GOVERNMENT BUDGET ACCOUNT DEFICIT TO GROW FROM Z\$60 MILLION IN 1976/77 TO AN ESTIMATED Z\$439 MILLION IN 1979/80. THE TOTAL DEFICIT DURING THIS PERIOD WAS Z\$914 MILLION OR 35 PERCENT OF 1979 GDP.

WHILE THE 1980/81 BUDGET IS STILL UNAVAILABLE, FROM THE FEW PIECES OF INFORMATION PROVIDED IT WOULD APPEAR THAT AT LEAST FOR THE COMING YEAR THIS TREND WILL ACCELERATE. CAPITAL EXPENDITURES, WHICH HAD BEEN EXTREMELY LOW DURING THE WAR YEARS, ARE EXPECTED TO INCREASE FROM Z\$64 MILLION IN 1979/80 TO Z\$150 MILLION IN 1980/81 AS THE REBUILDING OF THE ECONOMY BEGINS IN EARNEST. THE ANTICIPATED GOVERNMENT BUDGET ACCOUNT DEFICIT FOR 1980/81 IS Z\$650 MILLION. NO INFORMATION IS AVAILABLE ON EXPECTED REVENUES AND RECURRENT EXPENDITURES AND TRANSFERS. HOWEVER, SINCE GOVERNMENT REVENUES ARE CLOSELY TIED TO ECONOMIC PERFORMANCE, ASSUMING A 4 PERCENT REAL GROWTH RATE, WHICH MANY EXPECT, AND A 12 PERCENT RATE OF INFLATION, GOZ REVENUES WOULD BE ABOUT Z\$720 MILLION. THIS WOULD IMPLY A TOTAL BUDGET OF Z\$1,370 MILLION, AN INCREASE OF 30 PERCENT OVER 1979/80 AND A RECURRENT BUDGET AND TRANSFER OF Z\$1,220 MILLION (24 PERCENT INCREASE). PRESUMABLY MUCH OF THE INCREASE WILL ARISE FROM THE NEED TO PAY FOR THREE ARMIES, WHICH WILL NOT YET HAVE BEEN DEMOBILIZED AND FOR THE RESETTLEMENT OF REFUGEES.

WHILE OVER TIME THE DEMOBILIZATION AND RESETTLEMENT EFFORTS WILL REDUCE THE DRAIN ON BUDGETARY RESOURCES, THE SCALE OF THE BUDGET DEFICIT IMPLIES THAT THERE IS NOT LIKELY TO BE ANY GREAT "DIVIDEND" FROM THE ENDING OF THE WAR WHICH WOULD ALLOW GOVERNMENT TO PUSH OTHER DEVELOPMENT ACTIVITIES. MUCH OF THE REDUCED WAR SPENDING WILL HAVE TO BE EQUATED WITH REDUCED BUDGET DEFICITS.

WITH CURRENT ESTIMATES FROM BALANCE OF PAYMENTS DATA INDICATING THAT THE GOZ ANTICIPATES PERHAPS Z\$100 MILLION FROM FOREIGN GRANTS AND LOANS, Z\$550 MILLION WOULD NEED TO BE FINANCED FROM DOMESTIC SOURCES.

WHILE PREVIOUSLY IT WAS INDICATED THAT THE GOZ COULD AFFORD TO INCREASE ITS FOREIGN BORROWING AS WILL BE DEMONSTRATED BELOW, THERE IS LITTLE ROOM FOR DOMESTIC FINANCE ON THE SCALE REQUIRED.

F. CENTRAL GOVERNMENT PUBLIC DEBT

TOTAL GROSS PUBLIC DEBT OF THE CENTRAL GOVERNMENT STOOD AT Z\$1,550 MILLION AT THE END OF 1979. SINKING FUNDS AND DEBT REDEMPTION FUNDS FOR REDEEMING STOCKS AND BONDS AMOUNT TO ABOUT Z\$55 MILLION SO THAT UNCOVERED GROSS PUBLIC DEBT AMOUNTS TO Z\$1,495 MILLION.

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ACTION AID-59

SALISB 01612 03 OF 04 100851Z 004706 A102176

INFO AAF-01 AFSA-01 AFDR-06 FFCE-01 PPPB-01 PPEA-01 ES-01
SER-01 MAST-01 AFDA-01 FOPR-01 /019 A2
-----INFO OCT-01 SSO-00 AF-10 E 08 AGRE-00 10-15 CIAE-00
INR-10 INRE-00 /103 W

-----014296 100855Z /10

O 091716Z JUN 83
FM AMEMBASSY SALISBURY
TO SECSTATE WASHDC IMMEDIATE 896
INFO AMEMBASSY NAIROBI
AMEMBASSY MBABANE
AMEMBASSY PRETORIA

UNCLAS SECTION 03 OF 04 SALISBURY 1612

AIDAC

NAIROBI FOR REDSO

PRETORIA FOR AMB. KEELY

ONLY BORROWING FROM CURRENTLY KNOWN SOURCES.) IN 1981 THE SURPLUS ON CAPITAL ACCOUNT IS EXPECTED TO SHRINK TO \$22 MILLION AS THE INFLOW FROM FOREIGN BORROWING BY PUBLIC AUTHORITIES (FOR POWER EXPANSION AND ELECTRIFICATION OF THE RAILWAYS) WILL BE MORE THAN OFFSET BY NET GOVERNMENT OUTFLOWS WHICH ARE CURRENTLY FORECAST TO BE \$346 MILLION. THE RESULTING TOTAL CAPITAL AND CURRENT TRANSACTIONS BALANCE IS A DEFICIT OF \$568 MILLION IN 1980 AND \$5141 MILLION IN 1981.

THE TOTAL DEFICIT OF \$2209 MILLION FOR 1980/81 COMPARES VERY UNFAVORABLY WITH THE 1979 LEVEL OF OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES OF \$3197 MILLION AND BANKING SYSTEM HOLDINGS OF \$331 MILLION THAT WOULD BE REQUIRED TO FINANCE THE DEFICIT WITHOUT FURTHER INTERNATIONAL BORROWING.

MOREOVER, THERE ARE A FEW POTENTIAL DEBIT ITEMS NOT INCLUDED IN THE 1980 AND 1981 ESTIMATES WHICH COULD PARTIALLY OFFSET INCREASED FOREIGN BORROWING. MOST IMPORTANT IS THE FACT THAT PAYMENTS ON GOVERNMENT-OWED DEBT TO THE U.K. (BOTH PUBLIC AND PRIVATE) HAVE BEEN EXCLUDED FROM THE ESTIMATES SINCE THE GOZ AND THE U.K. HAVE NOT YET WORKED OUT REPAYMENT ARRANGEMENTS. BY JUNE 1980, OVERDUE AND CURRENT PAYMENTS COULD EXCEED \$518 MILLION. IN ADDITION, FOOD IMPORTS FOR 1980 AMOUNTING TO PERHAPS \$55 MILLION, HAVE NOT BEEN INCLUDED IN IMPORT ESTIMATES.

THE OFFICIAL RESERVES AMOUNT TO FOUR MONTHS IMPORT COVER AT 1979 RATES OF IMPORTS BUT LESS THAN THREE MONTHS COVER AT 1980 IMPORT RATES. THIS LEVEL IS PROBABLY ALREADY UNACCEPTABLY LOW AND ANY FURTHER REDUCTIONS IN RESERVES WOULD FURTHER EXACERBATE THIS UNHEALTHY STATE OF AFFAIRS.

INCREASED FOREIGN BORROWING BY GOVERNMENT WILL UNDOUBTEDLY INCREASE OVER THE CURRENT KNOWN LEVEL PARTICULARLY IN 1981, THUS REDUCING THE OVERALL DEFICIT TO BE FINANCED BY NET FOREIGN EXCHANGE FLOWS. AS WILL BE SEEN BELOW THE CURRENT EXTERNAL DEBT POSITION OF THE GOVERNMENT IS SUFFICIENTLY COMFORTABLE TO ALLOW MORE EXTENSIVE BORROWING. NEVERTHELESS FOR AT LEAST THE NEXT SEVERAL YEARS THERE WILL BE SEVERE PRESSURE ON THE ALREADY LOW FOREIGN EXCHANGE POSITION OF THE GOZ AND THIS PRESSURE WILL UNDOUBTEDLY BE A MAJOR RESTRAINT ON THE PACE OF RECOVERY AND DEVELOPMENT OF THE ZIMBABWE ECONOMY.

E. GOVERNMENT FINANCIAL POSITION

GOVERNMENT REVENUES RELY VERY HEAVILY ON INCOME AND SALES TAXES WHICH IN 1979/80 (JULY 1, 1979 - JUNE 30, 1980) WILL ACCOUNT FOR OVER 70 PERCENT OF REVENUES. THESE TAXES WILL TEND TO MOVE IN THE SAME DIRECTION AND AT THE SAME PACE AS THE ECONOMY. THUS WITH THE ACTUAL REDUCTION IN GDP OVER THE LAST SEVERAL YEARS TAX REVENUES HAVE FALLEN IN REAL TERMS, THE LEVEL OF \$1616 MILLION EXPECTED IN 1979/80 BEING ONLY 86 PERCENT OF 1976/77 REVENUES.

ON THE OTHER HAND, EXPENDITURES, FUELED BY DEFENSE NEEDS, HAVE GROWN IN REAL TERMS BY 32 PERCENT OVER THE 1976/77 - 1979/80

PERIOD TO A 1979/80 ANTICIPATED LEVEL OF \$1,955 MILLION. DURING THIS PERIOD DEFENSE EXPENDITURES INCREASED FROM \$398 MILLION IN 1976/77 TO AN ESTIMATED \$276 MILLION IN 1979/80, A 109 PERCENT INCREASE IN REAL TERMS.

THESE TRENDS HAVE CAUSED THE GOVERNMENT BUDGET ACCOUNT DEFICIT TO GROW FROM \$360 MILLION IN 1976/77 TO AN ESTIMATED \$439 MILLION IN 1979/80. THE TOTAL DEFICIT DURING THIS PERIOD WAS \$914 MILLION OR 35 PERCENT OF 1979 GDP.

WHILE THE 1980/81 BUDGET IS STILL UNAVAILABLE, FROM THE FEW PIECES OF INFORMATION PROVIDED IT WOULD APPEAR THAT AT LEAST FOR THE COMING YEAR THIS TREND WILL ACCELERATE. CAPITAL EXPENDITURES, WHICH HAD BEEN EXTREMELY LOW DURING THE WAR YEARS, ARE EXPECTED TO INCREASE FROM \$364 MILLION IN 1979/80 TO \$150 MILLION IN 1980/81 AS THE REBUILDING OF THE ECONOMY BEGINS IN EARNEST. THE ANTICIPATED GOVERNMENT BUDGET ACCOUNT DEFICIT FOR 1980/81 IS \$650 MILLION. NO INFORMATION IS AVAILABLE ON EXPECTED REVENUES AND RECURRENT EXPENDITURES AND TRANSFERS. HOWEVER, SINCE GOVERNMENT REVENUES ARE CLOSELY TIED TO ECONOMIC PERFORMANCE, ASSUMING A 4 PERCENT REAL GROWTH RATE, WHICH MANY EXPECT, AND A 12 PERCENT RATE OF INFLATION, GOZ REVENUES WOULD BE ABOUT \$3720 MILLION. THIS WOULD IMPLY A TOTAL BUDGET OF \$51,370 MILLION, AN INCREASE OF 38 PERCENT OVER 1979/80 AND A RECURRENT BUDGET AND TRANSFER OF \$51,220 MILLION (24 PERCENT INCREASE). PRESUMABLY MUCH OF THE INCREASE WILL ARISE FROM THE NEED TO PAY FOR THREE ARMIES, WHICH WILL NOT YET HAVE BEEN DEMOBILIZED AND FOR THE RESETTLEMENT OF REFUGEES.

WHILE OVER TIME THE DEMOBILIZATION AND RESETTLEMENT EFFORTS WILL REDUCE THE DRAIN ON BUDGETARY RESOURCES, THE SCALE OF THE BUDGET DEFICIT IMPLIES THAT THERE IS NOT LIKELY TO BE ANY GREAT "DIVIDEND" FROM THE ENDING OF THE WAR WHICH WOULD ALLOW GOVERNMENT TO PUSH OTHER DEVELOPMENT ACTIVITIES. MUCH OF THE REDUCED WAR SPENDING WILL HAVE TO BE EQUATED WITH REDUCED BUDGET DEFICITS.

WITH CURRENT ESTIMATES FROM BALANCE OF PAYMENTS DATA INDICATING THAT THE GOZ ANTICIPATES PERHAPS \$3100 MILLION FROM FOREIGN GRANTS AND LOANS, \$3550 MILLION WOULD NEED TO BE FINANCED FROM DOMESTIC SOURCES.

WHILE PREVIOUSLY IT WAS INDICATED THAT THE GOZ COULD AFFORD TO INCREASE ITS FOREIGN BORROWING AS WILL BE DEMONSTRATED BELOW, THERE IS LITTLE ROOM FOR DOMESTIC FINANCE ON THE SCALE REQUIRED. F. CENTRAL GOVERNMENT PUBLIC DEBT

TOTAL GROSS PUBLIC DEBT OF THE CENTRAL GOVERNMENT STOOD AT \$51,550 MILLION AT THE END OF 1979. SINKING FUNDS AND DEBT REDEMPTION FUNDS FOR REDEEMING STOCKS AND BONDS AMOUNT TO ABOUT \$355 MILLION SO THAT UNCOVERED GROSS PUBLIC DEBT AMOUNTS TO \$51,495 MILLION.

UNCLASSIFIED
Department of State

INCOMING
TELEGRAM

PAGE 01 SALISU 01612 04 OF 04 101230Z 004711 AID2296
ACTION AID-59

SALISU 01612 04 OF 04 101230Z 004711 AID2296

INFO AAAF-01 AFSA-03 AFDR-06 PPCE-01 PPPB-02 PPEA-01 ES-01
SEP-01 HAST-01 AFDA-01 PR-01 /019 A2

INFO OCT-01 AF-1R EB-08 AGRE-00 10-15 CIAE-00 HR-10
HRE-00 /103 W

-----015644 101349Z /43

R 091716Z JUN 80
FM AMEMBASSY SALISBURY
TO SECSTATE WASHDC IMMEDIATE 897
INFO AMEMBASSY NAIROBI
AMEMBASSY MBABANE
AMEMBASSY PRETORIA

UNCLAS SECTION 04 OF 04 SALISBURY 1610

AID/C

NAIROBI FOR REDSO

PRETORIA FOR AMB. KEELEY

AS INDICATED ABOVE THIS DEBT POSITION HAS EXPANDED RAPIDLY, MORE THAN DOUBLING FROM Z\$696 MILLION IN 1975. WITH BORROWING OF ABOUT Z\$680 MILLION AND PERHAPS HALF OF THE 1979/80 DEFICIT STILL TO BE INCLUDED BY JULY 1981, THIS DEBT POSITION COULD STAND AT Z\$2,300 MILLION. WHEN ADDED TO THE GROSS PUBLIC DEBT OF LOCAL AUTHORITIES (Z\$282 MILLION AT THE END OF 1979), TOTAL GOVERNMENT DEBT WOULD APPROACH A LEVEL EQUAL TO TOTAL GDP.

EXTERNAL DEBT REPRESENTS ONLY A RELATIVELY SMALL PORTION (ABOUT 20 PERCENT) OF CENTRAL GOVERNMENT PUBLIC DEBT; AT THE END OF 1979 THE GOZ HAD EXTERNAL BORROWINGS OUTSTANDING OF Z\$355 MILLION OF WHICH APPROXIMATELY Z\$110 MILLION IS PAST DUE. THE REMAINING EXTERNAL DEBT IS VERY SHORT TERM WITH ONLY ABOUT Z\$23 MILLION HAVING A MATURITY DATE OF 1985 OR BEYOND. THESE FIGURES EXCLUDE INTEREST ACCRUALS WHICH COULD PERHAPS AMOUNT TO AN ADDITIONAL Z\$100 MILLION.

DATA ON DEBT SERVICING IS NOT AVAILABLE BUT A VERY ROUGH ESTIMATE OF THE DEBT SERVICING FOR 1981-83 WOULD PUT THE DEBT SERVICE RATIO AT ABOUT 10 PERCENT WHICH WOULD RAPIDLY FALL FROM 1982 ONWARDS BECAUSE OF THE VERY SHORT TERM NATURE OF GOZ DEBT. THIS WOULD LEAVE SOME ROOM FOR MEDIUM TERM INTERNATIONAL COMMERCIAL AND CONCESSIONAL DONOR LOANS WITHOUT UNDULY DRAINING EXPORT EARNINGS FOR DEBT SERVICING. THE CURRENT EXTERNAL DEBT OUTSTANDING CARRIES VERY LOW INTEREST, THE AVERAGE RATE PROBABLY ON THE ORDER OF 4 PERCENT.

ON THE DOMESTIC BORROWING SIDE, THE PICTURE IS QUITE DIFFERENT. DOMESTIC CENTRAL GOVERNMENT DEBT AS OF THE END OF 1979 STOOD AT Z\$1,192 MILLION. THIS INTERNAL DEBT IS SOMEWHAT LONGER TERM IN STRUCTURE WITH PERHAPS Z\$425 MILLION COMING DUE IN THE 1980-85 PERIOD. INTEREST PAYMENTS ON TOTAL CENTRAL GOVERNMENT DEBT AMOUNT TO ABOUT 7 PERCENT OF TOTAL GOVERNMENT EXPENDITURES.

THE ABILITY OF THE GOZ TO CONTINUE BORROWING DOMESTICALLY AT WHAT WOULD APPEAR TO BE AN ACCELERATING RATE WITHOUT HAVING A SERIOUS IMPACT ON THE ECONOMY IS DOUBTFUL. IN THE PAST HEAVY DOMESTIC BORROWING WAS ACCOMPLISHED WITH LITTLE IMPACT ON THE ECONOMY BECAUSE THE BANKING SYSTEM WAS EXTREMELY LIQUID, AND WITH THE ECONOMIC UNCERTAINTIES PREVAILING IN THE LAST SEVERAL YEARS, THERE WAS LITTLE PRIVATE COMPETITION WITH GOVERNMENT FOR THE USE OF FUNDS. DURING THE 1976-79 PERIOD INTEREST RATES REMAINED QUITE STABLE AND ALTHOUGH THE MONEY SUPPLY GREW AT DOUBLE DIGIT RATES (10 PERCENT P.A. FOR M1 AND 12 PERCENT P.A. FOR M2) RETAIL PRICES GREW BY ONLY 8 PERCENT P.A. AS INDICATED BEFORE REAL GDP FELL DURING THE PERIOD. EVEN WITH AN INCREASE IN MINIMUM LIQUID ASSET RATIOS REQUIRED OF THE BANKING SYSTEM IN 1976-1979 IN ANTICIPATION OF AN ECONOMIC UPSURGE, BY THE END OF 1979 EXCESS LIQUID ASSET HOLDINGS OF BANKING INSTITUTIONS STILL STOOD AT Z\$178 MILLION.

ACCELERATED GOVERNMENT BORROWING IN 1980 WILL NO DOUBT BEGIN

TO FIND MORE COMPETITION FOR FUNDS FROM THE PRIVATE SECTOR. THE ECONOMY IS EXPECTED TO EXPERIENCE REAL GROWTH OF ABOUT 4 PERCENT P.A. IN 1980 AND HEAVY PRIVATE BORROWING FOR THE REHABILITATION OR REPLACEMENT OF RUN-DOWN EQUIPMENT AND INFRASTRUCTURE WILL BE ESSENTIAL IF ECONOMIC PERFORMANCE IS TO IMPROVE.

THE EFFECT OF THIS NEW COMPETITION FOR FUNDS WILL BEGIN TO DRIVE UP INTEREST RATES. WHILE CURRENT INTEREST RATES ARE LOW BY WORLD STANDARDS, THE DEMAND FOR FUNDS WILL LIKELY BE SUCH THAT INTEREST RATES COULD BE DRIVEN TO LEVELS THAT BEGIN TO HAMPER PRIVATE INVESTMENT AND COULD THEN SLOW THE BADLY NEEDED ECONOMIC RECOVERY.

THE INFLATIONARY RISKS OF MASSIVE DEFICITS IS OBVIOUS. WHILE THE PREVIOUSLY MENTIONED REDUCTION IN IMPORT COSTS AS A RESULT OF THE LIFTING OF SANCTIONS WILL ALLEVIATE INFLATIONARY PRESSURES TO SOME EXTENT, THIS WILL BE A TEMPORARY, ONE-TIME EFFECT WHICH WILL QUICKLY BE SWAMPED BY OTHER PRESSURES. AS PRICES RISE, THERE WILL BE FURTHER PRESSURE FOR INCREASED GOVERNMENT SPENDING ON SUBSIDIES WHICH CURRENTLY ACCOUNT FOR ABOUT 10 PERCENT OF TOTAL EXPENDITURES.

THUS THE RISK OF SEVERE DISLOCATION IN THE ECONOMY FROM CONTINUED HEAVY DEFICIT FINANCE ARE GREAT. BUT IN A SETTING WHERE PAST ECONOMIC DISLOCATION HAS BEEN GREAT AND WHERE EXPECTATION LEVELS HAVE BEEN RAISED, CONTINUED ECONOMIC STAGNATION WILL BE INTOLERABLE. IT WILL TAKE GREAT SKILL OVER THE NEXT SEVERAL YEARS FOR THE ECONOMY TO BE MANAGED IN A WAY THAT ALLOWS THE REBUILDING OF SOCIAL INFRASTRUCTURE, THE RAPID RESETTLEMENT OF LARGE NUMBERS OF PEOPLE, AND THE RAPID EXPANSION OF THE ECONOMY'S DIRECTLY PRODUCTIVE SECTORS.

FROM THE ABOVE DISCUSSION, IT IS CLEAR THAT ZIMBABWE NEEDS MASSIVE ASSISTANCE ON BOTH BALANCE OF PAYMENTS AND DOMESTIC BUDGET SUPPORT GROUNDS. THE PROPOSED US \$13 MILLION ASSISTANCE PACKAGE, WHICH HAS ALREADY BEEN ANTICIPATED IN THE DATA USED IN THE FOREGOING DISCUSSION, IS CLEARLY NEEDED AND NEEDED QUICKLY. IT IS, HOWEVER, EQUALLY CLEAR THAT IT IS AN INADEQUATE AMOUNT RELATIVE TO THE SHORT TERM NEEDS OF ZIMBABWE.

WITHOUT GREATER INFLOWS OF FOREIGN CAPITAL IN THE SHORT RUN, ZIMBABWE MAY WELL FIND IT IMPOSSIBLE TO FINANCE THE RETURN TO NORMALITY IN THE COUNTRYSIDE AND AT THE SAME TIME HAVE THE PRIVATE ECONOMY PICK UP RAPIDLY TO BEGIN TO ABSORB THE LARGE NUMBERS OF UNEMPLOYED. STARVING THE PRIVATE SECTOR COULD LEAD TO AN INCREASED OUTFLOW OF WHITES AND A SLOWER RATE OF RESETTLEMENT AND PROVISION OF PUBLIC SECTOR-FINANCED INFRASTRUCTURE, IN A PERIOD OF HEIGHTENED EXPECTATIONS, WOULD BE POLITICALLY INTOLERABLE FOR THE NEW GOVERNMENT. AS THE GOZ ATTEMPTS TO ACCOMPLISH BOTH OBJECTIVES, FOREIGN EXCHANGE CONSTRAINTS WILL BECOME INCREASINGLY BINDING.

DAVIDOON

UNCLASSIFIED

613-0202

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AAA/AFR/DR, ^{John W. Koehring} ~~John W. Koehring~~

Problem: Your signature is requested on the attached Action Memorandum to the Administrator recommending an increase in the FY 80 Program Grant to the Government of Zimbabwe from \$13 million to \$20 million from the Economic Support Fund (ESF) appropriation.

Discussion: The approval of the Administrator or his designee is required for a Program Assistant Approval Document (PAAD) authorizing non-project assistance in excess of \$10,000,000.

Recommendation: That you sign the Action Memorandum to the Administrator recommending approval of the PAAD.

Attachment: a/s

Clearances:

AFR/SA:MVDagata JM
AFR/DR/SAP:DKline DK
GC/AFR:EDragon E.D.P.
AFR/DR:NCohen N.C.
AFR/DP:RAstacy RA

Drafted: AFR/SA: ^{RW} RWrin:mon:9/4/80 (X-20560)

10 SEP 1980

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU : ES *ES*
THRU : AA/PPC, Mr. Alexander Shakow *AS*
FROM : AA/AER, Goler T. Butcher *GTB*
SUBJECT: Zimbabwe - FY 80 Program Grant

Problem: Your approval is required for an increase in the Program Grant to the Government of Zimbabwe (GOZ) from \$13 million to \$20 million from the Economic Support Fund (ESF) appropriation. It is planned that the full \$7 million increase will be obligated in FY 80.

Discussion: On June 27, 1980, you authorized a Program Grant to the Government of Zimbabwe in the amount of \$13 million. The Program Grant was designed to assist the GOZ in meeting massive budgetary requirements. The Government's budget deficit is estimated at \$750 million for the period ending June 30, 1981 in the context of an economy with a GDP of \$3.5 billion (1979). The Program Grant amendment requires the GOZ to provide the dollar equivalent in local currency for immediate resettlement and reconstruction program needs. Emergency resettlement assistance has been estimated at \$110 million and rural rehabilitation/reconstruction requirements have been estimated at \$300 million over the next 2 to 3 years. These estimates are additional to reconstruction/rehabilitation of basic infrastructure. For example, one analysis places the immediate reconstruction/rehabilitation requirements of the railroad, alone, at over \$300 million. Donor commitments fall far short of needs. The analysis prepared in June for the \$13 million program grant (Tab A) remains the same, fully justifying the increment of \$7 million we are proposing herein.

The entire \$13 million of the initial program grant has been disbursed to the GOZ and they will complete their disbursement shortly. The Government of Zimbabwe has moved rapidly on the resettlement and rehabilitation activities to which the Government's local currencies are being applied. District authorities are contracting for road and bridge construction. Vegetable crop packs (seeds, tools, and fertilizer) have already been distributed to some 70,000 returning families. Returning families will also be provided basic grain packs for the fall planting season.

As in the initial grant, the funds made available under the grant amendment will be disbursed to a GOZ account in a U.S. bank. The GOZ will be required to place an equivalent amount in local currencies in the special account established pursuant to the grant agreement. Local currencies from this special account will be used to support the GOZ resettlement, reconstruction and rehabilitation programs. Specifically, the local currencies will be allocated among the Department of Agricultural Development (Devag), Division of District Administration, and Ministries of Commerce, Health and Social Services. The GOZ local currency will permit the purchase of locally made farm and construction implements to be used

by Devag and District Administration personnel, repair of mission schools and clinics in conjunction with Tribal Trust Lands and District Council schools and clinics, reestablishment of a revolving loan fund by Commerce to help rural small enterprises get back on their feet, reconstruction of "master" farmer (4 to 5 hectares of land per family) farms in African Purchase Areas by the Devag, reconstruction of staff housing for Devag and Health personnel to allow them to live at their projects/clinics, and provide additional financing for refugee resettlement and feeding programs operated by the Ministry of Social Services. The latter needs had been provided for partially by a grant this fiscal year to the UNHCR for repatriation and resettlement of Zimbabwean refugees. The second tranche of that grant (\$2 million) has been deobligated and applied to this program grant.

There are no conditions, covenants, or waivers associated with this program grant amendment. The GOZ will agree, however, that the A.I.D. funds cannot be used for military expenditures. Congress was notified of the program on August 14 and the fifteen day waiting period expired on August 29, 1980. A negative determination for the Initial Environmental Examination was made for the original program grant and is applicable to the amendment.

The State Department Office of Human Rights has cleared this memorandum. The AID/W backstop officer for this program will be Douglas T. Kline, AFR/DR/SAP.

Recommendation: That you sign the attached PAAD amendment (Tab B) and cable (Tab C), thereby authorizing the proposed increase in the Program Grant from \$13 million to \$20 million. The grant amendment will be signed upon receipt of your authorization and advice of allotment.

Attachments:

- A. PAAD Approved June 27, 1980
- B. PAAD Amendment
- C. Cable informing Field of your Decision

AFR/SA:HVFarnham/MVDagata:mon:9/5/80
retyped: 9/9/80

Clearances:

GC/AFR:EADragon	Date	9/9/80
GC:NHolmes	Date	9/9/80
AFR/DP:RAStacy	Date	9/10/80
HA/HR:BBowie	Date	9/9/80
AF/EPS:DBorn	Date	9/9/80
AFR/DR/SAP:DTKline	Date	9/10/80
AFR/DR:JWKoehring	Date	9/10/80
DAA/AFR:WHNorth	Date	9/10

XID 1120-1
 (0-66)
 PAAD

DEPARTMENT OF STATE
 AGENCY FOR
 INTERNATIONAL DEVELOPMENT
 PROGRAM ASSISTANCE
 APPROVAL DOCUMENT

1. PAAD NO.
 613-K-601
 2. COUNTRY
 Zimbabwe
 3. CATEGORY
 Program Grant (Cash)
 4. DATE
 June 26, 1980

6. TO:
 A/AID, Douglas J. Bennet, Jr.

5. OYB CHANGE NO.
 A OYB INCREASE
 None
 TO BE TAKEN FROM

7. FROM
 AA/AFR, Goler T. Butcher

9. APPROVAL REQUESTED FOR COMMITMENT OF
 \$ 13,000,000

10. APPROPRIATION - ALLOTMENT
 ESF 037-61-698-00-50-01

11. TYPE FUNDING
 LOAN GRANT

13. ESTIMATED DELIVERY PERIOD
 6-26-80 - 9-30-80

14. TRANSACTION ELIGIBILITY
 DATE 6-26-80

12. LOCAL CURRENCY ARRANGEMENT
 INFORMAL FORMAL NONE
 15. COMMODITIES FINANCED
 None

16. PERMITTED SOURCE
 U.S. only:
 Limited F.W.:
 Free World:
 Cash: 13,000,000

17. ESTIMATED SOURCE
 U.S.:
 Industrialized Countries:
 Local:
 Other:

18. SUMMARY DESCRIPTION
 The Mugabe-led nation of Zimbabwe inherited a country rich in natural and human resources, but one with severe budgetary and balance of payments problems, heightened expectations of the majority of the population, 1 to 1.5 million refugees and displaced persons and damage to rural infrastructure.
 The justification for this cash transfer is based on balance of payments and GOZ budget needs as the GOZ begins the process of reviving and developing the economy along more equitable lines.
 Since the mid-1970s both per capita and gross domestic product and employment have fallen. As a result of the war, during the last five years per capita GDP fell about five percent per annum. Government revenues rely very heavily on sales and income taxes (over 70 percent of revenues for the period of 1 July 1979 to 30 June 1980) and these have followed the downward trend of the economy, now (1979/80) accounting for only 85 percent of 1976/77 revenues. Expenditures, driven by increased defense needs, grew 32 percent in real terms from 1976/77 to 1979/80, with defense's share increasing by 109 percent in real terms. As a result, the Central Government's current account deficit grew from \$90 million in 1976/77 to

19. CLEARANCES	DATE
REG/DP EDonoghue <i>EAR</i>	26 June 80
REG/GC EDragon <i>EAD</i>	26 June 80
AA/PC CPaolillo <i>CP</i>	26 June 80
AA/CONI FM/C ASmith <i>PO</i>	26 June 80
AA/MR GC NHolmes <i>PO</i>	26 June 80
AA/DEBE AFR/SA: HFarrar <i>PO</i>	26 June 80
AFR/DR: JWKoehring <i>(NCR)</i>	26 June 80

20. ACTION
 APPROVED DISAPPROVED
 151
 AUTHORIZED SIGNATURE
 DATE 28/6/80
 Administrator
 TITLE

18. Summary Description (continued)

\$690 million in 1979/80.

The 1980/81 budget, not yet released, will continue the trend to increased deficit spending. No information is available but, since government revenues are tied closely to economic performance and many people are assuming a four percent real growth rate coupled with 12 percent inflation, we can project revenues of \$1.1 billion. The anticipated current account deficit for 1980/81 is \$1.0 billion based on a budget of \$2.1 billion, an increase of 30 percent over 1979/80. Much of the increase is apparently needed to pay for the three armies, which have not yet been demobilized, and to finance resettlement and development needs. While over time the demobilization and resettlement efforts will reduce the drain on budgetary resources, the scale of the budget deficit implies that there is not likely to be any great immediate "dividend" from the ending of the war.

With current estimates from balance of payments data indicating that the GOZ anticipates perhaps \$150 million from foreign grants and loans, \$860 million would need to be financed next year to meet budget requirements.

The risk of severe dislocation from continued heavy deficit financing is great. But in a country where expectation levels have been raised, a continued economic stagnation is clearly unacceptable. It will take great skill over the next few years to manage the economy in such a way as to rebuild the social infrastructure, resettle large numbers of people, and expand the productive sectors rapidly.

Zimbabwe needs massive assistance on the basis of both balance of payments and public sector budget needs. This \$13 million from the U.S. is needed quickly. Without greater inflows of foreign capital, Zimbabwe may find it impossible to finance the return to normalcy in the countryside and have the private economy pick up and absorb the large numbers of unemployed. A slower rate of resettlement and provision of public-financed infrastructure - in a period of heightened expectations - would be politically intolerable for the Government. As the GOZ attempts to accomplish both objectives, foreign exchange constraints will become tighter and tighter.

Because of the seven years of often violent and bloody warfare, many community services in the predominantly African-inhabited rural areas had fallen into disrepair, been closed or destroyed. As an example, of the some 300-odd Government rural health clinics, 159 were closed and in need of rebuilding or rehabilitation. More than one-third of the rural primary schools are closed and several hundred thousand primary school students are no longer attending class. Some rural roads are impassable and many cattle dip tanks have been destroyed. More than one million head of cattle - of the national herd of three million - have died, either short of food or from livestock diseases that could not be treated because of the war. Among other things, the cattle were used as draft animals and if they aren't replaced, farmers in the subsistence sector will have severe problems growing enough food to feed themselves.

In addition to rehabilitation of community services, the Government is faced with high costs of repatriating and resettling one and one half million refugees and displaced persons. These people must be transported home and provided with some items in order for them to begin re-establishing themselves and become self-sufficient.

The U.S. \$13 million program grant to the GOZ will be disbursed in one tranche. The GOZ will provide equivalent in Zimbabwean dollars, paid into a special account. The GOZ has tentatively proposed these L/C resources be used by the Office of Development Agriculture (Devag), equivalent of \$5.5 million, and the Division for District Administration, equivalent of \$7.5 million, for general reconstruction/resettlement activities.

The funds allocated to Devag will provide winter vegetable packs, summer crop packs, and training for participating farmers.

- A total of 225,000 summer crop packs good for half a hectare each of maize, sorghum or millet will be distributed for planting in November.
- Seventy thousand farmers and their families will receive winter crop packs of seed/fertilizer designed to provide them with between 1.5 and 2 kgs of vegetables daily for the nine month period until the 1981 harvest comes in.
- Devag wants to insure that the people receiving the packs use them properly. To handle this, Devag proposes short field training courses with follow-up visits by extension staff. Devag hopes to reach over 350,000 farm families in the first year.

Other inputs to help resettlement proceed smoothly, such as food, are included in other proposed reconstruction/resettlement programs.

The Division of District Administration, like Devag, has been assessed by the PAAD team as having an effective and functioning system of rank ordering, adequate planning, procurement and implementation capabilities, and an impressive record of achievement during the war years. Their reconstruction program in the former Tribal Trust Land areas over the next five years is estimated to cost more than \$130 million. The GOZ has indicated funds allocated to District Administration will be used for activities such as rehabilitating or reconstructing boreholes/water supply, cattle dips, roads, bridges, and schools.

The GOZ will determine timing and amount of funding for various aspects of the Devag and District Administration programs.

It is conceivable that during the program shortfalls may arise in other critical parts of the GOZ reconstruction and resettlement effort outside of the Devag and District Administration programs. In order to meet such contingencies, the agreement will permit reallocations of special account funds on a case-by-case basis with AID-W/AFR concurrence.

The beneficiaries of the local currency funded programs will be numerous. Under Devag's program more than 250,000 families will be assisted. Under the District Administration programs the target group consists of refugees and displaced persons returning to and people who continued living in the Tribal Trust Lands during the conflict. Most estimates state there are about 195,000 refugee families (and 60,000 individuals), that as many as 750,000 people may have been displaced persons and that as many as several million more people stayed in the TTLs during the conflict. Most of them should benefit in some fashion from the activities carried out through the District Administration programs.

AID 1120-1 (8-88) PAAD DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 613-K-601, Amendment 1
	2. COUNTRY Zimbabwe
	3. CATEGORY Program Grant (cash)
	4. DATE August 28, 1980
5. TO: A/AID, Douglas J. Bennet, Jr.	6. OYB CHANGE NO.
7. FROM: AA/AFR, Goler T. Butcher	8. OYB INCREASE plus \$7 million TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 7,000,000	10. APPROPRIATION - ALLOTMENT ESF, 037-61-698-00-50-01
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE
13. ESTIMATED DELIVERY PERIOD 8/28/80 - 9/30/80	
14. TRANSACTION ELIGIBILITY DATE 8/28/80	
15. COMMODITIES FINANCED None	

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:-
Free World:	Local:
Cash: \$7,000,000	Other:

18. SUMMARY DESCRIPTION

This amendment authorizes the increase in the dollar value of the Zimbabwe Program Grant by \$7 million, to a new total of \$20,000,000. The Government of Zimbabwe continues to face a large budget deficit and the country is facing a foreign exchange gap. The case for financial support set forth in PAAD prepared in June remains compelling in the interest of political and economic stability in Zimbabwe.

A.I.D. will increase its program grant by \$7 million to a new total of \$20 million. This will provide the Government with additional, scarce foreign exchange.

For its part, the GOZ will be required to provide the Zimbabwean equivalent of \$7 million for the special Reconstruction/Rehabilitation account, and then disburse those local currencies for the following activities:

- purchase of locally produced farm and construction equipment for use on resettlement projects carried out by the Department of Agricultural Development (Devag), and the Division of District Administration. The

19. CLEARANCES	20. ACTION
REG/DP : RASTacy <i>RD</i>	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REG/GC : EADragon	<i>[Signature]</i>
AA/PC : APShakow <i>AS</i>	AUTHORIZED SIGNATURE
XXXXXX FM/PAD:TDent (phone) <i>9/10/80</i>	DATE
XXXXXX GC:NHolmes <i>9/9/80</i>	<i>Sept 11/80</i>
XXXXXX AFR/SA:MVDagata <i>9/10/80</i>	20
AFR/DR:JKoehring <i>9/10/80</i>	TITLE

items, which will be titled and controlled by Devag and District Administration, will include plows, water pumps, farm and utility trailers and cement mixers;

- Reconstruction of mission schools and clinics in conjunction with the Division of District Administration's reconstruction plans.
- Provision of funds for a revolving loan fund of the Ministry of Commerce designed to help local small-businessmen re-establish their stocks and stores through the provision of credit. The Ministry of Commerce will also supply advisory services to the small businessmen in areas such as stock inventory and accounting.
- Devag's scheme to help African "master" farmers, who own on the average 4 to 5 hectares of land, resettle and begin farming again on their properties in the former TTLs; these are farmers one step up from the subsistence level.
- Reconstruction of Devag and Health staff housing at reconstruction project sites, so that Devag/Health staff can live at the project site. This is necessary in order to have maximum project impact. At present, Devag/Health staff are commuting daily from Salisbury and other towns to work on projects, with a loss of effectiveness.
- Support to the Ministry of Social Services for its refugee resettlement and feeding programs.

UNCLASSIFIED

AID/AFR/SA:HFARNHAM:MON
09/08/80 EXT 24229
A/AID:DJBENNET, JR.

AID/AFR/SA:IVDAGATA
AID/AA/AFR:GTBUTCHER
AID/AFR/DR/SAP:DKLINE {DRAFT}

AID/GC/AFR:EADRAGON
AID/DAA/AFR:WHNORTH
STATE/AF/EP:DWATERMAN {DRAFT}

IMMEDIATE SALISBURY
PRIORITY NAIROBI, MBABANE

AIDAC, NAIROBI FOR REDSO/EA; FROM THE ADMINISTRATOR

E.O. 12065: N/A

TAGS:

SUBJECT: INCREASE IN ZIMBABWE PROGRAM GRANT

REF: SALISBURY 2283

1. I HAVE AUTHORIZED THE INCREASE IN THE ZIMBABWE PROGRAM GRANT IN THE AMOUNT OF SEVEN MILLION DOLS TO A NEW TOTAL OF 20 MILLION DOLS.

2. AMBASSADOR KEELEY, OR HIS DESIGNEE, IS AUTHORIZED TO SIGN THE GRANT AGREEMENT AMENDMENT WITH THE GOVERNMENT OF ZIMBABWE WHEN YOU ARE INFORMED BY SEPTTEL THAT THE ALLOTMENT FOR THE SEVEN MILLION DOLLARS HAS BEEN ESTABLISHED. YY

DJB
HF
MVD
EAD
GTB
WHN

UNCLASSIFIED

10 SEP 1980

AA/AFR

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU : ES

THRU : AA/PPC, Mr. Alexander Shakow

FROM : AA/AFR, Goler T. Butcher

W/ COLER T. BUTCHER

SUBJECT: Zimbabwe - FY 80 Program Grant

Problem: Your approval is required for an increase in the Program Grant to the Government of Zimbabwe (GOZ) from \$13 million to \$20 million from the Economic Support Fund (ESF) appropriation. It is planned that the full \$7 million increase will be obligated in FY 80.

Discussion: On June 27, 1980, you authorized a Program Grant to the Government of Zimbabwe in the amount of \$13 million. The Program Grant was designed to assist the GOZ in meeting massive budgetary requirements. The Government's budget deficit is estimated at \$750 million for the period ending June 30, 1981 in the context of an economy with a GDP of \$3.5 billion (1979). The Program Grant amendment requires the GOZ to provide the dollar equivalent in local currency for immediate resettlement and reconstruction program needs. Emergency resettlement assistance has been estimated at \$110 million and rural rehabilitation/reconstruction requirements have been estimated at \$300 million over the next 2 to 3 years. These estimates are additional to reconstruction/rehabilitation of basic infrastructure. For example, one analysis places the immediate reconstruction/rehabilitation requirements of the railroad, alone, at over \$300 million. Donor commitments fall far short of needs. The analysis prepared in June for the \$13 million program grant (Tab A) remains the same, fully justifying the increment of \$7 million we are proposing herein.

The entire \$13 million of the initial program grant has been disbursed to the GOZ and they will complete their disbursement shortly. The Government of Zimbabwe has moved rapidly on the resettlement and rehabilitation activities to which the Government's local currencies are being applied. District authorities are contracting for road and bridge construction. Vegetable crop packs (seeds, tools, and fertilizer) have already been distributed to some 70,000 returning families. Returning families will also be provided basic grain packs for the fall planting season.

As in the initial grant, the funds made available under the grant amendment will be disbursed to a GOZ account in a U.S. bank. The GOZ will be required to place an equivalent amount in local currencies in the special account established pursuant to the grant agreement. Local currencies from this special account will be used to support the GOZ resettlement, reconstruction and rehabilitation programs. Specifically, the local currencies will be allocated among the Department of Agricultural Development (Devag), Division of District Administration, and Ministries of Commerce, Health and Social Services. The GOZ local currency will permit the purchase of locally made farm and construction implements to be used

by Devag and District Administration personnel, repair of mission schools and clinics in conjunction with Tribal Trust Lands and District Council schools and clinics, reestablishment of a revolving loan fund by Commerce to help rural small enterprises get back on their feet, reconstruction of "master" farmer (4 to 5 hectares of land per family) farms in African Purchase Areas by the Devag, reconstruction of staff housing for Devag and Health personnel to allow them to live at their projects/clinics, and provide additional financing for refugee resettlement and feeding programs operated by the Ministry of Social Services. The latter needs had been provided for partially by a grant this fiscal year to the UNHCR for repatriation and resettlement of Zimbabwean refugees. The second tranche of that grant (\$2 million) has been deobligated and applied to this program grant.

There are no conditions, covenants, or waivers associated with this program grant amendment. The GOZ will agree, however, that the A.I.D. funds cannot be used for military expenditures. Congress was notified of the program on August 14 and the fifteen day waiting period expired on August 29, 1980. A negative determination for the Initial Environmental Examination was made for the original program grant and is applicable to the amendment.

The State Department Office of Human Rights has cleared this memorandum. The AID/W backstop officer for this program will be Douglas T. Kline, AFR/DR/SAP.

Recommendation: That you sign the attached PAAD amendment (Tab B) and cable (Tab C), thereby authorizing the proposed increase in the Program Grant from \$13 million to \$20 million. The grant amendment will be signed upon receipt of your authorization and advice of allotment.

Attachments:

- A. PAAD Approved June 27, 1980
- B. PAAD Amendment
- C. Cable informing Field of your Decision

AFR/SA:HVFarnham/MVDagata:mon:9/5/80
retyped: 9/9/80

Clearances:

GC/AFR:EADragon	_____	Date	_____
GC:NHolmes	_____	Date	_____
AFR/DP:RAStacy	_____	Date	_____
HA/HR:BBowie	_____	Date	_____
AF/EPs:DBorn	_____	Date	_____
AFR/DR/SAP:DTKline	_____	Date	_____
AFR/DR:JWKoehring	_____	Date	_____
DAA/AFR:WHNorth	_____	Date	_____

AID 1120-1 (2-66) PAAD DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO.	613-K-601, Amendment 1
	2. COUNTRY	Zimbabwe
	3. CATEGORY	Program Grant (cash)
	4. DATE	August 28, 1980
5. TO:	A/AID, Douglas J. Bennet, Jr.	
6. FROM:	AA/AFR, Goler T. Butcher <i>[Signature]</i>	
7. APPROVAL REQUESTED FOR COMMITMENT OF:	\$ 7,000,000	
8. OYB CHANGE NO.		
9. OYB INCREASE	plus \$7 million	
10. TO BE TAKEN FROM:	ESF, 037-61-698-00-50-01	
11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD
<input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	<input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	8/28/80 - 9/30/80
14. TRANSACTION ELIGIBILITY DATE		8/28/80
15. COMMODITIES FINANCED		
None		

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: \$7,000,000	Other:

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REG/DP : RASTacy <i>[Signature]</i> DATE 9/10/80	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REG/GC : EADragon	<i>[Signature]</i>
AA/PC : APShakow <i>[Signature]</i> DATE 9/10/80	AUTHORIZED SIGNATURE
XXXXXX FM/PAD:TDent (phone) DATE 9/5/80	DATE Sept 11/80
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XXXXXX AFR/SA:MVDagata <i>[Signature]</i> DATE 9/10/80	Administrator
AFR/DR:JKoehring <i>[Signature]</i> DATE 9/10/80	TITLE

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- Support to the Ministry of Social Services for its refugee resettlement and feeding programs.

1 0 SEP 1980

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU : EC
THRU : AA/PPC, Mr. Alexander Shakow
FROM : AA/AFR, Goler T. Butcher
SUBJECT: Zimbabwe - FY 80 Program Grant

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0618496

by Devag and District Administration personnel, repair of mission schools and clinics in conjunction with Tribal Trust Lands and District Council schools and clinics, reestablishment of a revolving loan fund by Commerce to help rural small enterprises get back on their feet, reconstruction of "master" farmer (4 to 5 hectares of land per family) farms in African Purchase Areas by the Devag, reconstruction of staff housing for Devag and Health personnel to allow them to live at their projects/clinics, and provide additional financing for refugee resettlement and feeding programs operated by the Ministry of Social Services. The latter needs had been provided for partially by a grant this fiscal year to the UNHCR for repatriation and resettlement of Zimbabwean refugees. The second tranche of that grant (\$2 million) has been deobligated and applied to this program grant.

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- B. PAAD Amendment
- C. Cable informing Field of your Decision

AFR/SA:HVFarnham/MVDagata:mon:9/5/80
retyped: 9/9/80

Clearances:

GC/AFR:EADragon	Date	9/9/80
GC:NHolmes	Date	9/9/80
AFR/DP:RAStacy	Date	9/10/80
HA/HR:BBowie	Date	9/9/80
AF/EPs:DBorn	Date	9/9/80
AFR/DR/SAP:DTKline	Date	9/10/80
AFR/DR:JWKoehring	Date	9/10/80
DAA/AFR:WHNorth	Date	9/10

UNCLASSIFIED

AID/AFR/SA:HFARNHAM:MON
09/08/80 EXT 24229
A/AID:DJBENNET, JR.

AID/AFR/SA:HVDAGATA
AID/AA/AFR:GTSUTCHER
AID/AFR/DR/SAP:DKLINE {DRAFT}

AID/GC/AFR:EADDRAGON
AID/DAA/AFR:WHNORTH
STATE/AF/EPS:DWATERMAN {DRAFT}

IMMEDIATE SALISBURY
PRIORITY NAIROBI, MBABANE

AIDAC, NAIROBI FOR REDSO/EA; FROM THE ADMINISTRATOR

E.O. 12065: N/A

TAGS:

SUBJECT: INCREASE IN ZIMBABWE PROGRAM GRANT

REF: SALISBURY 2283

1. I HAVE AUTHORIZED THE INCREASE IN THE ZIMBABWE PROGRAM GRANT IN THE AMOUNT OF SEVEN MILLION DOLS TO A NEW TOTAL OF 20 MILLION DOLS.

2. AMBASSADOR KEELEY, OR HIS DESIGNEE, IS AUTHORIZED TO SIGN THE GRANT AGREEMENT AMENDMENT WITH THE GOVERNMENT OF ZIMBABWE WHEN YOU ARE INFORMED BY SEPTTEL THAT THE ALLOTMENT FOR THE SEVEN MILLION DOLLARS HAS BEEN ESTABLISHED. YY

DJB
HF
MVD
EAD
GTB
WHN